FORM 10-K

Annual report pursuant to section 13 and 15(d)

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TOWNE SERVICES INC

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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, 1998 or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to _________

COMMISSION FILE NUMBER: 000-24695

TOWNE SERVICES, INC.
(Exact name of registrant in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	62-1618121 (I.R.S. Employer Identification No.)
3295 River Exchange Drive, Suite 350, Norcross, Georgia (Address of principal executive offices)	30092 (Zip Code)
(Registrant's telephone number, including area code):	(770) 734-2680

Securities registered pursuant to Section 12(b) of the Act:

None
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value (Title of each class)	Nasdaq National Market (Name of each exchange on which registered)

Indicate by check mark whether the Registrant: (1) 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 in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [__]

The estimated aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of Common Stock on March 24, 1999, as reported on the National Association of Securities Dealers Automated Quotation System, was $91,988,000. As of March 24, 1999, the Registrant had 19,782,313 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE PROXY STATEMENT FOR THE REGISTRANT'S 1999 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 21, 1999 ARE INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K.

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PART I

ITEM 1. BUSINESS

This Annual Report contains several "forward-looking statements" concerning Towne Services' operations, performance, prospects, strategies and financial condition, including its future economic performance, intent, plans and objectives and the likelihood of success in developing and expanding its business. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of Towne Services. Words such as "may," "would," could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate" are meant to identify such forward-looking statements. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to:

- Towne's limited operating history and whether it will be able to achieve or maintain profitability;
- whether Towne can attract and retain sales and marketing personnel or enter new marketing alliances to grow its business;
- whether Towne can obtain, continue and manage growth or execute agreements with new customers;
- whether the market will accept new products and enhancements from Towne;
- whether Towne can successfully integrate the operations of companies it acquires;
- increased competition;
- the unknown effects of possible system failures and rapid changes in technology; and
- other factors discussed in this Annual Report and in Towne's registration statement on Form S-1 (No. 333-53341) as declared effective by the Securities and Exchange Commission on July 30, 1998, including the "Risk Factors" section contained therein.

GENERAL

Towne Services designs, develops and markets products and services that convert the in-house credit transactions of small businesses into automated accounts which are processed electronically in much the same way as credit card transactions are processed. Usually, small business in-house credit transactions are completed without a credit card or cash, are recorded and processed manually and then billed to the customer at a later date. To automate this process, Towne offers three main electronic processing systems, TOWNE CREDIT SM, TOWNE FINANCE SM and CASHFLOW SM MANAGER, which process small business' in-house credit transactions. These products also facilitate the financing of these in-house credit accounts by the small business' bank.

The TOWNE CREDIT system electronically processes in-house consumer credit transactions for small and medium size retail merchants. The TOWNE

FINANCE system, a commercial version of TOWNE CREDIT, and the CASHFLOW MANAGER system are automated asset management and financing systems that process business-to-business credit transactions for small commercial businesses. Through the use of Towne's products and services, small businesses can automate their

business records, accelerate cash flow, provide better customer service, reduce paperwork and shift many other administrative burdens to Towne Services. In addition, Towne provides banks with complementing products and services that enable them to generate interest-bearing revolving credit accounts by financing the accounts receivable of these small businesses. Through the use of Towne's products, banks can monitor customers' accounts receivable and generate detailed status reports, and may attract new business customers who, in turn, may become customers of Towne Services.

Towne's electronic processing systems enable businesses to offer in-house credit to their customers at costs comparable to traditional credit card transactions. As with credit card transactions, the business pays a discount fee to the bank on each transaction. In addition, the business' customer pays interest and fees to the bank for amounts owed by the customer for purchases made on in-house credit. The discount fees and interest create a pool of funds from which Towne Services collects its transaction fees. The remaining amounts generate fee income for the bank. Towne Services also generates revenue by charging its business and bank customers initial set-up fees.

TOWNE SERVICES' MARKET

Towne Services provides its products and services to retail merchants and small commercial businesses that extend in-house credit to their customers and to the banks these businesses use. The electronic payments processing industry generally has not offered Towne's target customers a way to process their in-house credit transactions electronically, focusing instead on credit and debit card transactions. Maintaining and processing manual in-house charge accounts can be time consuming and costly. The business owner usually records data by hand, updates books and records, purchases supplies for rendering invoices, prepares and mails statements and collects payment. These businesses often must wait weeks or even months to receive their money. Historically, banks have not provided accounts receivable financing due to their inability to control the assets securing these business loans, the costly administrative burdens and the lack of timely information.

A variety of small and medium size retail merchants use the TOWNE CREDIT system, including hardware stores, clothing stores, florists, auto parts stores, pharmacies and private clubs. Towne Services markets the TOWNE FINANCE and CASHFLOW MANAGER products and services to small commercial businesses, such as furniture manufacturers, equipment distributors, plumbing suppliers and other industry supply stores. Many of these small businesses extend in-house credit and process these credit transactions manually. Towne's processing systems allow small businesses to automate these in-house accounts and provide a convenient service to customers who prefer to purchase items on credit.

TOWNE SERVICES' STRATEGIES

Towne Services grew significantly during 1998. The total numbers of sales people, bank contracts and business customers for TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER as of the end of each quarter in 1998 follow:

	1998			
	March	June	Sept.	Dec. (1)
Sales people	33	61	81	99
Bank contracts	122	177	283	641
Business customers	161	279	507	1662

(1) On December 1, 1998, Towne completed its acquisition of Banking Solutions, Inc., a Texas-based provider of accounts receivable financing products and services. The December 1998 numbers on the

above table include the effects of this acquisition.

Towne's goal is to continue to grow significantly to become one of the leading providers of electronic processing products and services for the in-house credit transactions of small and medium size businesses in the United States. Towne Services plans to attain this goal by implementing the following key business strategies:

Expand Direct Sales and Marketing Efforts Nationwide

During 1998, Towne Services expanded its direct sales and marketing force from 15 persons in 7 states to 99 persons in 35 states. Of this total, 34 persons are dedicated to developing bank customer relationships and 65 persons are focused on developing small business customers. Towne intends to continue aggressively hiring sales and marketing personnel nationwide to strengthen its direct marketing efforts, increase its customer base and expand into new markets. Towne also plans to increase its participation in conventions, seminars and trade programs which cater to small and medium size businesses and the banks that service these businesses across the United States.

Continue to Leverage Bank Relationships

The executive officers and directors of Towne Services have an average of over 15 years experience in the electronic processing and financial services industries, and all 12 members of its board of directors have experience in the management of banks or companies that have banks as customers. Towne's management leverages these expertise and contacts to develop relationships with banks and banking organizations. Through these relationships, Towne Services believes it attracts business customers that would be difficult to reach through traditional marketing methods. In addition, Towne intends to provide new products and services that may allow banks to attract new customers for both the banks and Towne Services. Towne Services plans to sign additional agreements with existing bank customers to offer its new products and services and to leverage these relationships to develop new bank customers in its current and future markets.

Enter New Relationships For Marketing and Product Enhancements

Towne Services has established marketing and other business relationships that enhance its products and services and its channels of distribution. Towne has agreements with several companies, which provide statement processing services, collection services, lockbox management services and internet bill payment services to complement the TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER systems. Towne Services also has agreements with entities that have banks as their customers, under which these other companies and organizations encourage their bank

customers to use Towne's systems. Towne intends to enter more relationships with companies that can expand the number of its products and services, complement its existing and future systems and provide access to large groups of banks and small businesses.

Maximize Electronic Link to Customers

When a business customer installs TOWNE CREDIT and TOWNE FINANCE, it establishes an electronic link with Towne Services. Towne intends to maximize this electronic distribution channel by developing and implementing multiple products and services that the customer can access through its connection to Towne Services to help automate its operations, run its business more efficiently and provide better service for its customers. Towne Services plans to use this electronic connection to cross-market both existing and new products and services to its customers, which should allow it to develop and maintain long-term customer relationships.

Acquire Complementary Companies and Products

Towne Services intends to acquire providers of complementary products and services that may enhance and expand its operations, product and service offerings, market share or geographic presence. For example, in December 1998, Towne Services acquired Banking Solutions, Inc., a Texas-based provider of accounts receivable financing products to banks and their commercial customers under the name CASHFLOW SM MANAGER. For more information on Towne's acquisitions, please see "-- Acquisitions of Complementary Companies and Products."

PRODUCTS AND SERVICES

Towne Services designs its products and services to be simple to use, fast and reliable. Towne's automated processing systems, TOWNE CREDIT and TOWNE

FINANCE, process in-house credit transactions for small businesses in much the same way as credit card transactions are processed. The CASHFLOW MANAGER system is similar to the TOWNE FINANCE system except that commercial business customers manually transmit their transaction information to their banks for processing.

TOWNE CREDIT

TOWNE CREDIT is an automated transaction processing system designed for consumer-based credit transactions conducted by small businesses. The system uses remote point of sale terminals and communications networks to capture and transmit transaction data and generate a "virtual credit card" account funded by a business' bank. A typical in-house credit transaction for Towne Services' business customers is processed through TOWNE CREDIT as follows:

Step 1: The participating business sells goods or services on an in-house account. No money changes hands and no credit cards are used.

Step 2: The business enters sales information at the point of sale into an electronic cash register or computer terminal loaded with Towne Services' proprietary computer software.

Step 3: The business owner closes out its daily transactions and electronically transmits transaction data to Towne Services through the computer system across telecommunications lines.

Step 4: Towne Services processes the data, calculates receivables, performs other accounting functions and transmits reports to the business and its community bank upon request by the next business day.

Step 5: The community bank retrieves the sales and payment information and advances funds to the business' bank account based upon pre-set lending terms.

Step 6: Towne Services bills the business' customer, collects and processes the customer's payment and transmits payment information to the bank for credit to the business' bank account.

Steps 1 and 2. When a customer makes a purchase on account, a store clerk records the transaction on a point of sale terminal provided by Towne Services. The PC-based terminal stores names and addresses of customers, account balances and payment activity, which the business owner can retrieve quickly at the point of sale. The business can use this terminal instead of the traditional cash register, as it will record and store information from cash sales and credit and debit card transactions. Businesses that do not want a new terminal can have the TOWNE CREDIT software loaded on an existing computer. The TOWNE CREDIT system captures the transaction data, including dollar amount and customer information, for use in billing, tracking inventory and generating sales and tax reports. The bank leases the TOWNE CREDIT point of sale terminal from Towne Services and provides it to the business. Towne customizes and regularly updates the software that drives the terminals and provides terminal maintenance services for its customers.

Steps 3 and 4. On a daily basis, the business owner or manager transmits the sales activity by batch to Towne's computer processing center in Norcross, Georgia, across an ordinary telephone line or Internet connection. Towne's customer communication software enables it to support a wide range of business customers, including those in rural areas that might otherwise have difficulty in transmitting data because of unstable land line communications. Towne Services' communications and computer processing systems are flexible and scalable, meaning that it can add more processing capacity, increase processing speed and support numerous customer operating systems and data protocols. Towne's electronic processing network is capable of simultaneously managing batches of transactions from multiple businesses and data from numerous days' transactions from a single business. Towne's system provides for the redundant capture of transaction data at both the point of sale terminal and at its communications network center. This data capture redundancy helps to protect the business and Towne against potential loss of data.

Towne's systems process data from purchase transactions, calculate receivables, post these transactions and perform other accounting functions automatically. Towne Services can program its systems to generate daily customized receivables, ledger and other reports used by its customers to manage their businesses. Towne's network systems then transmit reports to businesses and their banks by the business day following receipt of transaction data.

Steps 5 and 6. The community bank that serves the business usually offers a line of credit, in which case the bank funds the prior day's sales at discounts similar to those in major credit card transactions. Through a graphic interface with Towne's communications server, the bank has daily access to the information it needs to finance the business' accounts receivable. If no line of credit is in place, the business' funds are deposited at the bank as they are collected by Towne. TOWNE CREDIT works with the bank's current loan processing systems and creates the general ledger account entries necessary for the bank to account for the line of credit loans to the business. Towne Services assumes no credit risk from business customers in these transactions.

With TOWNE CREDIT, many administrative burdens of running a small business are outsourced to Towne Services. Towne generates and prints statements and sends them to the business' customers. Towne Services maintains an automated lock box through which payments can be received. The lock box gives the business the benefit of controlled remittance processing and allows the bank to control the payments associated with the accounts, thus applying them to the outstanding loan balance. If a customer chooses to pay the business directly when he or she receives the bill, the business owner can record that payment in the point of sale terminal to be processed electronically on Towne's system. The system allows businesses to quickly track account balances and payment history and verify customer transaction information by checking the receivables reports generated or, if needed, by dialing into Towne's processing network to verify or update information.

Towne Services also settles payments for its customers. Settlement involves managing a record of each business transaction and transferring funds received to the business' community bank for credit to its bank account. Towne transmits, upon request, transaction information directly to the bank and arranges for funds to be transferred from its automated lock box via Automated Clearing House (ACH) or Fedwire transfer to the community bank. Funds are then transferred to the business' bank account via the bank's internal deposit system. Settlement payments made to the business' bank account reflect a discount from the full transaction price, which generally includes Towne's processing fees.

TOWNE CREDIT enables businesses to streamline front desk and back office procedures. Through TOWNE CREDIT, businesses receive accelerated funding for in-house charge accounts and eliminate costly and inefficient manual processing. Sales also may be enhanced by the business' ability to offer finance options, such as sales on account, to its customers. The bank that serves the business generates fee income in the form of transaction discounts and may profit from interest-bearing consumer credit accounts. If the bank elects not to fund the business' accounts receivable, the system still functions as an automated billing and collection system, and the bank generates fee income. In both cases, the TOWNE CREDIT processing system provides Towne with fee income.

TOWNE FINANCE

Towne's automated asset management and financing software system, TOWNE FINANCE, is a commercial version of TOWNE CREDIT that addresses business-to-business credit transactions. TOWNE FINANCE facilitates accounts receivable financing for small commercial businesses by allowing these businesses and their community banks to better manage and control assets that

fluctuate in value. TOWNE FINANCE transaction processing occurs in much the same way as TOWNE CREDIT processing, but on a larger and more sophisticated basis.

For example, a furniture manufacturer may need additional working capital to purchase raw materials and cover the incremental costs associated with payroll and general overhead. The furniture manufacturer's traditional payment terms can limit cash flow. By the time it invoices customers and receives payment, many expenses associated with the finished product have been incurred. With TOWNE FINANCE, the manufacturer has the ability to convert the invoices to needed cash to finance its ongoing operations. TOWNE FINANCE enables financial institutions to offer these businesses the same convenient services available to its TOWNE CREDIT customers.

TOWNE FINANCE facilitates the process through which a bank can loan money to a small commercial business. Using TOWNE FINANCE, banks can assign percentage values to specific assets of its small business customers, such as accounts receivable, inventory, real estate, furniture, fixtures and equipment.

By assigning these values, banks can develop a risk-based formula for lending to their business customers. TOWNE FINANCE tracks the accounts receivable, maintains a parallel aging of the accounts and allows the bank to control advances and pay downs based on daily activity of new sales and account payments. The system supports discretionary lines of credit as well as automatic daily funding of eligible assets. TOWNE FINANCE works with the banks' current loan processing systems and creates the general ledger account entries necessary for community banks to account for these asset-based accounts receivable loans.

Once a bank customer agrees to use TOWNE FINANCE, the bank must approve a credit line for the customer. After credit is established, Towne loads historical invoice data onto its host computer. The bank will advance funds to a customer at a discount to their aggregate value. The bank specifies a set of standards at the processing level and assigns a loan officer to monitor the credit as it would any other loan. Towne Services then takes over the statement rendering and remittance processing functions for the bank much like it does for TOWNE CREDIT. Access to an automated lock box allows the bank to control the payments associated with the accounts and apply the payments to the outstanding loan balance. After payments are received, Towne Services processes the payments and transmits funds electronically to the customers' operating account at the bank.

The bank provides a line of credit that is controlled using TOWNE FINANCE daily processing and reporting functions. The bank retains all credit and funding responsibility and Towne provides a specialized sales force, back room processing and monitoring services. Towne Services assumes no credit risk from the business' customers. TOWNE FINANCE allows community banks to provide a profitable and cost effective accounts receivable financing program for its small commercial customers. Community banks using TOWNE FINANCE gain interest-bearing loans on funds (net of all processing expenses) and strengthen relationships with business customers that experienced cash flow problems or that might have otherwise turned to non-traditional lenders.

CASHFLOW MANAGER

The CASHFLOW MANAGER system is an asset management system that addresses business-to-business credit transactions in a manner similar to TOWNE FINANCE. The program enables the

community banks that service commercial businesses to better manage and control assets that fluctuate in value so they can make lending decisions with respect to these assets. CASHFLOW MANAGER transaction processing occurs in much the same way as TOWNE FINANCE processing, except that the commercial business manually transmits the information for processing.

The CASHFLOW MANAGER system uses special deposit tickets to batch process invoices turned into the bank. The CASHFLOW MANAGER system provides general ledger reports that help the bank manually interface with the bank general ledger system. Management reports are given to the business by the bank daily, weekly and monthly, based on the needs of each business. At the end of the month, statements are sent out to the business' customer directing payments to the bank's lock box. The bank typically purchases all of the business' accounts receivable and adjusts the reserve percentage after the month-end close period. Receivables that become over 90 days old generally are reassigned against the restricted funds after a 30-day grace period. Any excess reserves are deposited into the business' operating account after the month-end reconciliation.

With CASHFLOW MANAGER, banks generate income from three primary sources: (1) the discount fee charged from each batch of receivables purchased, (2) interest charged either to the merchant, the merchant's customers, or both parties and (3) spread income generated from the reserve account. The bank provides multiple services to the borrower by establishing a loan account, operating account and restricted reserve account, as well as by implementing the CASHFLOW MANAGER program. The restricted reserve account and the receivables act as collateral in addition to other collateral that may be required by the bank.

SUPPORTING SERVICES AND NEW PRODUCTS

Towne Services provides an array of value-added services in connection with its TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER processing systems, including marketing programs and materials and collection services. Towne plans to design and develop new and improved products and services to help its customers automate their businesses and provide better service to their clients.

Marketing Programs and Materials. Towne's primary marketing tool is its direct sales force. However, Towne also offers a number of services designed to allow community banks to target businesses in their communities. Towne Services provides advertising, marketing brochures and inserts and direct mail to increase market penetration for its bank customers.

Collection Services. Towne's processing systems help its customers identify delinquent accounts. Towne Services maintains an agreement with Wallace and de Mayo P.C., a national collections firm, that enables its customers to have on-line access to professional debt collection services. Towne Services maintains an electronic interface with Wallace and de Mayo so account information is readily delivered to assist in collecting past due amounts.

Internet Bill Payments. To provide small business customers the ease and convenience of receiving bills and making their payments via the internet, Towne has an agreement with Princeton Telecom Corporation for Internet bill payment services.

New Product Development. Towne Services plans to design and develop new and improved products and services that small business customers can access through their electronic connection to Towne to help automate their businesses and provide better service to their clients. For instance, Towne has recently rolled out an automated collection processing system that offers Towne's small businesses the opportunity to have a professional collection firm assist in the management of the small business' bad debt. This system is designed to be interactive between the collection agent and the small businesses utilizing the Towne electronic link. This is the first product rolled out utilizing the Towne computer network system established by TOWNE CREDIT and TOWNE FINANCE.

ACQUISITIONS OF COMPLEMENTARY COMPANIES AND PRODUCTS

Towne Services intends to pursue acquisitions of providers of complementary products and services that may enhance and expand its operations, product and service offerings, marketing and sales forces, market share and geographic presence. For example, in December 1998 Towne Services acquired Banking Solutions, Inc., a Texas-based provider of accounts receivable financing products to banks and their commercial customers under the name CASHFLOW MANAGER. Historically, Towne's sales force specialized in smaller merchants and primarily retail receivables. With the addition of Banking Solutions' sales force, Towne has added to its sales and marketing forces over 20 people who specialize primarily in larger merchants and commercial receivables. Towne purchased Banking Solutions, Inc. for approximately $14.9 million in cash and stock. In connection with the acquisition of Banking Solutions, Towne issued 744,431 shares of Towne common stock at $6.73 per share. The remainder of the purchase price was paid in cash. Towne also agreed to pay former officers of Banking Solutions amounts of money which are contingent upon future performance criteria. Through this acquisition, Towne more than doubled its merchant customer base, added more than 200 bank relationships, gained a sales team with an average of five years experience in selling commercial financing products and increased its market presence into seven new states.

In addition, in June 1998, Towne Services acquired some of the assets and liabilities of Credit Collection Solutions, Inc. Credit Collection has developed computer software for processing payments and tracking collections including COLLECTION WORKS SM, an operating system developed to address the debt collection needs of banks and collection agencies. Pursuant to this acquisition, the Company agreed to assume liabilities of approximately $510,000 and to issue up to 100,000 shares of its common stock if certain financial results are achieved from the acquired assets including Collection Works. Towne Services' management believes its 1998 acquisitions continue to advance its growth strategies by adding a complementary technology solution and greatly increasing its customer base.

SALES AND MARKETING

As of December 31, 1998, Towne Services employed a direct sales and marketing force of 99 persons located in 35 states. Towne's direct sales and marketing force develops relationships with banks and small business customers. Towne employs two distinct sales forces to market its products and services. The bank sales force focuses on developing relationships with banks through which

TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER are marketed to business customers. Towne's business representatives call on small business customers of banks that have contracted with Towne Services, as well as other merchants who might use its products.

Towne Services has leveraged its board members' and senior managers' expertise and contacts to develop relationships with community banks and banking organizations. As of December 31, 1998, Towne had over 640 agreements with community banks located in 33 states who work directly with Towne Services' sales force to market TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER to the banks' customers. Towne Services believes that endorsements by local community bankers are the most effective sales tools to reach small businesses. Banks often have long standing relationships with the small business owners and provide immediate credibility and access for Towne's products and services. Towne Services believes that its relationships with the community banks enable it to attract small business customers that would be difficult and expensive to reach when employing traditional marketing methods.

Through its community bank contacts, Towne Services personnel arrange a meeting with the bank's lending officers to introduce its products and services and explain their potential benefits to the bank. At this meeting, Towne Services distributes questionnaires to bank employees to gather information on potential businesses that might be interested in TOWNE CREDIT, TOWNE FINANCE or CASHFLOW MANAGER. The bank then arranges a meeting with targeted local business owners to introduce Towne Services and demonstrate its products. Towne Services provides sales personnel, speakers, slide and video presentations and demonstration equipment at these meetings. Towne's small business sales people are responsible for follow up sales and service. During the weeks following the bank meeting, the small business sales representatives will contact other attendees and attempt to arrange one-on-one meetings with them.

Towne Services also markets TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER through several companies that have merchants and community banks across the United States as their customers or members. Towne Services has established strategic relationships with companies such as Phoenix International Ltd., Inc., The Bankers Bank of Kentucky, Independent Bankers' Bank (in Illinois), MidWest Hardware Association, Community BancService Corporation (in Illinois), Community Bank Services, Inc. (in North Carolina), Washington Bankers Association, Texas Bankers Association, Community Bankers Bank in Virginia, West Virginia, Maryland and Washington, D.C., WBA Financial Institutions Products Corp. (in Wisconsin) and Community Bankers Service Corp. (in Minnesota) to cross-market its products and services to their customers. In addition, Towne Services has agreements with Datamatx Inc., Wallace and de Mayo P.C., Cash Management Services, Inc. and Princeton Telecom Corporation to incorporate their products into Towne's systems. These alliances enable Towne Services to reach and provide services to large groups of community banks and small businesses in new geographic markets. Towne Services will continue to pursue additional alliances with companies and organizations that will provide Towne access to large groups of banks and small businesses nationwide such as bankers banks, trade associations and merchant franchise operations.

RECRUITING AND TRAINING

In June 1997, when TOWNE CREDIT was first released, Towne Services had 7 sales and marketing personnel. By December 31, 1997, Towne had more than doubled its sales and marketing force to 15 persons. As of December 31, 1998, Towne's sales and marketing force had increased to 99 persons located in 35 states. In addition, Towne has 10 persons in management level positions overseeing its sales force. Towne Services hires sales personnel who are experienced in marketing products and services to community banks and small businesses. Towne Services has an experienced in-house recruiter who focuses full time on hiring sales personnel. In recruiting experienced sales personnel, Towne Services focuses on hiring persons who have established relationships with banks and small businesses in a particular market.

Towne Services has developed and implemented an intensive four-week training program for its sales force. Training is led by Towne's training, sales and operations managers. The first week of training focuses on overviews of Towne's policies and procedures as well as an introduction to all of the Towne products. This includes hands on instruction on the TOWNE CREDIT and TOWNE FINANCE products as well as use of Towne's Point of Sales System (POS). Instruction is also presented this first week on pricing of the products to customer banks and merchants. During the second week, sales representatives are sent to a field location and travel with a seasoned sales representative to observe sales calls and presentations. During the third week sales representatives return to Towne's headquarters and discuss what they observed in the field with others in their training class. Based on these discussions, training techniques such as mock sales calls, role playing and formal presentations are utilized to enhance Towne's training efforts. At the completion of the third week of training, the new sales representatives return to their respective territories and travel another week with an experienced sales representative or their sales manager calling on banks and merchants in that area. After satisfactory completion of the four weeks of training, new members of the sales force return to their assigned territories qualified to represent Towne Services and our products.

TECHNOLOGY

Towne's automated electronic processing systems, TOWNE CREDIT and TOWNE FINANCE, involve communicating data to and from remote customer locations and Towne Services' computer processing center. Towne Services uses its proprietary technologies together with third party telecommunications networks to transmit and process transaction data for its customers. Transactions are interactively processed and returned to the sending system. CASHFLOW MANAGER processing is a decentralized system in which the small business manually transmits its sales activity to its community bank for processing. Towne Services' systems can use telephone lines, internet connections, satellite linkages and bank automated teller machine communication lines to transport transaction data. This system architecture allows Towne Services to access customers located across the country.

Towne designed its communications systems to support a large number of telecommunications lines and high volumes of data traffic. This configuration is scalable, allowing Towne Services to add new servers and new communications lines as needed without having to rebuild its communications system. Towne's communications servers process multiple data protocols. This allows Towne Services to service a wide range of customers without requiring them to change the communications systems they currently use.

Towne Services' communications and processing system servers can manage data traffic across multiple time zones as well as balance both client/server and on-line batch mode processing loads. This "cluster processing" uses multiple servers that work in tandem. A bank of pentium-based processors work in a shared network environment to co-process reporting jobs. The host processing system is scalable which means Towne can add new servers to the processing pool to increase throughput with minimal downtime.

Towne Services designed its systems using software and hardware capable of interacting with the variety of operating platforms used by its customers, including client/server and mainframe operating systems. Towne Services has developed software to support a wide range of operating systems used by its customers, including UNIX, RED HAT LINUX, MAC OS8, Windows NT and DOS based systems. Towne Services' transaction reporting software is not hardware dependent, which allows Towne Services to change its equipment to take advantage of the most recent technologies in its operations. This could include a complete change-over of operating systems and/or hardware. The CASHFLOW MANAGER system is single- or multi-user capable and runs in Windows 95.

Towne's computer processing system stores data redundantly (at both the customer terminal location and at Towne's processing center) and in a secure environment. Potential service interruptions are minimized by hosting the client's data on multiple servers and locations so that no single hardware failure would result in service interruption. In addition, Towne keeps mirror servers on location, creates daily digital backup tapes and stores them in fireproof safes and maintains a full "hot-site" backup processing center at another location separate from its main processing center. Towne believes that its system configuration and disaster recovery measures adequately protect it against system failures that may occur due to destruction of its processing center, natural disasters, bomb threats or other loss or impairment of its network capabilities.

CUSTOMERS

As of December 31, 1998, Towne provided processing services to a diverse customer base of 1,662 small and medium size retail merchants and small commercial businesses located in 33 states. A variety of small and medium size retail merchants use the TOWNE CREDIT system, including hardware stores, clothing stores, florists, auto parts stores, pharmacies and private clubs. TOWNE CREDIT merchant customers typically have $1 million or less in annual revenues. TOWNE FINANCE and CASHFLOW MANAGER products and services are marketed to small commercial businesses with $5 million or less in revenues, such as furniture manufacturers, equipment distributors, plumbing suppliers and agricultural supply stores.

As of December 31, 1998, Towne had executed 641 contracts with banks in 33 states. Most of Towne's current bank customers have asset sizes of $2 billion or less. These bank customers market Towne's products and services to small businesses in their communities. There are over 10,000 financial institutions in the United States that Towne considers to be potential bank customers.

The majority of Towne's contracts with its customers are cancelable at will or on short notice or provide for renewal at frequent periodic intervals, and, accordingly, Towne may have to rebid or modify such contracts on a frequent basis. No single small business customer accounted for more than .5% of the total revenues of Towne in 1998. No single bank customer accounted for more than 3.5% of the total revenues of Towne in 1998. Towne anticipates that one or more new customers will continue to account for large portions of the revenues generated for the particular quarter in which the underlying bank contract is signed. Towne Services believes that the identity of bank customers accounting for large portions of revenues will change from quarter to quarter and year to year.

CUSTOMER SERVICES

Towne's products are supported by two levels of customer service. First, each customer bank provides first line customer service support to the merchants on accounting and loan related issues. Second, Towne Services provides a help desk for technical support for its network systems and terminals.

Towne provides many service features to its merchants, including toll-free customer service and terminal support during business hours and on an emergency basis. In addition, Towne Services provides emergency 48-hour hardware replacement, turnkey installation and training for new merchants and flexible reporting capabilities, both in frequency and format. As part of the ongoing service of CASHFlOW MANAGER, the bank has a business specialist assigned to it who helps structure and market to prospects selected by the bank. This consultant works with the loan officers, attends business meetings with the loan officers and helps the bank properly document each relationship. Towne Services attempts to establish long-term relationships through the continued support and interaction of its professional account managers and consultants.

Towne Services maintains a staff of trained client service representatives. This staff trains customers on the use of Towne's processing system and hardware at the customer location. Customer service representatives provide technical support for all of Towne's products and services through a call-in support center available during normal business hours. After hours, customers can reach Towne's technical support personnel by pager. These customer service representatives respond to inquires about Towne's products and services and assist merchants in resolving terminal, network and communication problems.

COMPETITION

Towne Services is aware of other companies who have successfully marketed business-to-business software and marketing support to banks that allows the banks to track and finance the in-house charge accounts of its customers similar to a factoring operation. Most of these competitors do not offer a point of sale system, but rather require merchants to forward paper invoices to the banks where bank personnel input the invoices onto the software purchased by the banks. One such company has a system similar to TOWNE FINANCE but does not market the system to banks, acting as the lender itself instead.

The electronic transaction processing industry is intensely competitive. Increased competition is likely from both existing competitors and new entrants into its existing or future markets. Towne believes there are low barriers to entry in its markets. Towne Services may not be able to compete successfully as other companies develop new products and services, change prices, improve customer service and hire additional personnel. Competitors may offer new products and services resulting in greater competition and lower market share for Towne. Many of Towne's competitors have longer operating histories, greater name recognition, larger customer bases and substantially greater resources than Towne. Competitors may be able to adapt more quickly to new technologies and changes in customer requirements and may also be able to devote greater resources to marketing.

TRADEMARKS AND OTHER PROPRIETARY RIGHTS

Towne attempts to protect itself through a combination of copyright law, trademark and trade secret laws, employee and third party confidentiality agreements and other methods. However, unauthorized parties may attempt to copy aspects of Towne's technology, products and services or to otherwise obtain and use information that Towne regards as proprietary, despite Towne's efforts to protect them. Third parties may claim that Towne's current or future products and services infringe the patent, copyright or trademark rights of such third parties. No assurance can be given that, if such actions or claims are brought, Towne will ultimately prevail. Any such claims, whether with or without merit, could be costly and time consuming, cause delays in introducing new or improved products and services, require Towne Services to enter royalty or licensing agreements or discontinue using the challenged technology and otherwise could have a material adverse effect on Towne's business and financial results.

EMPLOYEES

At December 31, 1998, Towne had 169 full-time employees, of which 109 were in sales and marketing, 44 were in operations and 16 were corporate and general administrative employees. Of these employees, 67 were based in Norcross, Georgia, and 102 were based in 34 other states. Management believes that Towne's relationship with its employees is satisfactory.

SEASONALITY

The electronic transaction processing industry is prone to seasonal fluctuations in purchase activity. Although Towne generally experiences seasonality in its business, fluctuations are less pronounced than in the industry, due in part to Towne's diverse customer base. Towne expects its revenues will be higher in the third and fourth calendar quarters and lower in the first calendar quarter of each year. The decline in retail activity following the holiday season typically results in lower first quarter revenues.

PROPERTY AND FACILITIES

Towne Services' principal executive offices are located at 3295 River Exchange Drive, Suite 350, Norcross, Georgia 30092, and its telephone number is (770) 734-2680. Towne leases its

principal executive offices in Norcross, Georgia and maintains an office in McKinney, Texas. Towne believes that its current facilities will be adequate to support its operations at least until the mid-year of 1999 and has recently signed a lease to relocate its headquarters to a 41,000 square foot facility in Suwanee, Georgia.

ITEM 2. PROPERTIES

See the information provided in Item 1 above entitled "Business - Property and Facilities" for information with respect to Towne's facilities.

ITEM 3. LEGAL PROCEEDINGS

Towne may be involved from time to time in legal proceedings arising in the normal course of its business and otherwise. Towne is not a party to any pending legal proceedings which it believes are material.

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

No matter was submitted to a vote of Towne's security holders during the fourth quarter of the year ended December 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

MARKET INFORMATION

Since its initial public offering in August 1998, Towne's common stock has traded on the Nasdaq Stock Market's National Market under the symbol TWNE. As of March 10, 1999, Towne had approximately 1,000 beneficial holders of its common stock. Of this total, approximately 260 were shareholders of record.

To date, Towne has not paid cash dividends on its common stock. Towne Services does not anticipate paying cash dividends on its common stock in the near future.

The following table sets forth the high and low sales price information for Towne's common stock, as reported by Nasdaq, since Towne's common stock began trading publicly in August 1998:

<TABLE>
<CAPTION>

<S>	Stock Price High <C>	Stock Price Low <C>
Third Quarter 1998	$ 8.00	$ 5.00
Fourth Quarter 1998	$ 8.38	$ 4.63

</TABLE>

RECENT SALES OF UNREGISTERED SECURITIES.

On December 1, 1998, Towne acquired all of the outstanding capital stock of Banking Solutions, Inc. in exchange for a total of 744,431 shares of Towne common stock and approximately $10.4 million in cash. A portion of these shares are subject to an escrow agreement signed in connection with the transaction. These securities were issued in reliance upon the exemptions from registration provided by Section 4(2) of the Securities Act of 1933 and various interpretations and regulations provided thereunder, including Regulation D.

On December 15, 1998, Towne issued options to acquire a total of 25,000 shares of its common stock to its non-employee directors. Towne relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and various interpretations and regulations provided thereunder, including Regulation D.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On July 30, 1998, Towne completed an initial public offering of 3,850,000 shares of common stock at an offering price of $8.00 per share pursuant to a registration statement on Form S-1 (Commission File No. 333-53341). Net proceeds from the offering were approximately $27.0 million after deducting underwriters discounts and commissions and expenses related to the offering. During 1998, Towne used portions of the proceeds as follows: (i) approximately $12.6 million in the Banking Solutions acquisition, including $2.3 million in contract terminations, severance packages and signing bonuses; (ii) approximately $5.3 million for working capital, including sales

and marketing, hiring additional personnel and upgrading and expanding its products and services; and (iii) approximately $2.1 million to repay outstanding debt at the completion of the offering. The balance of the proceeds have been and will be used for general corporate purposes, including possible acquisitions.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, Towne Services' consolidated financial statements and the related Notes thereto and other financial information included elsewhere in this Annual Report on Form 10-K, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 below. The selected consolidated financial data of Towne Services as of December 31, 1996, 1997 and 1998 and for each of the four years ended December 31, 1998 were derived from Towne Services' consolidated financial statements, which have been audited by Arthur Andersen LLP, independent public accountants. The selected consolidated balance sheet as of December 31, 1995 was derived from unaudited financial statements which, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of Towne's financial condition and results of operations. These results may not be indicative of future results.

<TABLE>
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	INCEPTION PERIOD ENDED DECEMBER 31 1995(1)	YEARS ENDED DECEMBER 31, 1996	1997	1998

<S>	<C>	<C>	<C>	<C>
STATEMENTS OF OPERATIONS DATA:				
REVENUES	$ 6,000	$ 105,285	$ 722,364	$ 6,397,628
COSTS AND EXPENSES:				
Costs of processing, servicing and support	2,250	219,621	832,102	2,027,160
Research and development	0	51,871	332,470	306,482
Sales and marketing	3,739	118,163	839,323	6,251,564
Stock compensation expense(2)	0	10,020	0	6,267,497
Employee termination costs(7)	0	0	0	2,291,102
General and administrative	18,410	358,606	1,139,642	3,858,564
Total costs and expenses	24,399	758,281	3,143,537	21,002,369
OPERATING LOSS	(18,399)	(652,996)	(2,421,173)	(14,604,741)
OTHER EXPENSES:				
Interest expense (income), net	(131)	5,802	95,946	(263,503)
Other expense (income)	357	3,509	(1,018)	(5,814)
Financing costs for stock issued to nonemployees(3)...	0	0	0	323,000
Total other expenses	226	9,311	94,928	53,683
Loss before extraordinary loss on early .... extinguishment of debt	(18,625)	(662,307)	(2,516,101)	(14,658,424)
Extraordinary loss on early extinguishment of debt ...	0	0	0	476,239
NET LOSS	$ (18,625)	$ (662,307)	$ (2,516,101)	$(15,134,663)
PREFERRED STOCK DIVIDENDS(4)	0	0	0	(5,108,000)
ACCRETION OF WARRANTS WITH REDEMPTION FEATURE(4)	0	0	0	(691,972)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS BEFORE EXTRAORDINARY LOSS	$ (18,625)	$ (662,307)	$ (2,516,101)	$(20,458,397)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE BEFORE EXTRAORDINARY LOSS:				
Basic	$ (0.00)	$ (0.10)	$ (0.26)	$ (1.32)
Diluted	$ (0.00)	$ (0.10)	$ (0.26)	$ (1.32)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (18,625)	$ (662,307)	$ (2,516,101)	$(20,934,635)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE				
Basic	$ (0.00)	$ (0.10)	$ (0.26)	$ (1.35)
Diluted	$ (0.00)	$ (0.10)	$ (0.26)	$ (1.35)
Weighted Average Common Shares Outstanding(5)(6).........	5,000,000	6,337,356	9,600,592	15,516,170 (6)
OTHER OPERATING DATA AT END OF PERIOD:				
Number of sales people................................	0	2	15	99 (7)
Number of bank contracts(8)...........................	0	17	74	641 (7)
Number of business customers..........................	0	11	96	1,662 (7)

</TABLE>

<TABLE>
<CAPTION>

	AT DECEMBER 31,			
	1995	1996	1997	1998
	(unaudited)			

<S> <C> <C> <C> <C>

BALANCE SHEET DATA:				
Working capital....................................	$17,517	$ 1,677	1,946,175	$ 9,883,587
Total assets.......................................	28,226	366,806	3,586,432	35,419,628
Long-term debt, net of current portion.............	30,000	90,000	1,289,666	0
Shareholders' (deficit) equity(6)..................	(2,875)	119,092	1,261,663	28,272,416

</TABLE>

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(1) Towne Services was incorporated on October 23, 1995. The Inception Period is from that date to December 31, 1995.

(2) During the year ended December 31, 1998, Towne Services sold shares of common stock and issued options to acquire common stock to employees, officers and directors at what management believed to be the fair market value of the common stock at that time. Towne Services retained an independent appraiser who subsequently valued the common stock at a higher price. Based upon third-party sales, the independent valuation and the anticipated offering price, Towne recorded a one-time non-cash compensation charge for the additional value.

(3) During the year ended December 31, 1998, Towne Services sold shares of common stock to nonemployees at what management believed to be the fair market value of the common stock at that time. Towne retained an independent appraiser who subsequently valued the common stock at a higher price. Based upon third-party sales, the independent valuation and the offering price, Towne recorded a one-time financing cost for the additional value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(4) Dividends have been recorded with respect to convertible preferred stock issued on March 13, 1998 for the difference between the estimated fair market value of the common stock on that date and the conversion price of the preferred stock. Accretion has been recorded with respect to warrants with a redemption feature which were issued on December 18, 1997 based upon the estimated fair market value of the common stock issuable upon exercise of the warrants. See notes (2) and (3) above and Note 9 of notes to Towne Services' consolidated financial statements.

(5) See Note 2 of notes to Towne Services' financial statements for a description of the method used to determine the share calculations. In October 1998, options to purchase 200,000 shares of common stock were exercised for $80,000. See Note 10 of notes to Towne Services' consolidated financial statements.

(6) In July 1998, Towne Services completed an initial public offering of its common stock. The total proceeds of the offering, net of underwriting discounts and offering expenses, were approximately $27.0 million. Towne issued 3,850,000 shares at an offering price at $8.00 per share. Subsequent to the offering, Towne converted all outstanding shares of Series A Preferred Stock to 1,217,903 shares of common stock and warrants for 308,982 shares of common stock were exercised.

(7) In December 1998, Towne Services acquired the outstanding capital stock of Banking Solutions, Inc., for approximately $14.9 million in cash and stock. In connection with the acquisition of Banking Solutions, Towne issued 744,431 shares of Towne's common stock at $6.73 per share. The remainder of the purchase price was paid in cash. Towne also agreed to pay former officers of Banking Solutions amounts of money which are contingent upon future performance criteria. Banking Solutions is a developer and provider of a transaction processing system, CASHFLOW MANAGER, an accounts receivable financing program similar to the TOWNE FINANCE product. Towne Services recorded this transaction using the purchase method of accounting. The numbers presented reflect the effects of this acquisition.

(8) Number of bank contracts includes each TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER processing agreement executed with a bank. In some cases, Towne Services enters into an agreement with a bank that has several branches and the numbers presented above do not reflect the number of branches operated by the bank. Towne also enters into contracts with bank holding companies that is the parent of several different banks and may count the contract as multiple contracts to represent the banks or communities covered by the contract.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report contains several "forward-looking statements" concerning Towne Services' operations, performance, prospects, strategies and financial condition, including its future economic performance, intent, plans and objectives and the likelihood of success in developing and expanding its business. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of Towne Services. Words such as "may," "would," could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate" are meant to identify such forward-looking statements. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to:

- Towne's limited operating history and whether it will be able to achieve or maintain profitability;
- whether Towne can attract and retain sales and marketing personnel or enter new marketing alliances to grow its business;
- whether Towne can obtain, continue and manage growth or execute agreements with new customers;
- whether the market will accept new products and enhancements from Towne;
- whether Towne can successfully integrate the operations of companies it acquires;
- increased competition;
- the unknown effects of possible system failures and rapid changes in technology; and
- other factors discussed in this Annual Report and in Towne's registration statement on Form S-1 (No. 333-53341) as declared effective by the Securities and Exchange Commission on July 30, 1998, including the "Risk Factors" section contained therein.

OVERVIEW

Towne's revenues currently are generated through initial set-up fees, discount fees and monthly transaction processing fees. Management believes the prices charged for both the initial set-up fees and the recurring transaction fees are based upon the relative fair value of the related services provided. Accordingly, Towne recognizes these fees as the related services are provided. Set-up fees include charges for installation, implementation and training of Towne's bank and business customers. Towne Services recognizes revenues related to its set-up fees upon execution of the related contract or, if appropriate, upon settlement of any contract contingencies. Set-up fees charged to each bank vary depending on the asset size of the bank and the number of Communities served. Towne also charges set-up fees to its business customers based either upon a flat rate or upon the expected transaction volume. Revenues are deferred for contracts that contain certain cancellation clauses and/or return guarantees until the cancellation or guarantee period has expired.

As with credit card transactions, Towne's business customer pays a discount fee to its bank equal to a percentage of the value of each transaction processed. In addition, the business' customer pays to the bank interest and fees for amounts owed on account. Towne Services generates recurring

revenue by collecting a portion of the discount fee and, on occasion, interest paid on these accounts, as well as by charging monthly transaction processing fees. Monthly transaction processing fees include charges for electronic processing, statement rendering and mailing, settling payments, recording account changes and new accounts, leasing and selling point of sale terminals and collecting debts.

Costs of processing, servicing and support include installation costs for Towne's products and costs related to customer service, information systems personnel and installation services.

Research and development expenses consist of salary and related personnel costs, including costs for employee benefits, computer equipment and support services, used in product and technology development. Towne believes that its research and development expenditures, which aid in the design of new products and product enhancements to respond to changes in customer demand, are essential for obtaining and retaining a leadership position in its marketplace. Most research and development expenditures are expensed as incurred; however, Towne has capitalized certain development costs under Statement of Financial Accounting Standards ("SFAS") No. 86 when the products reached technological feasibility.

Sales and marketing expenses consist primarily of salaries and commissions, travel expenses, advertising, trade show expenses and costs of marketing materials. These expenses also include the costs incurred to develop Towne's indirect marketing channels.

For the years ended December 31, 1997 and 1998, Towne had net losses of approximately $2.5 million and $15.1 million, respectively. As of December 31, 1997, Towne had an accumulated deficit of $3.2 million. As of December 31, 1998, this accumulated deficit was $24.1 million. Approximately $12.9 million of this accumulated deficit resulted from one-time non-cash charges, and $2.3 million of this accumulated deficit resulted from a one-time charge relating to employee termination agreements subsequent to the purchase of Banking Solutions, Inc. in December 1998.

On July 30, 1998 Towne's initial public offering was declared effective by the Securities and Exchange Commission. In this offering, Towne sold 3,850,000 shares of common stock at $8.00 per share. Towne received proceeds of $27.0 million (net), after deducting underwriting discounts and other expenses related to the offering.

Towne's business has grown rapidly with total revenues increasing from $722,000 for 1997 to $6.4 million in 1998. However, Towne has experienced net losses in each of these periods and expects to continue to incur losses for the foreseeable future. The number of Towne Services employees increased from 25 at December 31, 1997 to 169 at December 31, 1998. Towne currently intends to expand its sales and marketing operations, to invest more in product research and development, to pursue strategic acquisitions and to improve its internal operating and financial infrastructure, all of which will increase its operating expenses.

Because of Towne's limited operating history, management believes that period to period comparisons of its operating results are not meaningful. Although Towne has experienced significant revenue growth recently, there can be no assurance that such growth rates are sustainable, and they

should not be relied upon as indicators of future performance. Towne's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development and relatively new and changing markets. There can be no assurance that Towne will be successful in addressing such risks and difficulties or that it will achieve profitability in the future.

RESULTS OF OPERATIONS

The following table sets forth certain historical operating information for Towne Services, in dollars and as a percentage of total revenues, for the periods indicated:

<TABLE>
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	Years Ended December 31, 1996	1997	1998
Revenues	$ 105,285	$ 722,364	$ 6,397,628
Costs of processing, servicing and support	219,621	832,102	2,027,160
Research and development	51,871	332,470	306,482
Sales and marketing	118,163	839,323	6,251,564
Stock compensation expense	10,020	0	6,267,497
Employee termination costs	0	0	2,291,102
General and administrative	358,606	1,139,642	3,858,564
Total costs and expenses	758,281	3,143,537	21,002,369
Operating loss	(652,996)	(2,421,173)	(14,604,741)
Interest expense (income), net	5,802	95,946	(263,503)
Other expense (income)	3,509	(1,018)	(5,814)
Financing costs for stock issued to nonemployees(3)	0	0	323,000
Total other expenses	9,311	94,928	53,683
Net loss before extraordinary loss on early extinguishment of debt	$ (662,307)	$(2,516,101)	$(14,658,424)
Net loss	$ (662,307)	$(2,516,101)	$(15,134,663)
Net loss attributable to common shareholders	$ (662,307)	$(2,516,101)	$(20,934,635)

<CAPTION>

	Years Ended December 31, 1996	1997	1998

Revenues	100 %	100 %	100 %
Costs of processing, servicing and support	209	115	32
Research and development	49	46	5
Sales and marketing	112	116	98
Stock compensation expense	10	0	98
Employee termination costs	0	0	36
General and administrative	340	158	60
Total costs and expenses	720	435	328
Operating loss	(620)	(335)	(228)
Interest (income) expense, net	6	13	(4)
Other expense (income)	3	0	0
Financing costs for stock issued to nonemployees	0	0	5
Total other expenses	9	13	1
Net loss before extraordinary loss on early extinguishment of debt	(629)%	(348)%	(229)%
Net loss	(629)%	(348)%	(237)%
Net loss attributable to common shareholders	(629)%	(348)%	(327)%

</TABLE>

COMPARISON OF YEARS ENDED DECEMBER 31, 1997 AND 1998

Revenues. Towne's revenues increased from $722,000 in 1997 to $6.4 million in 1998. During these two periods, set-up fees accounted for approximately 53% and 51% of total revenues, respectively. Recurring revenues accounted for approximately 18% and 35% of total revenues, respectively. The increase in revenues during these periods resulted primarily from an increase in the number of customers (including as a result of the acquisition of Banking Solutions in December 1998) and higher set-up fees and transaction processing fees charged to new customers. The increase in set-up fee revenues resulted primarily from an increase in the number of customers and higher set-up fees charged to new customers.

Costs of Processing, Servicing and Support. Costs of processing, servicing and support increased from $832,000 in 1997 to $2.0 million for 1998. These costs were approximately 115% and 32% of total revenues, respectively, for these two periods. The dollar amount of costs of processing, servicing and support increased as a result of the addition of new customers and additional services and support functions necessary to support Towne's growth, including as a result of its acquisitions. Towne anticipates that these costs will continue to increase as new customers are added. Costs of processing, servicing and support decreased as a percentage of revenue as a result of substantially increased revenues and improved operating efficiencies.

Research and Development. Towne research and development expenses decreased from $332,000 in 1997 to $306,000 in 1998. Research and development expenses represented approximately 46% and 5% of total revenues, respectively, during these two periods. We expect that the dollar amount of research and development expenses will increase as Towne recruits and hires additional experienced programmers and develops new products and services. We do not expect to incur significant costs to make our products year 2000 compliant because we believe our products are currently designed to properly function through and beyond the year 2000. See "--Effects of the Year 2000."

Sales and Marketing. Sales and marketing expenses increased from $839,000 in 1997 to $6.3 million in 1998. Sales and marketing expenses were approximately 116% and 98% of total revenues, respectively, during these two periods. The increase in these expenses is primarily the result of significant increases in the number of sales personnel in remote locations, related travel expenses and costs for marketing materials used to recruit potential bank and business customers. Towne anticipates that sales and marketing expenses will continue to increase as it continues to expand its direct sales and marketing force and hires additional personnel to promote its indirect sales channels.

Stock Compensation Expense. Stock compensation expense was $6.3 million for the year ended December 31, 1998. In the first quarter of 1998, Towne sold shares of common stock and issued options to acquire common stock at what management believed to be the fair market value of the common stock at that time. Towne retained an independent appraiser who subsequently valued the common stock at a higher price. Based upon outside sales to third parties, the independent valuation and the anticipated initial public offering price at the time, Towne recorded a one time non-cash charge for the additional value.

Purchase of Banking Solutions, Inc. In December 1998, Towne acquired the outstanding capital stock of Banking Solutions, Inc., for approximately $14.9 million in cash and stock. In connection with the acquisition of Banking Solutions, Towne issued 744,431 shares of Towne common stock at $6.73 per share. The remainder of the purchase price was paid in cash. Towne also agreed to pay former officers of Banking Solutions amounts of money which are contingent upon future performance criteria. Banking Solutions is a developer and provider of a transaction processing system, CASHFLOW MANAGER, an accounts receivable financing program similar to the TOWNE FINANCE product. Towne recorded this transaction using the purchase method of accounting. Towne has recorded goodwill in the amount of $14.6 million, which is being amortized over a period of 25 years. Towne has recorded a $1.1 million intangible asset for the purchase of BSI's customer list, which is being amortized over a period of 5 years. Towne also recognized a one time charge in the amount of $2.3 million, in December 1998, related to employee terminations which were not identified at the date of purchase.

General and Administrative. General and administrative expenses increased from $1.1 million in 1997 to $3.9 million in 1998. These costs represented approximately 158% and 60% of total revenues, respectively, for these two periods. The increase in the dollar amount of these expenses was primarily the result of increases in the number of executive and administrative employees and the costs associated with executive and administrative expenses related to our growth. Also, Towne incurred additional costs related to being a public company, including annual and other public reporting costs, directors' and officers' liability insurance, investor relations programs and professional services fees. We anticipate that these expenses will continue to increase in the near future as Towne upgrades internal and financial reporting systems to enhance management's ability to obtain and analyze information about its operations.

Interest (Income) Expense, Net. Towne reported net interest expense of $96,000 in 1997 and net interest income of $264,000 in 1998. Interest expense decreased as a result of the repayment of debt obligations and interest income increased as a result of earnings on investments of cash proceeds received from the initial public offering.

Extraordinary Loss. Towne reported an extraordinary loss during 1998 resulting from the early extinguishment of debt in the amount of $476,000. The extraordinary loss was comprised of $218,000 unamortized discount on a promissory note and $258,000 deferred debt issuance costs. See Note 5 of Notes to Towne's Financial Statements.

Income Taxes. As of December 31, 1998, Towne Services had net operating losses ("NOLs") of approximately $17.6 million for federal tax purposes which will expire if not utilized beginning in 2011. Towne has not recognized any benefit from the future use of such NOLs because management's assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently.

COMPARISON OF YEARS ENDED DECEMBER 31, 1996 AND 1997

Revenues. Towne's revenues increased from $105,000 in 1996 to $722,000 in 1997. Set-up fees accounted for approximately 44% and 53% of total revenues in 1996 and 1997, respectively. Recurring revenues accounted for approximately 5% and 18% of total revenues in 1996 and 1997, respectively. The increases in the dollar amount of revenues during this period resulted primarily from an increase in the number of customers and higher set-up and transaction processing fees charged to new customers. The increase in recurring revenues as a percentage of revenues resulted primarily from an increase in the monthly transaction processing revenues that generate recurring revenues.

Costs of Processing, Servicing and Support. Costs of processing, servicing and support increased from $220,000 in 1996 to $832,000 in 1997. The costs were approximately 209% and 115% of total revenues, respectively, for these two periods. The dollar amount of costs of processing, servicing and support increased as a result of the addition of new customers, additional servicing and increased support functions required to support our growth.

Research and Development. Towne increased its research and development expenses from $52,000 in 1996 to $332,000 in 1997. Research and development expenses represented approximately 49% and 46% of total revenues, respectively, during these two periods. The increase in dollar amounts was due primarily to the continued development of TOWNE CREDIT and TOWNE FINANCE.

Sales and Marketing. Sales and marketing expenses increased from $118,000 in 1996 to $839,000 in 1997. Sales and marketing expenses were approximately 112% and 116% of total revenues, respectively, during these two periods. The increase in dollar amount was primarily the result of a significant increase in the number of sales personnel in remote locations, related travel expenses and increased costs for marketing materials used to recruit potential bank and business customers.

General and Administrative. General and administrative expenses increased from $359,000 in 1996 to $1.1 million in 1997. These costs were approximately 340% and 158% of total revenues, respectively, for these two periods. The increase in dollar amounts was primarily the result of increases in the number of administrative and operational employees, and the costs associated with administrative expenses and building infrastructure to support our growth.

Interest (Income) Expense, net. Interest expense increased from $6,000 in 1996 to $96,000 in 1997, primarily as a result of a loan facility obtained in late 1997.

Income Taxes. As of December 31, 1997, Towne had NOLs of approximately $3.0 million for federal tax purposes which will expire if not utilized by 2011 and 2012. Towne has not recognized any benefit from the future use of such NOLs because management's assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently.

During Towne's short history, its operating results have varied significantly and are likely to fluctuate significantly in the future as a result of a combination of factors. These factors include: whether or not the market accepts current and future products and services; whether new competitors emerge or existing competitors gain market share faster than Towne Services; whether new technologies are developed which make Towne's systems outdated or obsolete; whether costs of doing business increase as a result of higher wages, sales commissions, taxes and other operating costs; whether seasonal trends in consumer purchasing impact the volume of transactions processed; general economic factors and the impact of potential acquisitions to Towne's operations. In addition, the amount of revenues associated with particular set-up fees can vary significantly based upon the number of products used by customers for any particular period. Towne Services establishes its expenditure levels for product development, sales and marketing and other operating expenses based, in large part, on its anticipated revenues. As a result, if revenues fall below expectations, operating results and net income are likely to be adversely and disproportionately affected because only a portion of Towne's expenses vary with its revenues.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Towne has financed its operations primarily through sales of its equity securities in private placements, its initial public offering and through credit facilities. Through December 1997, Towne received aggregate net proceeds of $4.3 million from the sale of its common stock. In March 1998, Towne received net proceeds of $1.5 million from the sale of its Series A Preferred Stock in a private placement. In July 1998, Towne received net proceeds of $27.0 million from the initial public offering of its common stock.

In August 1998, Towne paid off all then existing current and long term debt obligations, which consisted of a $1.5 million term note and several lines of credit, with proceeds received from its initial public offering. The early extinguishment of some of these debt obligations resulted in an extraordinary loss of $476,000, which is comprised of $218,000 unamortized discount on the $1.5 million term note and $258,000 in deferred debt issuance costs.

In December 1998, Towne borrowed $5.0 million on a short-term line of credit from First Union National Bank. The line of credit has a term of one year with an interest rate of LIBOR plus 2.0% (7.1% at December 31, 1998). It is secured by a deposit account Towne maintains with the lender. The line of credit was paid in full in January 1999. Towne will continue to negotiate with certain other financial institutions to establish a credit facility for future working capital and acquisition financing, but there can be no assurance that such negotiations will be successful.

Net cash used in operating activities was approximately $2.1 million for 1997 and $10.2 million for 1998. Net cash used in operating activities during 1997 represents a $2.5 million net loss partially offset by a $599,000 increase in accounts payable and accrued expenses, a $120,000 increase in accounts receivable and a $260,000 increase in prepaid expenses and other assets. Net cash used in operating activities during 1998 represents a $15.1 million net loss partially offset by a $622,000 increase in accounts payable and accrued expenses, a $3.0 million increase in accounts receivable and a $265,000 increase in prepaid expenses and other assets.

Net cash used in investing activities was approximately $531,000 for 1997 and $12.9 million for 1998. Net cash used in investing activities during 1997 represents an increase of $452,000 for the purchase of computer equipment used in conducting Towne's business and an increase of $79,000 of notes receivable due from a shareholder. Net cash used in investing activities during 1998 represents an increase of $10.4 million to acquire Banking Solutions, Inc., $1.9 million for the purchase of computer equipment and other capital equipment used in conducting Towne's business, $510,000 to acquire some of the assets and liabilities of Credit Collection Solutions, Inc. and $170,000 in notes due from shareholders.

Net cash provided by financing activities was $5.0 million for 1997 and $33.7 million for 1998, which consisted primarily of $27.0 million of net proceeds received from Towne's initial public offering, $1.5 million from the issuance of preferred stock, $584,000 from the exercise of stock options and $4.6 million of net proceeds from the issuance of other securities and payment of all outstanding debt obligations.

EFFECTS OF THE YEAR 2000

Towne's business and customer relationships rely on computer software programs, internal operating systems and telephone and other network communications connections. If any of these programs, systems or network connections are not programmed to recognize and properly process dates after December 31, 1999 (the "Year 2000" issue), significant system failures or errors may result which could have a material adverse effect on the business, financial condition, or results of operations of both the effected customers and Towne. Towne Services has conducted tests on its proprietary point of sale terminals, network connections and transaction processing software and believes that its TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER products and network connections it maintains are able to process dates after December 31, 1999. For its internal accounting and operating systems and network communications, Towne uses software and other products provided by third parties and has received warranties or other assurances that most of these products are programmed to address the Year 2000 issue. Towne plans to conduct a limited review of its internal systems and to continue to test its network connections to help insure that these programs and systems are adequately programmed to address the Year 2000 issue. Towne Services intends to modify or replace any products or systems that are unable to properly function as a result of the Year 2000 issue and currently believes it will be able to do so without incurring costs or delays which would have a material adverse effect on its financial condition.

Towne supplies point of sale terminals and other products needed to run its processing systems to its customers and Towne Services has not tested any other products or systems used in its customers' businesses. If Towne's customers do not successfully address Year 2000 issues in their operations and, as a result, experience temporary or permanent interruptions in their businesses, Towne may lose revenues from these customers, which could have a material adverse effect on its business, financial condition and results of operations. Towne Services believes that many financial institutions and small businesses (including customers of Towne) are still in the preliminary stages of analyzing their systems for Year 2000 issues. It is impossible to estimate the potential expenses involved or delays which may result from the failure of these institutions and third parties to resolve their Year 2000 issues in a timely manner and there can be no assurance that such expenses, failures

or delays will not have a material adverse effect on Towne's business, financial condition or results of operations.

EFFECTS OF ACCOUNTING STANDARDS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. This statement is effective for periods beginning after December 15, 1997. Towne adopted SFAS No. 130 on January 1, 1998. The adoption of SFAS 130 did not have a material impact on Towne's financial statements as comprehensive income did not differ from the reported net loss for all periods presented.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for financial statements for periods beginning after December 15, 1997. The adoption of SFAS No. 131 did not have an impact on Towne's financial statements, as the Company operates in one business segment, electronic transaction processing. Towne's operating business segments provide electronic transaction processing for small business in-house accounts. The separate businesses within Towne use Towne's central administrative offices for customer support, centralized processing and sales support. In addition, Towne's sales force markets all products within their assigned markets. Consequently, Towne considers all of its products as one reportable segment under the definitions in SFAS No. 131.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement SFAS No. 133 as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning June 16, 1988 and thereafter). SFAS No. 133 cannot be applied retroactively; it must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. The adoption of SFAS No. 133 will not have a material impact on Towne's financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Towne does not use derivative financial instruments in its operations or investments and does not have significant operations subject to fluctuations in foreign currency exchange rates. Towne's $5.0 million credit facility has an interest rate which is based (at the Company's election) upon the lender's prime rate. As of March 15, 1999, no amounts were outstanding under this credit facility and, therefore, Towne does not believe it has a significant risk due to potential fluctuations in interest rates at this time. Changes in interest rates which dramatically increase the interest rate on the credit facility would make it more costly to borrow proceeds under that facility and may impede Towne's acquisition and growth strategies if management determines that the costs associated with borrowing funds are too high to implement these strategies.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Towne, including Towne's consolidated balance sheets as of December 31, 1998 and 1997 and consolidated statements of income, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the three years ended December 31, 1998, together with the report thereto of Arthur Andersen LLP dated February 12, 1999, and the schedule containing certain supporting information are attached hereto as pages F-1 through F-24.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS IN ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

Certain information required by Part III is omitted from this Report because the Registrant will file a definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the "Proxy Statement") not later than 120 days after the end of the financial year covered by this Report, and certain information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated herein by reference from the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference from the Proxy Statement, except for those portions relating to the Compensation Committee's Report on Executive Compensation and to Towne's Comparative Performance.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference from the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The following consolidated financial statements of Towne Services, Inc. and its subsidiaries are filed as part of this Annual Report and are attached hereto as pages F-1 to F-24:

Report of Independent Public Accountants
Consolidated Balance Sheets of December 31, 1997 and 1998
Consolidated Statements of Operations for the years ended December 31, 1996, 1997 and 1998
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1996, 1997 and 1998
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1998
Notes to Financial Statements

(a)(2) Financial Statement Schedules

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Description	Beginning Balance	Charged to Expense	Deductions	Ending Balance
December 31, 1995 Allowance for Doubtful Accounts.....	0	0	0	0
December 31, 1996 Allowance for Doubtful Accounts.....	0	0	0	0
December 31, 1997 Allowance for Doubtful Accounts.....	0	25,000	0	25,000
December 31, 1998 Allowance for Doubtful Accounts.....	25,000	322,065	0	347,065

(a)(3) Exhibits

Exhibit No.	Description
2.1	Asset Purchase Agreement by and between Towne Services, Inc. and Credit Collection Solutions, Inc., and Burton W. Crapps and Robert M. Ragsdale dated as of June 11, 1998.*
2.2	Stock Purchase Agreement dated November 30, 1998 by and between Towne Services, Inc., BSI Acquisition Corp., Banking

	Solutions, Inc. ("BSI"), and certain shareholders of BSI (incorporated by reference to Exhibit 2.1 of the Company's Report on Form 8-K filed on December 15, 1998).
3.1	Amended and Restated Articles of Incorporation, as filed with the Secretary of State of the State of Georgia on July 29, 1998.*
3.2	Amended and Restated Bylaws, effective May 19, 1998.*
4.1	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws defining the rights of the holders of common stock of the Company.
10.1	1996 Stock Option Plan (including form of Stock Option Agreement.*/**
10.2	1998 Stock Option Plan (including form of Stock Option Agreement).*/**
10.3	Form of Non-Qualified Stock Option Agreement.*/**
10.4	Lease by and among River Exchange Associates Limited Partnership and Towne Services, Inc. dated January 12, 1998.*
10.5	Employment Agreement by and between Towne Services, Inc. and Drew W. Edwards dated as of October 15, 1995.*/**
10.6	Employment Agreement by and between Towne Services, Inc. and Henry M. Baroco dated as of January 15, 1997.*/**
10.7	Amended and Restated Employment Agreement by and between Towne Services, Inc. and Bruce Lowthers dated as of May 18, 1998.*/**
10.8	Employment Agreement by and between Towne Services, Inc. and Cleve Shultz dated as of May 19, 1998.*/**
10.9	Form of TOWNE CREDIT Bank Marketing Agreement.*
10.10	Form of TOWNE FINANCE Bank Marketing Agreement.*

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<S>	<C>
10.11	Form of TOWNE CREDIT Merchant Processing Agreement.*
10.12	Form of TOWNE FINANCE Client Processing Agreement.*
10.13	Form of CASH FLOW MANAGER Merchant Services Agreement.
10.14	Form of CASH FLOW MANAGER License Agreement.
10.15	Form of Independent Bankers Bank General Marketing Agent Agreement.
10.16	Registration Rights Agreement dated as of March 13, 1998 by and between Towne Services, Inc. and Capital Appreciation Partners, L.P.*
10.17	Form of Indemnification Agreement entered into between Towne Services, Inc. and its directors and officers.*
10.18	Promissory note dated September 8, 1997 issued to Towne Services, Inc. by Henry M. Baroco.*
10.19	Promissory note dated April 1, 1998 issued to Towne Services, Inc. by Bruce F. Lowthers, Jr.*
10.20	Promissory Note dated October 8, 1998 issued to Towne Services, Inc. by Drew W. Edwards.
10.21	Promissory Note dated October 8, 1998 issued to Towne Services, Inc. by Henry M. Baroco.
10.22	Form of General Marketing Agent Agreement.*
10.23	Promissory Note by the Company to the order of First Union National Bank dated December 31, 1998.
21.1	Subsidiaries of Towne Services, Inc.
23.1	Consent of Arthur Andersen, LLP.
24.1	Power of Attorney (contained or the signature page hereof).
27.1	Financial Data Schedule for the periods ending December 31, 1997 and 1998 (for SEC use only).
99.1	The following audited financing statements of Banking Solutions, Inc. together with the report thereon by Arthur Andersen LLP (incorporated by reference to Exhibit 99.2 of the Company's Report on Form 8-K/A filed on February 16, 1999): Balance Sheets as of December 31, 1996, 1997 and September 30, 1998 (unaudited). Statements of Operations for the years ended December 31, 1995, 1996, 1997 and the nine months ended September 30, 1998 (unaudited). Statements of Shareholders' Equity for the years ended December 31, 1995, 1996, 1997 and the nine months ended September 30, 1998 (unaudited). Statements of Cash Flows for the years ended December 31, 1995, 1996, 1997 and the none months ended September 30, 1998 (unaudited). Notes to Financial Statements.
99.2	The following unaudited pro forma financial statements of Towne Services, Inc. and Banking Solutions, Inc. (incorporated by reference to Exhibit 99.3 of the Company's Report on Form 8-K/A filed on February 16, 1999): Pro Forma Balance Sheet as of September 30, 1998. Pro Forma Statement

of Operations for the year ended December 31, 1997. Pro Forma Statement of Operations for the nine months ended September 30, 1998. Notes to Pro Forma Condensed Consolidated Financial Information.

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* Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 (No. 333-53341) as declared effective by the Securities and Exchange Commission on July 30, 1998.

** This agreement is a compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c).

(b) Reports on Form 8-K

Form 8-K filed on December 15, 1998. Current report under Item 2 reporting that Towne, through a wholly-owned subsidiary, acquired all of the outstanding capital stock of Banking Solutions, Inc. pursuant to a Stock Purchase Agreement dated as of November 30, 1998.

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, thereto duly authorized.

Towne Services, Inc.

March 24, 1999	By: /s/ Drew W. Edwards
Date	Drew W. Edwards Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Drew W. Edwards and Henry M. Baroco, and each one of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report (Form 10-K) and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchanges Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
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Signatures	Title	Date
<S>	<C>	<C>
/s/ Drew W. Edwards Drew W. Edwards	Chairman of the Board and Chief Chief Executive Officer (principal executive officer)	March 24, 1999
/s/ Bruce F. Lowthers Bruce F. Lowthers	Chief Financial Officer (principal financial and accounting officer)	March 24, 1999
/s/ Henry M. Baroco	President, Chief Operating	March 24, 1999

Henry M. Baroco	Officer and Director

Signatures	Title	Date
/s/ G. Lynn Boggs G. Lynn Boggs	Director	March 24, 1999
/s/ Frank W. Brown Frank W. Brown	Director	March 24, 1999
/s/ John W. Collins John W. Collins	Director	March 24, 1999
/s/ J. Stanley Mackin J. Stanley Mackin	Director	March 24, 1999
/s/ Joe M. Rodgers Joe M. Rodgers	Director	March 24, 1999
/s/ John D. Schneider, Jr. John D. Schneider, Jr.	Director	March 24, 1999
/s/ J. Daniel Speight, Jr. J. Daniel Speight, Jr.	Director	March 24, 1999
/s/ Glenn W. Sturm Glenn W. Sturm	Director	March 24, 1999
/s/ J. Stephen Turner J. Stephen Turner	Director	March 24, 1999
/s/ Bahram Yusefzadeh Bahram Yusefzadeh	Director	March 24, 1999

TOWNE SERVICES, INC.

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, 1997 AND 1998

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FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Towne Services, Inc.:

We have audited the accompanying consolidated balance sheets of TOWNE SERVICES, INC. (a Georgia corporation) AND SUBSIDIARIES as of December 31, 1997 and 1998 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, the financial statements referred to above present fairly, in all material respects, the financial position of Towne Services, Inc. and subsidiaries as of December 31, 1997 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in Item 14(a)(2) of this Form 10-K is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 12, 1999

TOWNE SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1998

<TABLE>
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	1997	1998

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ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,536,439	$ 13,081,284
Accounts receivable, net of allowance for uncollectible accounts of $25,000 and $347,065 in 1997 and 1998, respectively	121,566	3,552,478
Note receivable	0	167,305
Other	68,273	229,732
Total current assets	2,726,278	17,030,799
PROPERTY AND EQUIPMENT, net	489,849	2,116,987
NOTES RECEIVABLE	78,990	81,565
DEBT ISSUANCE COSTS, net	288,815	0
GOODWILL, net	0	14,955,414
OTHER INTANGIBLES, net	0	1,134,614
OTHER ASSETS, net	2,500	100,249
	$ 3,586,432	$ 35,419,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 297,937	$ 125,763
Accrued liabilities	215,109	1,273,148
Accrued compensation	220,300	250,391
Accrued termination costs	0	497,910
Current portion of long-term debt	46,757	5,000,000
Total current liabilities	780,103	7,147,212
LONG TERM DEBT, net of discount of $249,500 and $0 in 1997 and 1998, respectively	1,289,666	0
COMMITMENTS AND CONTINGENCIES		
WARRANTS WITH REDEMPTION FEATURE	255,000	0
SHAREHOLDERS' EQUITY:		
Preferred stock, $100 par value; 20,000,000 shares authorized, 0 issued and outstanding in 1997 and 1998, respectively	0	0
Common stock, no par value; 50,000,000 shares authorized, 11,706,766 and 19,651,390 issued and outstanding in 1997 and 1998, respectively	4,417,696	52,363,084
Warrants outstanding	41,000	41,000
Accumulated deficit	(3,197,033)	(24,131,668)
Total shareholders' equity	1,261,663	28,272,416
	$ 3,586,432	$ 35,419,628

</TABLE>

The accompanying notes are an integral part of these balance sheets.

TOWNE SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

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	1996	1997	1998
REVENUES	$ 105,285	$ 722,364	$ 6,397,628
COSTS AND EXPENSES:			
Costs of processing, servicing, and support	219,621	832,102	2,027,160
Research and development	51,871	332,470	306,482
Sales and marketing	118,163	839,323	6,251,564
Stock compensation expense	10,020	0	6,267,497

Employee termination costs	0	0	2,291,102
General and administrative	358,606	1,139,642	3,858,564
Total costs and expenses	758,281	3,143,537	21,002,369
OPERATING LOSS	(652,996)	(2,421,173)	(14,604,741)
OTHER EXPENSES:			
Interest expense (income), net	5,802	95,946	(263,503)
Other expense (income)	3,509	(1,018)	(5,814)
Financing costs for stock issued to nonemployees	0	0	323,000
Total other expenses	9,311	94,928	53,683
Loss before extraordinary loss on early extinguishment of debt	(662,307)	(2,516,101)	(14,658,424)
Extraordinary loss on early extinguishment of debt	0	0	476,239
NET LOSS	$ (662,307)	$ (2,516,101)	$(15,134,663)
PREFERRED STOCK DIVIDENDS	0	0	(5,108,000)
ACCRETION OF WARRANTS WITH REDEMPTION FEATURE	0	0	(691,972)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS BEFORE EXTRAORDINARY LOSS	$ (662,307)	$ (2,516,101)	$(20,458,396)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE BEFORE EXTRAORDINARY LOSS:			
Basic	$ (0.10)	$ (0.26)	$ (1.32)
Diluted	$ (0.10)	$ (0.26)	$ (1.32)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (662,307)	$ (2,516,101)	$(20,934,635)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE:			
Basic	$ (0.10)	$ (0.26)	$ (1.35)
Diluted	$ (0.10)	$ (0.26)	$ (1.35)
Weighted Average Common Shares Outstanding	6,337,356	9,600,592	15,516,170

</TABLE>

The accompanying notes are an integral part of these statements.

TOWNE SERVICES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

<TABLE>
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	PREFERRED STOCK		COMMON STOCK		WARRANTS	ACCUMULATED	TOTAL SHAREHOLDERS'
	SHARES	AMOUNT	SHARES	AMOUNT	OUTSTANDING	DEFICIT	EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1995	--	--	5,000,000	$ 15,750	--	$ (18,625)	$ (2,875)
Issuance of common stock	--	--	2,905,700	720,150	--	--	720,150
Fair value of stock options granted	--	--	--	64,124	--	--	64,124
Net loss	--	--	--	--	--	(662,307)	(662,307)
BALANCE, DECEMBER 31, 1996	--	--	7,905,700	800,024	--	(680,932)	119,092

Issuance of common stock	--	--	3,537,766	3,471,099	--	--	3,471,099
Issuance of warrants	--	--	--	--	41,000	--	41,000
Exercise of stock options	--	--	263,300	78,990	--	--	78,990
Fair value of stock options granted	--	--	--	67,583	--	--	67,583
Net loss	--	--	--	--	--	(2,516,101)	(2,516,101)
BALANCE, DECEMBER 31, 1997	--	--	11,706,766	4,417,696	41,000	(3,197,033)	1,261,663
Issuance of preferred stock	15,000	$ 1,500,000	--	--	--	--	1,500,000
Issuance of common stock	--	--	1,052,308	5,532,500	--	--	5,532,500
Preferred stock dividend (Note 8)	--	--	--	5,100,000	--	(5,108,000)	(8,000)
Exercise of stock options	--	--	771,000	583,500	--	--	583,500
Employee compensation expense for stock options granted or amended	--	--	--	2,275,266	--	--	2,275,266
Accretion of warrants with redemption feature	--	--	--	691,972	--	(691,972)	--
Conversion of preferred stock	(15,000)	(1,500,000)	1,217,903	1,508,000	--	--	8,000
Conversion of outstanding warrants	--	--	308,982	255,000	--	--	255,000
Initial public offering transactions, net (Note 3)	--	--	3,850,000	26,989,129	--	--	26,989,129
Issuance of common shares in connection with the purchase of Banking Solutions, Inc.	--	--	744,431	5,010,021	--	--	5,010,021
Net loss	--	--	--	--	--	(15,134,663)	(15,134,663)
BALANCE, DECEMBER 31, 1998	--	--	19,651,390	$52,363,084	$41,000	$(24,131,668)	$ 28,272,416

</TABLE>

The accompanying notes are an integral part of these statements

TOWNE SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$(662,307)	$(2,516,101)	$(15,134,663)
Adjustments to reconcile net loss to net cash used in operating activities:			
Compensation expense recognized for stock option grants	10,020	0	6,267,497
Financing costs for stock issued to nonemployees	0	0	323,000
Issuance of warrants	0	41,000	0
Loss on disposal of property and equipment	7,234	0	0
Extraordinary loss from early extinguishment of debt	0	0	476,239
Depreciation	12,895	103,629	285,354
Amortization of goodwill and other intangibles	0	0	113,337
Amortization of debt financing fees	0	39,423	13,496
Amortization of debt discount	0	5,500	33,025
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(1,596)	(119,970)	(2,969,117)
Prepaid & other assets	(8,713)	(259,209)	(265,166)
Accounts payable	39,487	257,836	(401,993)
Accrued liabilities	94,022	200,922	993,439
Accrued compensation	0	139,977	30,092
Deferred revenue	23,103	(23,103)	0
Total adjustments	176,452	386,005	4,899,203
Net cash used in operating activities	(485,855)	(2,130,096)	(10,235,460)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Note receivable from shareholders	0	(78,990)	(169,880)
Purchase of Credit Collection Solutions, Inc., net of cash acquired	0	0	(510,000)
Purchase of Banking Solutions, Inc., net of cash acquired	0	0	(10,351,129)
Purchase of property and equipment, net	(151,813)	(451,569)	(1,870,672)

Net cash used in investing activities	(151,813)	(530,559)	(12,901,681)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	0	78,990	583,500
Repayment of debt	0	(318,702)	(2,236,761)
Proceeds from Sirrom Capital loan	0	1,500,000	0
Proceeds from short/long-term borrowings	60,000	314,625	5,628,849
Proceeds from issuance of preferred stock	0	0	1,500,000
Proceeds from issuance of common stock	710,130	3,471,099	28,206,398
Net cash provided by financing activities	770,130	5,046,012	33,681,986
NET INCREASE IN CASH	132,462	2,385,357	10,544,845
CASH AND CASH EQUIVALENTS, beginning of period	18,620	151,082	2,536,439
CASH AND CASH EQUIVALENTS, end of period	$ 151,082	$ 2,536,439	$ 13,081,284
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for income taxes	$ 0	$ 0	$ 0
Cash paid for interest	0	$ 15,900	$ 235,030
Fair value of stock options granted	$ 64,124	$ 67,583	$ 0
ACQUISITION OF BSI:			
Fair value of assets acquired	$ 0	$ 0	$ 413,534
Liabilities assumed	0	0	(1,285,120)
Value of common shares issued	0	0	(4,517,230)

</TABLE>

The accompanying notes are an integral part of these statements.

TOWNE SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BACKGROUND

Towne Services, Inc. ("Towne Services" or the "Company") designs, develops and markets products and services that convert the in-house credit transactions of small businesses into automated in much the same way as credit card transactions are processed accounts which are processed electronically. Usually, in-house credit transactions are completed without a credit card or cash, are recorded and processed manually and then billed to the customer at a later date. To automate this process, Towne Services offers the following electronic processing systems, TOWNE CREDIT, TOWNE FINANCE and CASHFLOW MANAGER, which process small business' in-house credit transactions in much the same way as credit card transactions are processed.

The TOWNE CREDIT system electronically processes in-house consumer credit transactions of small and medium size retail merchants. The TOWNE FINANCE system, a commercial version of TOWNE CREDIT, is an automated asset management and financing system that processes business-to-business credit transactions for small commercial businesses. The CASHFLOW MANAGER system is an accounts receivable financing program similar to the TOWNE FINANCE product. Through the use of the Company's products and services, small businesses can automate certain manual processes, accelerate cash flow, provide better customer service, reduce paperwork and shift many other administrative burdens to Towne Services. In addition, the Company provides complementing products and services to banks that enable them to generate interest-bearing revolving credit accounts by financing the accounts receivable of these small businesses. Through the use of the Company's products, banks can monitor customers' accounts receivable and generate detailed status reports, and may attract new business customers who, in turn, may become customers of Towne Services.

Incorporated on October 23, 1995, Towne Services had no significant operations until it released its TOWNE CREDIT product and related services in June 1997. Accordingly, the Company has only a limited operating history. The Company has incurred significant losses in each quarter since it commenced operations. Towne Services had net losses of $662,000, $2.5 million and $15.1 million for the years ended

December 31, 1996, 1997 and 1998, respectively. The Company expects that it will continue to incur net losses until it is able to attain sufficient revenues to support its business. The Company can provide no assurances as to when, if ever, this may occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of Towne Services, Inc. and its wholly-owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities 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 results could differ from those estimates.

REVENUE RECOGNITION

The Company functions as a service bureau whereby customers process transactions utilizing the Company's software on an outsourced basis. The Company's revenues are generated primarily through initial set-up fees and recurring monthly transaction processing fees. Revenues related to the initial set-up fee are recognized upon execution of the related contract. Revenues are deferred for contracts that contain certain cancellation clauses and/or return guarantees until the guarantee period is expired. Transaction fees are recognized on a monthly basis as earned. The Company also leases point of sale terminal equipment to certain customers under month-to-month operating leases. Such operating lease revenues are recognized on a monthly basis as earned.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Major property additions, replacements, and betterments are capitalized, while maintenance and repairs which do not extend the useful lives of these assets are expensed as incurred. Depreciation is provided using the straight-line method for financial reporting. The detail of property and equipment at December 31, 1997 and 1998 is as follows:

<TABLE>
<CAPTION>

<S>	1997 <C>	1998 <C>	USEFUL LIVES <C>
Furniture and fixtures	$ 114,841	$ 280,144	Seven years
Automobiles	18,406	18,406	Three years
Computers and equipment	219,328	651,740	Five years
Point-of-sale equipment	193,843	1,279,644	Three years
Leasehold improvements	9,337	32,267	Five years
Computer Software	0	162,653	Five years
Software development costs	47,000	59,500	Three years
	602,755	2,484,354	
Less accumulated depreciation	(112,906)	(367,367)	
	$ 489,849	$2,116,987	

</TABLE>

LONG-LIVED ASSETS

The Company periodically reviews the values assigned to long-lived assets, such as property and equipment, to determine whether any impairments are other than temporary. Management believes that the long-lived assets in the accompanying balance sheets are appropriately valued.

GOODWILL AND OTHER INTANGIBLES

In connection with the purchase of Credit Collection Solutions, Inc. ("CCS") (Note 4), the Company has recorded goodwill in the amount of $440,000, which is being amortized over a period of 5 years.

In connection with the purchase of Banking Solutions, Inc. ("BSI") (Note 4), the Company has recorded goodwill in the amount of $14.6 million, which is being amortized over a period of 25 years. The Company has allocated $1.1 million to BSI's customer list, which is being amortized over a period of 5 years.

OFFICERS' LIFE INSURANCE

The Company carries life insurance policies on four key executives. The aggregate face value of these policies is $4,250,000, and the Company is entitled to receive any proceeds as the beneficiary. The Company had no cash surrender value in these policies at December 31, 1997 and 1998.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of salary related personnel costs, including costs for employee benefits, computer equipment and support services used in products necessary to deliver the Company's services. The Company's policy is to capitalize research and development costs upon establishing technological feasibility, subject to a periodic assessment of recoverability based on expected future revenues. The Company had capitalized approximately $47,000, and $60,000 of software development costs at December 31, 1997 and 1998, respectively.

NET LOSS PER SHARE

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," effective for fiscal years ending after December 15, 1997. The Company adopted the new guidelines for the calculation and presentation of earnings per share, and all prior periods have been restated. Basic loss per share is based on the weighted average number of shares outstanding. Diluted loss per share is based on the weighted average number of shares outstanding, and the dilutive effect of common stock equivalent shares issuable upon the exercise of stock options and warrants (using the treasury stock method). All common stock equivalents

have been excluded, as their effect would be anti-dilutive. Therefore, the weighted average shares used for basic and diluted earnings per share are the same.

INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes," which requires the use of an asset and liability method of accounting for deferred income taxes. Under SFAS No. 109, deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be settled or realized.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The book values of cash, trade accounts receivable, trade accounts payable, and other financial instruments approximate their fair values principally because of the short-term maturities of these instruments. The fair value of the Company's long-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities.

RISK OF POSSIBLE SYSTEM FAILURE

The Company's operations depend on its ability to protect its network infrastructure and equipment against damages from human error, natural disasters, power and telecommunications failures, intentional acts of vandalism, and similar events. Despite precautions taken by the Company, the occurrence of human error, a natural disaster, or other unanticipated problems could halt the Company's services, damage network equipment, and result in substantial expense for the Company to repair or replace damaged equipment. In addition, the failure of the Company's telecommunications providers to supply the necessary services could also interrupt the Company's services. The inability of the Company to supply services to its customers could negatively affect the Company's business and financial results and may also harm the Company's reputation.

LOSS OF CUSTOMERS

Customer attrition is a normal part of the electronic processing business. The Company has and will experience losses of small business customers due to attrition. Towne Services' written agreements with its customers generally provide that either party may terminate the agreement upon 30 to 60 days' notice for any reason. Consolidation in the financial services industry in the United States may result in fewer potential bank customers. In addition, the Company may elect not to process or continue processing for customers that experience financial difficulties or other problems.

PRODUCT RISKS

Towne Services may be liable if the use of any of its products causes damage to its customers' businesses. Towne Services also may be required to recall certain of its products if they become damaged or unable to perform their intended functions. Towne Services has

not experienced any product recalls or product liability judgments or claims. However, a product recall or product liability judgment against Towne Services could negatively affect its business and financial results.

TRADEMARKS AND OTHER PROPRIETARY RIGHTS

Towne Services believes that its technologies, trademarks and other proprietary rights are important to its success. The Company attempts to protect itself through a combination of copyright law, trademark and trade secret laws, employee and third party confidentiality agreements and other methods. However, unauthorized parties may attempt to copy aspects of the Company's technology, products and services or to otherwise obtain and use information that the Company regards as proprietary, despite the Company's efforts to protect them. Third parties may claim that the Company's current or future products and services infringe the patent, copyright or trademark rights of such third parties. No assurance can be given that, if such actions or claims are brought, the Company will ultimately prevail. Any such claims, whether with or without merit, could be costly and time consuming, cause delays in introducing new or improved products and services, require Towne Services to enter royalty or licensing agreements or discontinue using the challenged technology and otherwise could have a material adverse effect on the Company's business and financial results.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. This statement is effective for periods beginning after December 15, 1997. The Company adopted SFAS No. 130 effective March 31, 1998. The adoption of SFAS No. 130 did not have a material impact on the Company's financial statements, as comprehensive income did not differ from the reported net loss.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company's operating business segments provide electronic transaction processing for small business in-house accounts. The product lines offered by the Company use the Company's central administrative offices for customer support, centralized processing and sales support. In addition, the Company's sales force markets all products within their assigned markets. Consequently, the Company considers all of its products as one reportable segment under the definitions in SFAS No. 131.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other

contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement SFAS No. 133 as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning June 16, 1999 and thereafter). SFAS No. 133 cannot be applied retroactively; it must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. The adoption of SFAS No. 133 is not expected to have a material impact on the Company's financial statements.

3. INITIAL PUBLIC OFFERING

In July 1998 the Company completed an initial public offering ("IPO") of its common stock. The total proceeds of the IPO, net of underwriting discounts and offering expenses, were approximately $27.0 million. The Company issued 3,850,000 shares at an offering price at $8.00 per share. Subsequent to the IPO, the Company converted all outstanding shares of Series A Preferred Stock to 1,217,903 shares of common stock and warrants for 308,982 shares of common stock were exercised.

4. ACQUISITIONS

In June 1998, the Company acquired certain assets and liabilities of Credit Collection Solutions, Inc. ("CCS") for approximately $510,000 cash and the issuance of up to 100,000 shares of the Company's common stock if certain financial results are achieved. CCS is a developer of computer software for processing payments and tracking collections. In connection with the purchase of CCS, the Company has recorded goodwill in the amount of $440,000, which is being amortized over a period of 5 years. This amount includes $200,000 which was originally recognized as purchased in-process development at the time of the acquisition.

In December 1998, the Company acquired the outstanding stock of Banking Solutions, Inc. ("BSI") for approximately $14.9 million in cash and stock. In connection with the acquisition of Banking Solutions, the Company issued 744,431 shares of Towne's common stock at $6.73 per share. The remainder of the purchase price was paid in cash. Towne also agreed to pay former officers of Banking Solutions amounts of money which are contingent upon future performance criteria. BSI is a developer and provider of a transaction processing system, CASHFLOW MANAGER, an accounts receivable financing program similar to the TOWNE FINANCE product. The Company recorded this transaction using the purchase method of accounting. The Company has allocated goodwill in the amount of $14.6 million, which is being amortized over a period of 25 years. The Company has recorded $1.1 million to an intangible asset for BSI's customer list, which is being amortized over a period of 5 years. The Company recognized a one-time charge in the amount of $2.3 million in December 1998, related to employee terminations which were not identified at the date of purchase.

Pro forma financial information as if the acquisitions had occurred at the beginning of the respective periods during which they occurred would be as follows:

	(Unaudited) 1997	1998
REVENUES	$ 8,808,177	$ 14,510,777
NET LOSS BEFORE EXTRAORDINARY ITEM	$(3,484,053)	$(15,429,602)
NET LOSS	$(3,484,053)	$(15,905,842)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(3,484,053)	$(21,705,813)
NET LOSS ATTRIBUTABLE PER COMMON SHARE	$ (0.34)	$ (1.35)

5. LONG-TERM DEBT

Long-term debt consists of the following at December 31, 1997 and 1998:

	1997	1998
Note payable to First Union Bank, interest at LIBOR+2.0% (7.1% at December 31, 1998)	$ 0	$ 5,000,000
Note payable to Sirrom Investments, Inc. ("Sirrom") (the "Sirrom Note"), interest at 14%, $1,500,000 due December 2002, secured by certain assets of the Company and all shares owned by the Company's principal shareholders	1,500,000	0
Notes payable to Citizens Bank, interest ranging from 9.25% to 12%, payable monthly through 2000, secured by equipment	85,923	0
	1,585,923	5,000,000
Less current portion	(46,757)	(5,000,000)
	1,539,166	0
Less original issue discount	(249,500)	0
	$ 1,289,666	$ 0

In August 1998, the Company repaid all of its then current and long-term debt obligations then outstanding using proceeds of the initial public offering. This resulted in an extraordinary one-time charge to net income of $476,000, which is

comprised of $218,000 unamortized discount on a note payable to Sirrom Investments, Inc. (the "Sirrom Note") and $258,000 deferred debt issuance costs.

In January 1999, the Company paid in full the First Union National Bank note of $5,000,000.

6. INCOME TAXES

The following is a reconciliation of income taxes at the federal statutory rate with income taxes recorded by the Company for the years ended December 31, 1996, 1997 and 1998:

<TABLE>
<CAPTION>

	1996	1997	1998
Income tax benefit computed at the federal statutory rate	$ 225,184	$ 843,568	$ 5,145,786
State income tax benefit, net of federal income tax benefit	30,220	96,136	605,387
Other, net	(2,784)	(16,193)	(49,994)
Change in valuation allowance	(252,620)	(923,511)	(5,701,179)
	$ 0	$ 0	$ 0

</TABLE>

Deferred income tax assets and liabilities for 1996, 1997 and 1998 reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting and income tax reporting purposes. Temporary differences that give rise to deferred tax assets and liabilities at December 31, 1996, 1997 and 1998 are as follows:

<TABLE>
<CAPTION>

	1996	1997	1998
Deferred tax assets:			
Deferred compensation	$ 30,523	$ 38,000	$ 76,114
Accounts receivable reserves	0	7,980	131,885
Other	10,837	16,068	70,300
Net operating loss carryforwards	211,129	1,134,584	6,693,044
Deferred tax assets	252,489	1,196,632	6,971,343
Deferred tax liability:			
Depreciation	(131)	(20,501)	(94,033)
	252,358	1,176,131	6,877,310
Valuation allowance	(252,358)	(1,176,131)	(6,877,310)
Net deferred tax asset	$ 0	$ 0	$ 0

</TABLE>

Due to the Company's current year operating loss position and projected losses for the fiscal year ending December 31, 1999, no benefit for income taxes for the year ended December 31, 1998 has been provided in the accompanying financial statements as management has not determined it is more likely than not that such benefits will be realized.

At December 31, 1998, the Company has net operating loss carryforwards ("NOLs") of approximately $17.6 million which will expire if not utilized beginning in 2011. Due to changes in the Company's ownership structure, the Company's use of its NOLs as of October 1, 1997 of approximately $2.5 million will be limited to approximately $550,000 in any given year to offset future taxes. If the Company does not realize taxable income in excess of the limitation in future years, certain NOLs will be unrealizable. NOLs generated after October 1, 1997 may be further limited as a result of any future sales of stock by the Company. Once these net operating loss carryforwards are utilized or expire, the Company's projected effective tax rate will increase which will adversely affect the Company's operating results and financial condition.

7. WARRANTS WITH REDEMPTION FEATURE

In connection with the issuance of the Sirrom Note, the Company issued warrants to purchase 308,982 shares of common stock at a price of $0.01 per share. Upon completion of the IPO (Note 3), warrants for 308,982 shares of common stock were exercised. The value assigned to these warrants was $255,000. The excess of the redemption value over the carrying value was accrued by periodic charges to retained earnings over the redemption period. As the redemption feature expired upon the IPO, the total amount of $946,972 charged to retained earnings was transferred to permanent equity subsequent to the IPO.

8. SHAREHOLDERS' EQUITY

PREFERRED STOCK

In January 1998, the Company authorized 20,000,000 shares of Series A preferred Stock ("Preferred Stock") with a stated value of $100 per share. The board of directors has the authority to issue these shares and to establish dividends, voting and conversion rights, redemption provisions, liquidation preferences, and other rights and restrictions. In March 1998, the Company sold 15,000 shares of Preferred Stock to Capital Appreciation Partners, L.P. for $1,500,000. These shares were converted into common stock at a conversion price of $1.25 per share at the completion of the Company's IPO (Note 3).

The Company recorded $5.1 million as a preferred stock dividend for the difference between the estimated fair market value of the common stock at the date of the issuance and the conversion price.

In July 1998 the IPO was declared effective by the Securities and Exchange Commission (Note 3) and all outstanding shares of Series A Preferred Stock were converted to 1,217,903 shares of common stock.

COMMON STOCK

During 1996 the Company issued 2,872,300 shares of common stock at prices ranging from approximately $.04 to $.30 per share. In addition, the Company granted 33,400 shares to an employee in the form of a bonus. The Company recorded compensation expense related to these shares at $.30 per share which represented management's estimate of the fair value of the common stock on the date of issuance.

In January 1997, the Company effected a 100-for-1 stock split. All references in the accompanying financial statements to number of shares and per share amounts of the Company's common stock have been retroactively restated to reflect the increased number of shares outstanding of common stock.

In an attempt to raise a minimum of $500,000 to serve as bridge financing for the Company, the Company offered to sell shares of common stock for $1.00 per share to accredited investors as defined by Rule 501(a) under the Federal Securities Act of 1933. The private placement began in late March 1997 and ended October 17, 1997. Through this private placement and certain other issuances of common stock, the Company raised $3.4 million.

In February 1998, the Company sold 76,000 shares of common stock to third parties at $1.25 per share. The Company recorded $323,000 as financing costs for stock issued to nonemployees for the difference between the sale price to these third parties and the estimated fair market value on the date of sale.

In October 1998, the Company issued 33,225 shares of common stock at $5.625 per share as an incentive compensation to employees for achieving performance expectations established in the second quarter of 1998.

In connection with the acquisition of BSI (Note 4), Towne issued 744,431 shares of restricted common stock of the Company at $6.73 per share. The restricted stock award grantees may not sell, transfer, assign, pledge or otherwise encumber or dispose of these restricted shares until June 30, 2000.

STOCK SALE TO EMPLOYEES

In February 1998, the board of directors authorized the sale of the Company's common stock to all employees of the Company for approximately $1.19 per share. The stock sale was available through March 6, 1998 and 943,083 shares were purchased by employees. The Company recorded $3.8 million as compensation expense for the difference between the sales price to employees and the estimated fair market value at the date of sale.

OPTIONS

The Company has a stock option plan for key employees of the Company (the "Plan") which provides for the issuance of options to purchase up to 2,090,000 shares of the

Company's common stock. Options are granted at an exercise price which is not less than fair value as determined by a committee appointed by the board of directors and generally vest over a period not to exceed five years. Options granted under the Plan generally expire ten years from the date of grant. At December 31, 1998, options to purchase 1,652,000 shares of common stock were available for future grant under the Plan.

In September 1996, the board of directors granted options to purchase 1,118,300 shares of common stock outside the Plan to the president of the Company. These options vested immediately and have an exercise price of $.30 per share. No compensation expense was recorded for these options, as the option price was made at the estimated fair market value of the common stock at the date of grant.

In September 1997, the board of directors granted options to purchase 100,000 shares of common stock outside the Plan to a member of the board of directors. These options vested immediately and have an exercise price of $1.00 per share. No compensation expense was recorded for these options, as the option price was established at the estimated fair market value of the common stock at the date of grant.

The Company granted options to purchase 111,000 and 60,000 shares of common stock under the Plan at $1.25 per share to key employees in January 1998 and February 1998, respectively. These options vest 20% per year beginning upon the first anniversary of the date of grant. The Company will record $726,750 ($145,350 per year) of compensation expense over the five year period of the options for the difference between the exercise price and the estimated fair market value on the date of grant.

In February 1998, the board of directors approved an amendment to the vesting period for options to purchase 397,000 shares of common stock granted during 1996 and 1997 to nonemployee directors from a five year vesting period to immediate vesting. As of the date of the amendment, options to purchase 150,000 of these shares were already vested. As this change in vesting period created a new measurement date, the Company recorded compensation expense of $1,188,750 for the difference between the original exercise price and the estimated fair market value on the date the options were amended.

In February 1998, the board of directors granted options to purchase 20,000 shares of common stock to each nonemployee director, and options to purchase 30,000 shares of common stock to a new nonemployee director. These options vest immediately and have an exercise price of $1.25 per share. The Company has recorded $977,500 as compensation expense for the difference between the exercise price and the estimated fair market value on the date of grant.

In May 1998, the board of directors granted options to certain board members and key employees to purchase 595,000 shares of common stock. These options vest immediately and have an option price of $7.20 per share. Options to purchase 170,000 shares expire on May 2003 and the remaining options to purchase 425,000 share expire in May 2008. All of these options vest immediately. The Company did not record any compensation expense related to these grants as the option price represented the estimated fair value of the Company's common stock at the date of grant.

Stock option activity for the years ended December 31, 1996, 1997 and 1998 is as follows:

<TABLE>
<CAPTION>

	NUMBER OF SHARES SUBJECT TO	WEIGHTED AVERAGE EXERCISE PRICE

<S>	OPTIONS <C>	PER SHARE <C>
Options outstanding at December 31, 1995	0	0.00
Granted	2,601,500	0.42
Canceled	0	0.00
Exercised	0	0.00
Options outstanding at December 31, 1996	2,601,500	0.42
Granted	1,020,161	0.83
Canceled	0	0.00
Exercised	(263,300)	0.30
Options outstanding at December 31, 1997	3,358,361	0.55
Granted	1,212,675	5.23
Canceled	(29,000)	1.22
Exercised	(771,000)	0.76
Options outstanding at December 31, 1998	3,771,036	$ 2.00
Exercisable at December 31, 1997	2,157,361	
Exercisable at December 31, 1998	3,088,561	

</TABLE>

The following table sets forth the range of exercise prices, number of shares, weighted average exercise price, and remaining contractual lives by groups of similar price and grant date at December 31, 1998:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$0.30-$0.50	1,938,200	$0.42	5.82	1,763,200	$0.41
$0.60	436,661	0.60	8.07	421,661	0.60
$1.00-$1.25	584,500	1.11	8.92	223,700	1.11
$6.50-$8.00	811,675	7.20	9.47	680,000	7.22
Total	3,771,036	$2.00	7.27	3,088,561	$1.99

</TABLE>

During 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which defines a fair value-based method of accounting for an employee stock option plan or similar equity instrument. However, it also allows an entity to continue to measure compensation costs for those plans using the method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in APB No. 25 must make pro forma disclosures of net income and, if presented, earnings per share as if the fair value-based method of accounting defined in the statement had been applied.

The Company has elected to account for its stock-based compensation plan under APB No. 25; however, the Company has computed for pro forma disclosure purposes the value of all options granted during 1996 and 1997 using the minimum value option pricing model as prescribed by SFAS No. 123 as the Company was privately held. For options issued in 1998, the Company has determined the fair value using the Black-Scholes pricing method. The Company used the following weighted average assumptions for grants in 1996, 1997 and 1998:

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Risk-free interest rate	5.9% TO 6.7%	6.3% TO 6.7%	4.6% TO 5.6%

Expected dividend yield	0.0%	0.0%	0.0%
Expected lives	FIVE YEARS	FIVE YEARS	FIVE YEARS
Expected volatility	0.0%	0.0%	55%

</TABLE>

The total value of the options granted during the years ended December 31, 1996, 1997 and 1998 were computed as approximately $199,000, $356,000 and $3.1 million, respectively, which would be amortized over the vesting period of the options. If the Company had accounted for these options in accordance with SFAS No. 123, the Company's reported pro forma net loss and pro forma net loss per share for the years ended December 31, 1997 and 1998 would have increased to the following pro forma amounts:

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Net loss attributable to common shareholders:			
As reported	$(662,307)	$(2,516,101)	$(20,934,635)
Pro forma	(669,307)	(2,548,527)	$(23,277,560)
Basic:			
As reported	$ (.10)	$ (.26)	$ (1.35)
Pro forma	(.11)	(.27)	(1.50)
Diluted:			
As reported	(.10)	(.26)	(1.35)
Pro forma	(.11)	(.27)	(1.50)

</TABLE>

WARRANTS

In October 1997, the Company issued warrants to certain principals of Rodgers Capital Corporation in connection with services performed by Rodgers Capital Corporation to assist the Company in securing a marketing agreement with a third party. These warrants allow the holders to purchase 75,000 shares of common stock for $1.00 per share. The warrants vest immediately and expire in 2002. The Company has recorded $41,000, the estimated fair value of these warrants at the date of issuance using the minimum value method under SFAS No. 123, as warrants outstanding on the accompanying balance sheet.

9. COMMITMENTS AND CONTINGENCIES

LEASES

For the year ended December 31, 1997, the Company incurred approximately $37,000 in rent expense for leased office space from ProVesa, Inc., a subsidiary of The InterCept Group, Inc. ("InterCept"), a company for which a director of Towne serves as Chairman and Chief Executive Officer. The Company was also allocated costs for utilities and accounting services from ProVesa, Inc. based on usage by the Company. In February 1998, the Company began leasing office space under a noncancelable operating lease agreement with a nonrelated third party expiring in January 2003. For the year ended December 31, 1998, the Company incurred approximately $210,000 in rent expense for this leased office space. Future minimum rental payments for this noncancelable lease are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1999	184,205
2000	184,205
2001	184,205
2002	184,205
2003	15,350

	$752,170
	========

</TABLE>

EMPLOYEE LEASING

Effective March 1998, the Company began leasing all personnel from an independent personnel leasing company. Under the lease agreement, the Company paid a percentage of compensation per leased employee (in addition to compensation costs) to the employee leasing company to cover payroll processing, unemployment insurance and workers' compensation. This employment lease agreement was terminated in November 1998.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with certain executive officers of the Company. The agreements, which are substantially similar, provide for compensation to the officers in the form of annual base salaries and bonuses based on earnings of the Company. The employment agreements also provide for severance benefits upon the occurrence of certain events, including a change in control, as defined.

10. RELATED-PARTY TRANSACTIONS

In September 1997, the Company loaned the President of the Company $78,990 to exercise stock options. The full recourse loan is secured by the underlying common stock and personal assets of the president, bears interest at 8.5% per annum, and is due in full in September 1999, as amended.

On April 1, 1998, the Company loaned its Chief Financial Officer $75,000 pursuant to a full recourse promissory note to fund the exercise of options to acquire 75,000 shares of its common stock. This full recourse note accrues interest at the rate of 8.75% per year and matures on the earlier of (i) December 31, 1999 or (ii) the date on which the common stock purchased is sold. All shares of common stock received upon this exercise as well as other personal assets of the executive were pledged as collateral for the loan.

In October 1998, the Company loaned the President of the Company $30,000 to fund the exercise of options to acquire 100,000 shares of the Company's common stock. The full recourse loan bears interest at 8.5% per annum, and is due in full in February 2000.

In October 1998, the Company loaned the Chief Executive Officer of the Company $50,000 to fund the exercise of options to acquire 100,000 shares of the Company's common stock. The full recourse loan bears interest at 8.5% per annum, and is due in full in February 2000.

During the years ended December 31, 1996, 1997 and 1998, the Company incurred fees of approximately $37,000, $55,000 and $1.0 million, respectively, for legal services to a law firm in which a director and shareholder of the Company is a partner. As of December 31, 1997 and 1998, approximately $42,000 and $185,000 respectively, of such fees are included in accounts payable in the accompanying balance sheets.

During the years ended December 31, 1996, 1997 and 1998, the Company incurred costs of approximately $4,000, $15,000, and $121,000, respectively, for communication services from InterCept. As of

December 31, 1998, approximately $30,000 of such fees is included in the accrued accounts payable in the accompanying balance sheets.

In October 1997, Rodgers Capital Group purchased 200,000 shares of common stock from the Company at a price of $1.00 per share. In addition, the Company paid Rodgers Capital a total of $220,000 and $217,000 as compensation for services provided by Rodgers Capital in connection with obtaining equity investments for the Company during 1997 and 1998, respectively.

During 1998, the Company incurred costs of approximately $21,000 from Phoenix International for commission fees related to sales of the Company's products. Phoenix International has a strategic marketing alliance with the Company and its Chairman and Chief Executive Officer is a director and shareholder of the Company. The Company also invoiced Phoenix International approximately $585,000 for marketing-related services of the Company's products.

During 1998, the Company incurred costs of $113,000 from

Brown Burke Capital Partners, Inc. for merger and acquisition advisory services in connection with the purchase of BSI (Note 4). One of the principals of this corporation is a director and shareholder of the Company.

During 1998, the Company invoiced FLAG Financial Corporation approximately $207,000 for set-up fee and processing services related to the purchase of TOWNE CREDIT and TOWNE FINANCE products. The Chief Executive Officer of FLAG Financial Corporation is a director and shareholder of the Company.

11. QUARTERLY DATA (UNAUDITED)

Amounts for the quarter ended June 30, 1998 have been restated to reflect reallocation of the purchase price of CCS (Note 4).

<TABLE>
<CAPTION>

FISCAL 1998	QUARTER ENDED			
	March 31	June 30	September 30	December 31
	(in thousands except per share data)			
<S>	<C>	<C>	<C>	<C>
REVENUE	$ 548	$ 875	$ 1,715	$ 3,260
COSTS AND EXPENSES:				
Costs of processing, servicing, and support	374	403	544	706
Research and development.................................	74	102	117	13
Sales and marketing......................................	486	1,140	1,971	2,656
Stock compensation expense...............................	5,972	223	36	36
Employee termination costs...............................	0	0	0	2,291
General and administrative...............................	1,347	729	645	1,138
Total cost and expenses.............................	8,253	2,597	3,313	6,840
OPERATING LOSS...	(7,705)	(1,722)	(1,598)	(3,580)
OTHER EXPENSES (INCOME):				
Interest expenses (income), net..........................	64	68	(158)	(238)
Other expense (income), net	0		4	(9)
Financing costs for stock issued to nonemployees....................................	323	0	0	0
Total other expenses................................	387	68	(154)	(247)
Loss before extraordinary loss on early extinguishment of debt........................	$ (8,092)	$(1,790)	$(1,444)	$(3,333)
Extraordinary loss on early extinguishment of debt..	$ 0	$ 0	$ 476	$ 0
NET LOSS	$ (8,092)	$(1,790)	$(1,920)	$(3,333)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS..	$(13,411)	$(2,074)	$(2,117)	$(3,333)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE:				
Basic..	$ (1.11)	$(0.16)	$ (0.12)	$ (.17)
Diluted..	$ (1.11)	$(0.16)	$ (0.12)	$ (0.17)

Weighted Average Common Shares Outstanding	12,077	13,297	16,997	19,155

</TABLE>

<TABLE>
<CAPTION>

FISCAL 1997	QUARTER ENDED			
	March 31	June 30	September 30	December 31
	(in thousands except per share data)			
<S>	<C>	<C>	<C>	<C>
REVENUES	$ 97	$ 88	$ 198	$ 340
COSTS AND EXPENSES:				
Costs of processing, servicing, and support	103	150	222	357
Research and development............................	11	34	114	173
Sales and marketing.................................	94	118	207	421
General and administrative..........................	170	181	268	521
Total costs and expenses.......................	378	483	811	1,472
OPERATING LOSS..	(282)	(395)	(613)	(1,132)
OTHER EXPENSES (INCOME):				
Interest expenses (income), net.....................	19	26	29	22
Other expense (income), net.........................	(1)	0	0	0
Financing costs for stock issued to nonemployees................................	0	0	0	0
Total other expenses...........................	18	26	29	22
NET LOSS	$ (300)	$ (421)	$ (642)	$(1,154)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS:	$ (300)	$(421)	$(642)	$(1,154)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE:				
Basic...	$ (0.04)	$(0.05)	$ (0.07)	$ (0.10)
Diluted...	$ (0.04)	$(0.05)	$ (0.07)	$ (0.10)
Weighted Average Common Shares Outstanding	8,077	9,101	9,684	11,912

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number	Description
Exhibit No.	Description

2.1	Asset Purchase Agreement by and between Towne Services, Inc. and Credit Collection Solutions, Inc., and Burton W. Crapps and Robert M. Ragsdale dated as of June 11, 1998.*
2.2	Stock Purchase Agreement dated November 30, 1998 by and between Towne Services, Inc., BSI Acquisition Corp., Banking Solutions, Inc. ("BSI"), and certain shareholders of BSI (incorporated by reference to Exhibit 2.1 of the Company's Report on Form 8-K filed on December 15, 1998).
3.1	Amended and Restated Articles of Incorporation, as filed with the Secretary of State of the State of Georgia on July 29, 1998.*
3.2	Amended and Restated Bylaws, effective May 19, 1998.*
4.1	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws defining the rights of the holders of common stock of the Company.
10.1	1996 Stock Option Plan (including form of Stock Option Agreement.*/**
10.2	1998 Stock Option Plan (including form of Stock Option Agreement).*/**
10.3	Form of Non-Qualified Stock Option Agreement.*/**
10.4	Lease by and among River Exchange Associates Limited Partnership and Towne Services, Inc. dated January 12, 1998.*
10.5	Employment Agreement by and between Towne Services, Inc. and Drew W. Edwards dated as of October 15, 1995.*/**
10.6	Employment Agreement by and between Towne Services, Inc. and Henry M. Baroco dated as of January 15, 1997.*/**
10.7	Amended and Restated Employment Agreement by and between Towne Services, Inc. and Bruce Lowthers dated as of May 18, 1998.*/**
10.8	Employment Agreement by and between Towne Services, Inc. and Cleve Shultz dated as of May 19, 1998.*/**
10.9	Form of TOWNE CREDIT Bank Marketing Agreement.*
10.10	Form of TOWNE FINANCE Bank Marketing Agreement.*
10.11	Form of TOWNE CREDIT Merchant Processing Agreement.*
10.12	Form of TOWNE FINANCE Client Processing Agreement.*
10.13	Form of CASHFLOW MANAGER Merchant Services Agreement.
10.14	Form of CASHFLOW MANAGER License Agreement.
10.15	Form of Independent Bankers Bank General Marketing Agent Agreement.
10.16	Registration Rights Agreement dated as of March 13, 1998 by and between Towne Services, Inc. and Capital Appreciation Partners, L.P.*
10.17	Form of Indemnification Agreement entered into between Towne Services, Inc. and its directors and officers.*
10.18	Promissory note dated September 8, 1997 issued to Towne Services, Inc. by Henry M. Baroco.*

10.19	Promissory note dated April 1, 1998 issued to Towne Services, Inc. by Bruce F. Lowthers, Jr.*
10.20	Promissory Note dated October 8, 1998 issued to Towne Services, Inc. by Drew W. Edwards.
10.21	Promissory Note dated October 8, 1998 issued to Towne Services, Inc. by Henry M. Baroco.
10.22	Form of General Marketing Agent Agreement.*
10.23	Promissory Note by the Company to the order of First Union National Bank dated December 31, 1998.
21.1	Subsidiaries of Towne Services, Inc.
23.1	Consent of Arthur Andersen, LLP.
24.1	Power of Attorney (contained or the signature page hereof).
27.1	Financial Data Schedule for the periods ending December 31, 1997 and 1998 (for SEC use only).
99.1	The following audited financing statements of Banking Solutions, Inc. together with the report thereon by Arthur Andersen LLP (incorporated by reference to Exhibit 99.2 of the Company's Report on Form 8-K/A filed on February 16, 1999, Balance Sheets as of December 31, 1996, 1997 and September 30, 1998 (unaudited). Statements of Operations for the years ended December 31, 1995, 1996, 1997 and the nine months ended September 30, 1998 (unaudited). Statements of Shareholders' Equity for the years ended December 31, 1995, 1996, 1997 and the nine months ended September 30, 1998 (unaudited). Statements of Cash Flows for the years ended December 31, 1995, 1996, 1997 and the none months ended September 30, 1998 (unaudited). Notes to Financial

	Statements.
99.2	The following unaudited pro forma financial statements of Towne Services, Inc. and Banking Solutions, Inc. (incorporated by reference to Exhibit 99.3 of the Company's Report on Form 8-K/A filed on February 16, 1999): Pro Forma Balance Sheet as of September 30, 1998. Pro Forma Statement of Operations for the year ended December 31, 1997. Pro Forma Statement of Operations for the nine months ended September 30, 1998. Notes to Pro Forma Condensed Consolidated Financial Information.

</TABLE>

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* Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 (No. 333-53341) as declared effective by the Securities and Exchange Commission on July 30, 1998.

** This agreement is a compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c).

EXHIBIT 10.13

(CASHFLOW MANAGER LOGO)

MERCHANT SERVICES AGREEMENT

<TABLE>
<CAPTION>

OFFICER'S INITIALS	INITIAL DISCOUNT RATE	INITIAL RESERVE %	LINE OF CREDIT LIMIT	FUNDING / AGREEMENT DATE	LINE OF CREDIT MATURITY DATE	CUSTOMER NUMBER	LOAN NUMBER
LO[1]	RATE1[2]	RES%[3]	PRINC[4]	DOCDATE[5]	EXPDATE[6]	CNO[7]	LNO[8]

REFERENCES IN THE AREAS ABOVE ARE FOR BANK'S USE ONLY

<S> <C> <C>

"You" or "Your" means the Merchant named below.	"We", "Us" or "Our" means the Bank named below, its successors and assigns.
MERCHANT: MERCHANTNAME[9] MADDRESS1[10] MADDRESS2[11]	BANK: BANKNAME[14] BADDRESS1[15] BADDRESS2[16]
Tax ID or SSNumber: TIN[12]	Tel. Number: TELNO[13]

</TABLE>

THIS AGREEMENT is between the Bank and the Merchant identified above. We and you agree to the following terms and conditions with respect to your participation in our CASHFLOW MANAGER(SM) Program (the "Program"):

SECTION 1. DEFINITIONS

1.1 ACCOUNT. The term "Account" means one of your Customer's credit accounts with you, any part of which is assigned by you to us in conjunction with the Program.

1.2 ACCOUNT STATEMENT. The term "Account Statement" means the statement of Account activity billed to your Customer by us on a monthly basis.

1.3 CREDIT AGREEMENT. The term "Credit Agreement" means any written installment, charge or other written form of Credit Agreement between you and a Customer.

1.4 CREDIT MEMO. The term "Credit Memo" means the form reflecting a credit, other than a credit arising from a payment, to a Customer's Account.

1.5 CUSTOMER. The term "Customer" means a debtor obligated to you on Receivables that arise from goods which you sold or services you have rendered to a customer, client or patient.

1.6 DISCOUNT FEE. The term "Discount Fee" means the fixed percentage charge that you agree to pay us from the Receivables purchased by us pursuant to this Agreement. The Discount fee will be deducted from the Face Amount of the Receivables purchased. Subject to the limitations set forth in Section 6.2 of this Agreement, we may amend the Discount Fee from time to time upon written notice to you based upon considerations of transaction volume, delinquency, current economic conditions, and other factors described herein. Initially, and except as otherwise provided the Discount Fee will be equal to the following % of the Receivables purchased by us:

<TABLE>
<S> <C>
DISCOUNT FEE: DISCOUNTFEE%[17] BANK INITIALS _____ MERCHANT INITIALS __________.
</TABLE>

1.7 FACE AMOUNT. The term "Face Amount" means the cash price for the goods you sold and/or services you rendered to a Customer, less any downpayment paid by a Customer, plus any taxes imposed on such sales transaction.

1.8 INVOICE. The term "Invoice" means the form reflecting the sale of goods or services to a Customer.

1.9 LINE OF CREDIT. The term "Line of Credit" means any funded or unfunded Line of Credit agreement and/or promissory note(s) established by us pursuant to this Agreement to secure your obligation to repurchase Receivables as set forth in Section 6 of this Agreement.

1.10 NET AMOUNT. The term "Net Amount" means the gross amount of a Receivable, less the Discount Fee and other discounts, returns, credits or allowances of any nature at any time issued, owing, granted or outstanding.

1.11 OBLIGATIONS. The term "Obligations" means all of your obligations to us, whether pursuant to this Agreement, or under any Line of Credit agreement, note, contract, guaranty, accommodation or otherwise, however and whenever created, arising or evidenced, whether direct or indirect, liquidated or contingent, now existing or arising hereafter.

1.12 OPERATING ACCOUNT. The term "Operating Account" means the depository account(s) maintained by you with us.

1.13 RECEIVABLES. The term "Receivables" means all accounts, instruments, contract rights, chattel paper, documents and general intangibles that are acceptable to us and arise from your sale of goods or services, and the proceeds thereof, and all security and guaranties therefor, whether now existing or arising hereafter.

1.14 RELATED AGREEMENTS. The term "Related Agreements" mean any other agreement(s) we have with you which relate to the Program. Initially, these Related Agreements include those set forth in the following documents or instruments:

DOC1[18]
DOC2[19]
DOC3[20]
DOC4[21]
DOC5[22]
DOC6[23]

BANK INITIALS ____ MERCHANT INITIALS _____.

1.15 RESERVE ACCOUNT. The term "Reserve Account" means the restricted, interest or non-interest bearing, deposit account established pursuant to Section 3 as a reserve against delinquent accounts.

SECTION 2. TERM OF AGREEMENT AND TERMINATION

2.1 EFFECTIVE DATE. This Agreement will become effective when it is executed and will continue in full force thereafter until it is terminated in accordance with this Agreement.

2.2 TERMINATION. This Agreement may be terminated by you or us upon the giving of sixty (60) days prior written notice to the other party of such termination.

2.3 TERMINATION IN THE EVENT OF DEFAULT IN OBLIGATIONS. We may terminate this Agreement immediately upon written notice to you in the event you are in default of any of your Obligations. In the event of such termination, all further services, obligations or agreements to be performed by us pursuant to this Agreement, or under any Related Agreements, at our option will terminate immediately.

2.4 WINDING UP. Upon termination of this Agreement for any reason, any and all outstanding charges shall be immediately due and payable, and all Receivables then held by us may, at our sole option, be reassigned to you in accordance with Section 6, or held by us until all amounts due to us pursuant to those Receivables have been fully paid.

SECTION 3. PURCHASE AND SALE OF RECEIVABLES; RESERVE ACCOUNT

3.1 ASSIGNMENT AND SALE. We agree to purchase, and you agree to assign and sell, and hereby assign and sell, to us as absolute owner, with recourse as provided herein, your entire interest in such of your presently outstanding Receivables as we determine acceptable, as well as all of your future Receivables which are in our sole discretion acceptable to us and that are reflected by the Invoices you deliver to us. The assignment of Receivables to us shall automatically become effective on the date the Receivables are funded by us by credit to your Operating Account.

The assignment of an Account to us shall include all rights related to the Account or securing payment of the Account, including all vendor's privileges, security interests and guaranties and all collateral therefor. We shall be the absolute owner of all payments and collections received by us in connection with any Account purchased by us. We may give notice to any Customer you have assigned that Customer's Accounts to us, that we have a continuing security interest in your Receivables, and that any modification, accommodation, forbearance or release shall not be effective unless we approve it. In the event that the balance of the Accounts purchased by us exceeds any lending or purchase limit that we have established pursuant to the Line of Credit, or which may apply under state or federal laws or regulations, you agree that you will repurchase a sufficient balance of Accounts so as to reduce the balance of Accounts purchased by us to an amount equal to or less than such limit. The establishment of a lending or purchase limit shall not be deemed to be a commitment by us to purchase Receivables in that amount or any other amount, and any purchase by us of Receivables shall be in our sole and absolute discretion. You acknowledge and agree by executing this Agreement that we have not entered into any separate agreement or understanding concerning any commitment by us to purchase any of your Receivables.

3.2 PURCHASE PRICE. The purchase price of the Receivables will be the Net Amount thereof, which shall be payable by credit to your Operating Account on or before the next banking day after delivery to us of acceptable Invoices.

3.3 RESERVE ACCOUNT. CREATION, GRANT OF SECURITY INTEREST, ASSIGNMENT. We may retain a portion of the sums payable to you, the amount of which we may adjust from time to time in our reasonable discretion, as a reserve to provide for the delinquency of the Receivables we purchase. Amounts retained by us pursuant to this provision shall be credited to your Reserve Account. No amounts may be drawn or disbursed from the Reserve Account without our consent. The initial reserve percentage will be the following percentage of the Face Amount of the acceptable Invoices submitted to us.

<TABLE>

<S>	<C>
RESERVE PERCENTAGE: RESERVE%[24]	BANK INITIALS __________ MERCHANT INITIALS __________.

</TABLE>

If checked [ ] [25] the provisions of the attached Reserve Account Addendum will also apply to the Reserve Account under this Agreement.

You hereby pledge and grant to us a security interest in the Reserve Account. You further hereby assign and transfer to us all of your right, title and interest in and to your Reserve account, and all sums now or at any time hereafter on deposit therein together with all earnings of

every kind and description which may now or hereafter accrue thereon, for the purpose of securing your repurchase and other Obligations to us, whether such Obligations now exist or are hereafter created or incurred, and whether it is direct or indirect, due or to become due, absolute or contingent or joint and/or several.

You further irrevocably authorize and empower us, at any time whether or not at such time the Obligations, or any part thereof, are due and payable, in our own name or in your name, to demand, apply for withdrawal, receive and give acquittance for any and all sums which are or will become due and payable under said account, to exercise any and all rights and privileges and receive all benefits accorded to said account, and to execute any and all instruments required therefor, and to apply such moneys toward payment of the Obligations, in such order of application as we may determine, all without notice to you. Until this assignment has been released by us in writing, you will have no right to make any withdrawals from said account.

SECTION 4. OPERATION OF THE PROGRAM

4.1 PROGRAM FORMS AND SERVICES. We will provide you with such forms and related support services as may be required for your participation in the Program.

4.2 BILLING OF RECEIVABLES, FINANCE CHARGES. With respect to Receivables purchased by us, we will send a monthly Account Statement, in accordance with the credit terms applicable to that Customer's Account, to each of your Customers with an outstanding balance on their Account, itemizing the Customer's Account activity for the preceding billing period. In addition, a finance charge will accrue on and be payable with respect to the Receivables purchased by us in accordance with the following provisions (check applicable box or boxes):

[ ] Except as otherwise agreed or provided herein, interest (hereinafter referred to as a "Customer Finance Charge") will accrue on and be billed by us to Customer Accounts in accordance with the applicable Credit Agreement in effect with respect to that Customer at the Customer Finance Charge rate (APR) set forth below. In the event we agree to purchase a Receivable from you which for any reason cannot be billed, or you do not want billed, to your Customer at the Customer Finance Charge rate provided for herein, you agree to pay us the

difference between the amount of the Customer Finance Charge, if any, billed to your Customer and the amount of the Customer Finance Charge that we otherwise would have been entitled to receive pursuant to this paragraph. In addition, if this box [OBJECT OMITTED] is checked, you agree that we may reassign and charge back to you all or any portion of the Customer Finance Charge billed to your Customer which is not paid in accordance with the payment terms applicable to that Customer. Provided, however, this agreement to pay all or any portion of a Customer Finance Charge is expressly made subject to the limitations set forth in Section 6.2 of this Agreement, and you do not agree to pay and we do not intend to contract for, reserve, charge or collect any rate of interest which is higher than the maximum rate of interest we could charge under applicable law for an extension of credit to you. [26]

<TABLE>

<S>	<C>	
CUSTOMER FINANCE CHARGE %: CFC%[27]	BANK INITIALS ___________	MERCHANT INITIALS __________.

</TABLE>

[ ] Except as otherwise agreed or provided herein, interest (hereinafter referred to as a "Merchant Payable Finance Charge") will accrue and be payable by you on the unpaid balances of Customer Accounts at the Merchant Payable Finance Charge rate (APR) set forth below. The Merchant Payable Finance Charge will be payable by you to us at the close of each month by charge to the Reserve Account established pursuant to this Agreement. Provided, however, this agreement to pay a Merchant Payable Finance Charge is expressly made subject to the limitations set forth in Section 6.2 of this Agreement, and you do not agree to pay and we do not intend to contract for, reserve, charge or collect any rate of interest which is higher than the maximum rate of interest we could charge under applicable law for an extension of credit to you. [28]

<TABLE>

<S>	<C>	
MERCHANT PAYABLE FINANCE CHARGE %: MPFC%[29]	BANK INITIALS ___________	MERCHANT INITIALS __________.

</TABLE>

4.3 APPLICATION OF PAYMENTS. Payments received by us from your Customers, or from collection or enforcement actions, will be accounted for by us by credit to your Customer's Account. Any such payments shall be applied first to the payment of fees, charges and reimbursements (if any), second to the accrued but unpaid interest (if any), with the remainder to principal. All payments received before 10:00 A.M. (our local time) on any banking day will be applied on that banking day. Payments received after 10:00 A.M. or on a non-banking day, will be applied on the next banking day. All variations, modifications or extensions of indebtedness on Receivables purchased by us will be made solely by us. Nothing in this Agreement authorizes you to collect any of the Receivables assigned by you to us in connection with the Program, but, in the event you do, you agree to remit the same to us, properly endorsed, no later than the next banking day. You agree to pay to us any finance charges incurred on a Customer's Account because of delay on your part in delivering any payments or Credit Memos to us.

4.4 POWER OF ATTORNEY. You hereby appoint us as your attorney-in-fact to receive, open, and dispose of all mail addressed to us pertaining to your Receivables; to endorse our name upon any notes, acceptances, checks, drafts, money orders and other evidences of payment of Receivables that may come into our possession, and to deposit or otherwise collect the same, and to do any and all other acts and things necessary to carry out the terms of this Agreement. This power, being coupled with an interest, is irrevocable while any Receivable remains unpaid.

4.5 PAYMENT. The Discount Fee shall be payable to us by deduction from the purchase price, resulting in a payment to you of the Net Amount of the Account, as specified in Section 3.2 of this Agreement.

4.6 ACCOUNT COLLECTION ACTIVITY. Any Account collection notices or activities with respect to Accounts purchased by us will be conducted solely by us and in our sole discretion. You expressly agree that you will not take any action to collect or enforce payment of any Customer

Account purchased by us from you unless and until you have repurchased the Account from us as provided in Section 6 of this Agreement. Except as otherwise agreed by us in writing, you expressly agree that you will neither communicate, directly or indirectly, orally or in writing, with the Customer for the purpose of collecting an Account purchased by us, or otherwise take any action to enforce the payment obligations under the Account including, but not limited to, the repossession of any property securing the payment obligation on the Account or discontinuance or interruption of services applicable to that Customer Account.

YOU AGREE TO INDEMNIFY AND HOLD US HARMLESS FROM ANY CLAIM OR LIABILITY WE MAY SUSTAIN BY VIRTUE OF OR ARISING OUT OF ANY ACTION BY YOU, DIRECTLY OR INDIRECTLY, WHICH IS DETERMINED TO BE IN VIOLATION OF ANY DEBT COLLECTION PRACTICES LAWS OR REGULATIONS UNDER APPLICABLE STATE OR FEDERAL LAW.

SECTION 5. PROCEDURES AND FORMS

5.1 DOCUMENTATION. You agree to provide us on a timely basis with a copy of your Customer's Credit Agreement (if a Customer Finance Charge is to be billed to your Customer) in accordance with the terms set forth in Section 4.2 above, Invoices and Credit Memos (if applicable) related to all sales creating Customer Receivables, together with such other documents and proof of delivery of goods or rendition of services as we may reasonably require. You also agree to notify your Customer that your Customer's Account has been assigned by you to us and to direct your Customer to make payment directly to us. In the event we agree to purchase a Customer's Receivable prior to receiving satisfactory evidence of a signed Credit Agreement with that Customer, the Customer Finance Charge on that Customer's Account may be billed to your Customer at the maximum applicable statutory nonusurious rate. In such event, and unless otherwise waived by us in writing, you agree, subject to the limitations of Section 6.2, to pay us interest on the unpaid balance of that Customer's Account in accordance with Section 4.2 until you have furnished us with satisfactory evidence of a signed Credit Agreement with that Customer.

5.2 RESPONSIBILITY FOR DOCUMENTATION. You agree that you will be solely responsible for the adequacy, completeness and accuracy of the data that you supply to us and its preparation in accordance with the format prescribed by us. You also acknowledge that you understand that the form of Credit Agreement you may use should be reviewed by your legal counsel. You understand and agree that it is your sole responsibility to obtain and maintain an executed written Credit Agreement with each of your credit Customers unless otherwise agreed by us in writing.

YOU AGREE TO INDEMNIFY AND HOLD US (OR ANYONE ELSE PROVIDING DATA PROCESSING SERVICES ON OUR BEHALF) HARMLESS FROM ANY CLAIM OR LIABILITY SUSTAINED BY VIRTUE OF ACTING IN RELIANCE ON THE DATA THAT YOU SUPPLY TO US. YOU AGREE TO INDEMNIFY AND HOLD US HARMLESS FROM ANY CLAIM OR LIABILITY WE MAY SUSTAIN BY VIRTUE OF ACTING IN RELIANCE ON YOUR OBLIGATION TO OBTAIN OR MAINTAIN WRITTEN CREDIT AGREEMENTS WITH YOUR CUSTOMERS, OR TO PROVIDE ANY DISCLOSURES REQUIRED UNDER APPLICABLE STATE OR FEDERAL LAW.

SECTION 6. REASSIGNMENT OF RECEIVABLES; SECURITY INTEREST

6.1 REASSIGNMENT OF RECEIVABLES. We may reassign and charge back to you all or any portion of your outstanding Receivables purchased by us pursuant to this Agreement:

a. if payment thereon is not received by us within ninety (90) days after the date payment on the Account has become due as reflected by the Account Statement sent to the Customer obligated to pay such Receivables; or
b. ninety (90) days after any portion of that Customer's Receivables becomes delinquent or in default, as determined by the terms of the Credit Agreement between you and that Customer; or
c. if any dispute arises with the Customer regarding the Receivable, including without limitation, any alleged deduction, defense, offset or counterclaim; or
d. if you are in default under the terms of this Agreement or under any other agreement or Obligation you have with us; or
e. if this Agreement is terminated.

6.2 EFFECT OF REASSIGNMENT. To reassign Receivables, we may charge first against your Reserve Account or Operating Account an amount equal to the unpaid balance of the reassigned Receivables, including accrued and unpaid finance charges on the date of reassignment. The reassignment shall be effective automatically upon the chargeback to you. In the event the Reserve Account or other account is insufficient to satisfy the balance of the reassigned Receivable, you agree that we may immediately fund and make advances pursuant to your Line of Credit with us as necessary to pay the deficiency amount due to us. Notwithstanding any provision to the contrary, you do not agree to pay and we do not intend to contract for, reserve, charge or collect any rate of interest which is higher than the maximum rate of interest we could charge under applicable law for the extension of credit that is agreed to in this

Agreement. If any notice of interest accrual is sent and is in error, you and we mutually agree to correct it, and if we actually collect more interest than allowed by law and this Agreement, we agree to refund the excess portion. Any interest in excess of that maximum amount shall be credited to the principal amount of your Obligations relating to this Agreement, or, if the principal amount of the debt has been paid, refunded to your Operating Account.

6.3 SECURITY INTEREST. You hereby grant to us a security interest in your present and future Receivables and all returned, repossessed and reclaimed goods, and related books and records (together with such security interests granted to us under the Related Agreements), to secure all of your Obligations, and agree to execute and deliver an appropriate UCC-1 financing statement and other related instruments as we may require.

SECTION 7. REPRESENTATIONS, WARRANTIES AND COVENANTS

7.1 MERCHANT'S COVENANTS. You covenant that you will supply, or allow us to review, financial information and necessary documents on you or on any Customer upon our request.

7.2 MERCHANT'S REPRESENTATIONS AND WARRANTIES. You represent and warrant:

a. that you are fully authorized to enter into this Agreement and to perform hereunder;
b. that this Agreement constitutes a valid and binding obligation;
c. that you are solvent and in good standing in the State of your formation;
d. that your Receivables are and will be in the future bona fide and existing obligations of your Customers arising out of your sales of goods and/or services, free and clear of all security interests, liens or claims of any kind whatsoever of third parties;
e. that you have a valid Credit Agreement with your Customer or have identified each Customer with whom you do not have an existing written Credit Agreement; and
f. that your inventory is not subject to any security interests, liens or encumbrances of any kind whatsoever, and that you will not permit it to become so encumbered without our prior written consent.
g. you will have made delivery of the goods or rendered the services to which the Receivable relates, that the documentation pertaining to the sale is valid and genuine, and that the goods or services have been accepted by the Customer;
h. you will have preserved and will continue to preserve any liens and any rights to liens available by virtue of the sale of goods or services;
i. the Customer will not be affiliated with you;
j. you will have no knowledge of any dispute or potential dispute that might impair the validity of the transaction or the Customer's obligation to pay the related Receivable in accordance with its terms;
k. you have the right to render the services or to sell the goods creating the Receivable, and will have done so in accordance with any applicable laws; and
l. you will have paid, or provided for the payment of, all taxes arising from the transaction creating the Receivable.

7.3 BANK'S REPRESENTATIONS AND WARRANTIES. LIMITATIONS ON LIABILITY. We represent that the services rendered by us pursuant to the terms of this Agreement will be performed timely and in a professional manner; provided, however, you agree that we will not be responsible for any indirect, special or consequential loss or damage, such as loss of anticipated revenues or other consequential economic loss in connection with or arising out of any unintentional breach of this Agreement. Nor will we be liable for any errors in judgment or mistakes that may be made in good faith when acting as your attorney-in-fact pursuant to Section 4.4 of this Agreement. Nor will we be liable for any delay in the performance of our duties caused by strike, lawsuit, riot, civil disturbance, fire, shortage of supplies or materials or any other cause reasonably beyond our control.

YOU HEREBY AGREE TO WAIVE AND RELEASE US FROM ANY CLAIM OR LIABILITY FOR ERRORS OR MISTAKES MADE IN GOOD FAITH OR FOR ANY SUCH CONSEQUENTIAL LOSS OR DAMAGE AS SET FORTH IN THIS SECTION 7.3.

SECTION 8. DEFAULT

8.1 EVENTS OF DEFAULT. The following events will constitute a Default under the terms of this Agreement:

a. You fail to pay or to perform any obligation, covenant or liability in connection with this Agreement and ten (10) days pass after we give written notice to you of such default, or if you fail to pay or perform any other Obligation which you may have to us in accordance with its terms; or
b. Any warranty, representation or statement whenever made by you in connection with this Agreement proves to be false in any material respect when made, or if you fail to disclose that any such warranty, representation or statement has become untrue in any material respect; or
c. The dissolution or termination of your corporate existence or, if an individual, your death; or
d. Your insolvency; or
e. The assignment for the general benefit of your creditors, the appointment of a receiver or trustee for your assets, the commencement of any proceeding under any bankruptcy or insolvency laws by or against you or any proceeding for the dissolution, liquidation or settlement of claims against you or winding up of your affairs; or
f. The termination or withdrawal of any guaranty for your Obligations; or
g. The failure to pay any tax imposed upon you in connection with any transaction creating a Receivable; or
h. If any judgment against you remains unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of thirty (30) days; or
i. You discontinue your business as a going concern; or
j. We deem in good faith that the prospect for your payment or performance of your Obligations has been impaired.

8.2 EFFECT OF DEFAULT. Upon the occurrence of any Default, we may immediately terminate this Agreement upon written notice of termination to you, at which time all amounts owed to us for your Obligations, at our sole option, shall become immediately due and payable, and our obligations with respect to the further performance of services hereunder shall, at our sole option, immediately terminate. Your Obligations under this Agreement, including specifically the obligation to repurchase Receivables, will survive a termination of this Agreement.

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SECTION 9. APPLICABLE LAW

9.1 This Agreement shall be construed under, governed and enforced in accordance with the laws of the State where we are located, as shown by our address on Page 1 of this Agreement.

SECTION 10. GENERAL PROVISIONS

10.1 EXPENSES AND ATTORNEY'S FEES. In the event of any default or dispute between us and you arising under this Agreement, the party prevailing in such dispute shall be entitled to a recovery of expenses incurred by that party in enforcing this Agreement, including costs of court and a reasonable attorney's fee.

10.2 NON-WAIVER. No delay or failure on our part in exercising any right, privilege or option hereunder shall be deemed a waiver of any such right, privilege or option and no waiver, amendment, or modification of any provision of this Agreement shall be valid unless it is in writing and signed by us and you.

10.3 SEVERABILITY. Should any provision of this Agreement be prohibited by or invalid under applicable law, the validity of the remaining provisions shall not be affected thereby.

10.4 HEADINGS. The headings herein are for convenience only and shall not define or limit the scope, extent, meaning or intent of this Agreement.

10.5 NOTICES. All notices contemplated or required by this Agreement shall be deemed to have been duly given when given in writing and hand delivered to the other party, or deposited in the U.S. Mail, postage prepaid, certified mail, return receipt requested, to the other party's address set forth in this Agreement. Any party may change the address for notice purposes by giving notice in accordance with this Agreement.

10.6 ENTIRE AGREEMENT, CONSTRUCTION. This Agreement, together with the Related Agreements, embody the entire agreement between us and you with respect to the Program. No amendment to this Agreement shall be effective unless it is in writing and signed by you and us. In the event of any inconsistency arising between this Agreement and any of the Related Agreements, the agreement applicable to the specific right, duty or obligation of yours or ours shall control to the extent necessary to effect the purposes of this Agreement.

YOU ACKNOWLEDGE THAT THERE ARE NO ORAL STATEMENTS OR REPRESENTATIONS UPON WHICH YOU ARE RELYING IN EXECUTING THIS AGREEMENT.

SECTION 11. SPECIAL PROVISIONS [30]

YOU HEREBY ACKNOWLEDGE THAT YOU HAVE READ, UNDERSTAND AND AGREE TO THE TERMS AND CONDITIONS OF THIS AGREEMENT. YOU ACKNOWLEDGE RECEIVING AN EXACT COPY OF THIS AGREEMENT. THIS AGREEMENT AND RELATED DOCUMENTS HAVE BEEN EXECUTED IN THE COUNTY OF OUR ADDRESS UNLESS OTHERWISE SPECIFIED.

AGREEMENT DATE: DOCDATE[5]

MERCHANT SIGNATURE:	BANK SIGNATURE:
MERCHANTNAME[9]	BANKNAME[14]
By: -----------------------------------	By: -----------------------------------
MERCHANT SIGNATURE-TITLE[9S]	BANK SIGNATURE-TITLE[14S]

[ ] [X]

EXHIBIT 10.14

[CASH FLOW MANAGER LOGO]

License Agreement

<TABLE>
<CAPTION>

LICENSOR:	LICENSEE:
"We", "Us" or "Our" means the Company named above, its successors and assigns.	"You" or "Your" means the Financial Institution named above.

</TABLE>

You and we agree as follows:

Section 1. Grant of License. Subject to the terms and conditions set forth in this agreement, we hereby grant to you (and to any branch offices maintained by you) and you hereby accept (a) the non-exclusive and non-transferable right and license to offer CashFlow Manager to your customers; and (b) the right and license to use our CashFlow Manager program, software, trade names, service marks, trademarks, copyrights, patents, electronic data processing methods, accounts receivable forms, including forms and programs presently available and forms and programs developed by us for use with the CashFlow Manager program. Unless the context denotes otherwise, the term "customer" means all current and prospective customers other than financial institutions.

Section 2. Reservation of Rights. You acknowledge our claimed interest in and exclusive right to the CashFlow Manager program and all component parts thereof, including without limitation, all forms, computer programs, copyrights, trademarks and trade names, manuals, bulletins, procedures or supplements, devices and insignia we may use from time to time in conjunction with the CashFlow Manager program (hereinafter "the Program").

Section 3. Program Services. We will install, setup and maintain the computer software at one (1) site location designated by you for your CashFlow Manager Program. You agree that you will obtain or use computer hardware which meets the requirements specified by us. You also agree to provide qualified personnel, either on your own premises or through contract with some other firm, sufficient to operate the Program for your Program customers. Prior to offering the CashFlow Manager Program to your customers, we will provide onsite instruction to your employees or designated representatives concerning the proper operation of the Program, and will provide these persons with Program operating materials. You agree that your employees or representatives will take such instruction as we may from time to time reasonably request. In addition, we agree to install, setup and maintain the computer software and provide the training described in this paragraph at additional site location(s) designated by you upon receipt of the Multiple Site Installation Fee provided for in Section 8 of this agreement.

Business Consulting and Marketing Services. In addition, we will provide you with the services of one or more Program consultants who will assist you in the marketing of the Program to your customers in accordance with marketing plans developed between you and us. This includes, but is not limited to, the providing of telemarketing services to customers selected by you, customer presentations, and other services related to approval of the customer for your Program. You acknowledge that the consultant's services are not exclusive to you, but that such services will be provided in accordance with schedules mutually acceptable to you and the consultant. In the event of any disagreement or dissatisfaction arising concerning the services rendered to you by the consultant, we agree that we will replace such consultant with another consultant acceptable to you within a reasonable period if, after notice from you, such disagreement or dissatisfaction with the consultant cannot be resolved.

Other Support. We will also provide you, your employees or your designated representatives with Program training, forms and other materials to assist you in compliance with federal, state and local law applicable to the Program.

Section 4. Confidentiality. You acknowledge that the procedures, electronic data processing methods, forms and techniques furnished by us as a part of the CashFlow Manager Program and contained in the CashFlow Manager software and manuals are unique and confidential. In order to protect the value of the confidential information licensed to you, you agree to retain in confidence, and to require your employees, agents and representatives to retain in confidence, all such information and know-how transmitted to you by us. You agree not to use the confidential material communicated to you by us except for the purpose and to the extent necessary for the operation of the CashFlow Manager Program pursuant to the license granted herein. The CashFlow Manager documentation and manuals will at all times remain our sole property and will promptly be returned to us upon the expiration or termination of this agreement.

We acknowledge and agree that any information or data coming into our possession concerning you, your operations and your customers is unique and confidential. We agree to retain in confidence, and to require our employees, agents and representatives to retain in confidence, all such information and will not make use of the confidential material communicated to us by you except for the purpose and to the extent necessary for the operation of the CashFlow Manager Program pursuant to this agreement.

Your and our obligations under this Section will survive the expiration or a termination of this Agreement.

Section 5. Software Modifications and Alterations. We agree that we will furnish to you, at no additional cost to you, any updates and upgrades developed by us for the CashFlow Manager software during the term of this agreement. You agree to timely implement any and all changes to the CashFlow Manager software which are deemed necessary by us for the proper operation of the Program. You agree that the CashFlow Manager software will be used in accordance with the instructions contained in the instructional and operating information provided by us. No modifications or changes will be made by you with the Program software unless written approval is first obtained from us. In the event modifications or changes are made by you, or your employees or representatives, you agree that we will have the right to use such changes and, at our option, to incorporate the changes into the CashFlow Manager Program and to make them available to third parties.

Section 6. Operating Materials. You agree to purchase from us any specialized forms which are required for use in conjunction with the CashFlow Manager Program. We agree to allow and assist other reputable and competent printers selected by you to reproduce or print the forms required by the CashFlow Manager Program so long as such printers conform to the standards or specifications established by us.

Section 7. Program Marketing Materials and Obligations. We will make standard promotional material available to you at a reasonable cost. You agree to solicit your selected creditworthy commercial customers via letter and/or brochure mailing at least once per year. During the term of this agreement, you also agree that you will offer no other program of a similar nature to your customers.

Section 8. License Fees; Multiple Site Installation Fees. In consideration of the trademark, licenses and rights herein granted by us to you, and in consideration of the use of the trade names or trademarks, CashFlow Manager Program and CashFlow Manager in our confidential manuals and materials, you agree to pay us the license fee, plus any applicable sales taxes, set forth below. License fees are payable upon the execution of this agreement. $300.00 of the License Fee is for the licensing, installation and use of the software, and the balance represents consideration for the employee and customer training, education and initial marketing program setup and support. In the event you elect to install the Program at additional site location(s), you agree to pay us a Multiple Site Location Fee for each such installation to provide for our cost of installing and maintaining the software at such location(s) and providing the technical support and training set forth in this Agreement.

License Fee: Multiple Site Installation Fee:

Section 9. Ongoing Support Fees; Volume Rebates. As additional consideration for our initial and continuing marketing, technical and Program support, you agree to pay us ____% of the amount of the Initial Balance of the receivables purchased by you from each new CashFlow Manager customer and an ongoing support fee equal to __% of the total discount fees charged or taken by you in each subsequent month with respect to "ongoing purchases" of receivables from each CashFlow Manager customer. As used herein, the term "Initial Balance" purchase means the first purchase of receivables from a CashFlow Manager Customer

(or the first 30 days' receivables acquired by you if you either (i) acquire less than all of the CashFlow Manager customer's receivables existing on the date of the first purchase of receivables, or (ii) if such CashFlow Manager customer has no existing receivables which will be purchased by you until after the date of the first purchase of receivables). "Ongoing purchases" means purchases of receivables from a CashFlow Manager Customer subsequent to the Initial Balance purchase.

Support Fee Rebates. We agree to pay you a marketing rebate based upon the monthly volume levels of ongoing receivable purchases made by you from your CashFlow Manager customers. These volume levels and the amount of the rebate percentage applicable to each volume level as applied to the discount fees charged or taken by you in a specific month are as follows:

<TABLE>
<CAPTION>

LEVEL	AMOUNT OF RECEIVABLES PURCHASED			REBATE PERCENTAGE* (of Discount Fee)
<S>	<C>	<C>	<C>	<C>
I	$ 500,000	-	$1,250,000..	--%
II	$1,250,001	-	$2,500,000...	--%
III	$2,500,001	+	....	--%

</TABLE>

* The net effective ongoing support fee rate at these levels is ___%, ___% and ___%, respectively.

These volume rebate percentages shown above are applied separately to each of the specific volume levels to which they relate (e.g., the rebate percentage for receivable purchases between $500,000 and $1,250,000 is ___% regardless of the total receivables purchased in that month, etc.). These marketing rebates will be processed by us approximately forty-five (45) days after the close of the calendar month to which the rebate relates, and payable by us to you no more than sixty (60) days beyond the close of the calendar month to which the rebate relates. The rebates will be applicable to: (1) all ongoing support fees which are normally processed and invoiced during a calendar month which (2) are paid to us no later than twenty-five (25) days following the invoice date. Rebates will not be given with respect to any ongoing support fees which are paid to us more than 25 days beyond the invoice date.

Section 10. Reporting and Payment of Ongoing Support Fees. You agree to report to us each month, on forms supplied by us, the amount of receivables purchased during the preceding month, and remit by check the fees due to us under this agreement. All ongoing support fees will be due and payable within twenty-five (25) days of the invoice date. Amounts which are due and not paid to us as provided in this agreement will thereafter bear interest at the rate of eighteen percent (18.0%) per annum.

Section 11. Term of Agreement, Termination and Refund of License Fees. This agreement will be effective on the date of execution by us and you, and will be for an initial term of five (5) years (the "Initial Term"). At the end of the Initial Term, and on each anniversary date thereafter, this agreement will automatically extend for an additional year beyond the Initial Term, or renewal term, unless we or you give written notice to the other of non-extension at least sixty (60) days prior to the expiration date of the Initial Term, or renewal term of this agreement.

License Fee Refund Period. The first twelve (12) months of the Initial Term of this agreement will be deemed the license fee "Refund Period." If you have not purchased of a minimum of $100,000 in Initial Balance purchases of receivables (as defined in this agreement) during the Refund Period, we agree that you will have the right and option either to: (i) terminate this agreement with a refund of $7,500.00 of the license fee paid hereunder; or (ii) to receive a refund of such amount without a termination of this agreement. To terminate this agreement and receive the license fee refund, you must give us written notice of your election to terminate within thirty (30) days following the expiration of the Refund Period. In the event you give us notice of termination under these circumstances, this agreement will terminate on the date specified in the notice. If you do not give us written notice under these circumstances, we will pay you such refund without a termination of this agreement. Any ongoing support fees which are outstanding at the time of a termination will be immediately due and payable to us. Thereafter, neither you nor we will have any further obligation to the other, subject to the remaining provisions of this Section and Section 14.

Early Termination After the Refund Period. After the Refund Period expires, we agree that you will have the right to terminate this agreement by giving us ninety (90) days prior written notice of termination, subject to the remaining provisions of this Section and Section 14. In the event you terminate this agreement prior to

the expiration of the Initial Term or a renewal term (except a termination which arises out of our default), any ongoing support fees which are outstanding at the time of a termination and all License fees which have not been paid previously by you, other than a License fee installment refunded to you in accordance with this Section, will be due and payable 25 days after the date of termination specified in your notice.

Ongoing Purchase Fee Obligations After Expiration or Termination. As additional consideration for the license and services we provide in connection with the Program, you agree to pay an ongoing purchase fee ("OP Fee") with respect to each CashFlow Manager customer for a period of twenty-four (24) months following the expiration or termination of this agreement if you continue to offer an accounts receivable financing program of a nature similar to CashFlow Manager ("replacement program") to such customer. So long as the OP Fee is payable under these circumstances, you agree to report to us each month, on forms supplied by us, the amount of receivables purchased during the preceding month, and remit by check the fees due to us under this section. All OP Fees will be due and payable on or before the 25th day of each month for purchases made in the preceding month.

We agree that you will have no OP Fee obligation if you do not offer, or once you discontinue to offer, your replacement program to such CashFlow Manager customer. We also agree that you will have no OP Fee obligation with respect to new customers added to your replacement program following a termination or expiration of this agreement, or if the termination of this agreement arises out of our default in obligations to you under this agreement. The OP Fee provided for in this section shall be calculated in the same manner as the ongoing support fees provided for in Section 9, including any applicable volume rebate provisions.

Section 12. Program Software; Limited Warranty. As additional consideration for this license, you agree not to reproduce copies of the CashFlow Manager software except to the extent required to operate your CashFlow Manager Program.

Program Software and Documentation. We warrant the physical software media and documentation to be free of defects in materials and workmanship and that each will substantially conform to the specifications and applications set forth in our documentation during the term of this agreement, provided it is used with computer hardware which meets minimum specifications as determined by us during the term of this agreement. However, we make no representation or warranty that the software or documentation is "error-free" or meets any user's particular standards, requirements or needs. If we receive notice of any defects in the software from you, we will replace the defective software media or documentation.

The entire and exclusive liability and remedy for breach of this limited warranty is limited to replacement of the defective software or documentation, and we will have no liability or responsibility to you or to any entity or person with respect to any claim for or damages for any indirect, special or consequential damages in any manner arising out of, or connected with the sale, the use or the anticipated use of the Program software and documentation referred to herein, or for damage caused or alleged to be caused directly or indirectly by the computer software or documentation furnished by us, including but not limited to the interruption of service, loss of business or anticipated profits or consequential damages resulting from the use or operation of the software.

If we are unable to cure the defects in the software or documentation within a reasonable period, you have the option to terminate this agreement upon written notice and receive a refund of all License fees paid by you prior to such termination. Thereafter, neither of us will have any further obligation to the other.

WE SPECIFICALLY DISCLAIM ALL OTHER WARRANTIES, REPRESENTATIONS, OR CONDITIONS, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, ANY WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ALL OTHER IMPLIED TERMS ARE EXCLUDED.

Program Services. We represent that each of our employees or representatives assigned to perform marketing, technical support or data processing services will have the proper skill, training and background so as to be able to perform in a competent manner the services described in this agreement; provided, however, you agree that we will not be responsible for any indirect, special or consequential loss or damage, such as loss of anticipated revenues or other consequential economic loss in connection with or arising out of any unintentional breach of this agreement. Nor will we be liable for any errors in judgment or mistakes that may be made in good faith when acting on your behalf. Nor will we be liable for any delay in the performance of

our duties caused by strike, lawsuit, riot, civil disturbance, fire, shortage of supplies or materials or any other cause reasonably beyond our control.

YOU HEREBY AGREE TO WAIVE AND RELEASE US FROM ANY CLAIM OR LIABILITY FOR ERRORS OR MISTAKES MADE IN GOOD FAITH OR FOR ANY SUCH CONSEQUENTIAL LOSS OR DAMAGE AS SET FORTH IN THIS SECTION.

Section 13. Default; Provisions for Alternative Dispute Resolution. In the event that either you or we default in the performance of any obligation under this agreement, and this default continues for a period of thirty (30) days after written notice is given by the non-defaulting party, then the non-defaulting party will have the right, at its option, to terminate this agreement by giving written notice of such termination. Except as specifically provided otherwise, such termination will not constitute a waiver of our rights to any sums due and payable to us from you pursuant to the terms of this agreement.

We and you further agree that any dispute arising between the parties, either before or after a termination of this agreement, will be submitted either to mediation, or to non-binding arbitration in accordance with the rules of the American Arbitration Association, prior to the commencement of any legal action or proceeding against the other party to this agreement.

Section 14. Procedures Upon Termination. Upon the expiration or termination of this agreement for any cause, you agree to immediately discontinue the use of, and return to us, all trade names, trademarks, service marks, copyrights, patents, computer software programs, manuals, materials, signs, and forms of advertising indicative of the CashFlow Manager Program. If you fail or refuse to comply with the provisions of this section, you agree to reimburse us for all costs, including reasonable attorney's fees and other expenses incurred in connection in the enforcement of this provision. In the event you terminate this agreement, but elect to continue an accounts receivable financing program of a nature similar to CashFlow Manager, you warrant that such replacement program will be or has been developed without the use of any of our confidential or proprietary information covered by this agreement.

Section 15. Binding Effect. This agreement will be effective when executed by one of our duly authorized officers and will benefit and be binding on you and us, and your and our successors or assigns.

Section 16. Governing Law. This agreement will be deemed to have been made and delivered in the State of Texas, and all rights and duties will be governed by and enforced in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, you and we have executed this agreement on the respective dates set forth below, and is effective on the date accepted by us.

Licensee:

By: ------------------------------------- Date: ---------------------------

Its: ------------------------------------

Licensor Acceptance

The foregoing agreement is hereby accepted and approved by the undersigned duly authorized officer of BANKING SOLUTIONS, INC. on the _____ day of _______________, 1999.

BANKING SOLUTIONS, INC.

[CASH FLOW MANAGER(SM) LOGO]

By: ---------------------------------

Its: ---------------------------------

[BANKING SOLUTIONS INC. LOGO]

License Agreement. 6

EXHIBIT 10.15

[TSI LOGO]

GENERAL MARKETING AGENT AGREEMENT

TOWNE SERVICES, INC., a Georgia Corporation ("Servicer") and the undersigned ("Agent"), in consideration of their obligations in this Agreement and intending to be legally bound, agree as follows:

1. Definitions: For purposes of this Agreement:
   a) "Customer" shall mean, a bank or holding company that meets the qualifications and criteria applicable to such offering of services by servicer for solicitation by Agent from time to time. "Bank Marketing Agreement" shall mean the contract in the form, and containing the terms and conditions (including price and payment terms), established by Servicer from time to time for the services provided to a "Customer".
   b) "Territory" shall mean the states, countries, or locations identified on Exhibit "A" hereto.
   c) "Term" shall mean that period commencing on the date hereof and lasting for a period of twelve complete months and any subsequent twelve month renewal period.

2. Appointment: Subject to the terms of this Agreement, Servicer engages Agent to solicit customers to enter into Bank Marketing Agreements with Servicer for its services. Agent may solicit customers only with respect to their proposed use of Towne Services, Inc. services in the Territory. Servicer reserves the right, to change the terms and conditions of its Bank Marketing Agreement at any time, and Servicer agrees to provide 30 days notice to Agent of any substantive changes. Agent acknowledges that this Agreement does not confer on Agent exclusive rights in any other territory. Agent represents and warrants to Servicer that it has the authority to enter into this Agreement and to perform its terms fully.

3. Nature of Relationship: Agent shall be an independent contractor. Nothing in this Agreement shall be construed to create any other relationship. Agent is hereby advised that, as an independent contractor, it has certain responsibilities under the federal and state tax laws.

4. Responsibilities of Agent: The duties of Agent shall be to:

   a) Use its best efforts to solicit Customers to enter into Bank Marketing Agreements;
   b) Conduct its business so as to maintain and increase the goodwill and reputation of Servicer;

c) Pay all expense incurred by Agent in the performance of its duties under this Agreement, including (1) local and long-distance transportation expenses: and (2) expenses in connection with the solicitation of Customers and the operation of Agent's business, including telephone, delivery, entertainment, and promotional expenses; and

d) Use only promotional material mutually agreed upon for purposed of promotion of the Servicer's business.

5. Limits of Authority: Agent shall not, without prior written approval from an authorized representative of Servicer, take any of the following actions:

a) Incur any expense or obligation in the name of the Servicer;

b) Disseminate any printed material regarding the Licensed Products or Servicer's business; or

c) Use Servicer's advertising and promotional guidelines.

6. Payment of Commissions: Agent shall be compensated by Servicer for its services solely on the basis of fees earned and collected on any Bank Marketing Agreements for Customers located within the Territory. Commissions shall be set forth in a Commission Schedule attached hereto as Exhibit "B". The payment of any commissions to Agent shall be subject to all of the terms and conditions of this Agreement.

7. Statements: Servicer shall mail Agent a monthly statement showing fees earned. At no time shall Servicer be obligated to reimburse Agent for any expenses unless it agrees to do so in writing.

8. Sales Support: Servicer shall provide sales support to agent including promotional materials and sales representative in Territory as reasonably required by agent.

9. Voluntary Termination: Prior to completion of the initial Term or any renewal Term, either Servicer or Agent may terminate this agreement at any time without cause by giving the other party one hundred twenty days prior written notice. The payment of commissions shall continue through the term or any Bank Marketing Agreement entered into pursuant to this Agreement between Servicer and a Customer in the event of any termination other than involuntary termination by either party.

10. Involuntary Termination: Either party may terminate this Agreement immediately, without notice to either party for just cause. A termination shall be deemed "for just cause" if the other party:

a) Breaches any provision of this Agreement;

b) Violates any law or regulation; or

c) Commits any willful or dishonest act that could injure the other party.

11. Confidentiality: Agent acknowledges that Servicer has a proprietary interest in the association of its agents and personnel and the business of the customers with whom such agents and personnel interact. Accordingly, Agent shall provide Servicer with the full benefit of all work and contacts relevant to the business of Servicer throughout the term of this Agreement. Agent shall maintain in strict confidence, and shall not use or disclose except as required by law or legal process, and as required to perform its duties for Servicer, all Trade Secrets of Servicer. This obligation shall apply during and after the term of this Agreement for so long as the pertinent information or data remain Trade Secrets, and shall apply regardless of whether the Trade Secrets are in written or tangible form. For purposes of this Agreement, a Trade Secret is defined to consist of legally protected rights in confidential information. Without limiting the generality of the foregoing, Trade Secrets of Servicer include nonpublic information regarding the Servicer, account invoices, training and educational manuals, administrative manuals, and prospective customer leads developed by Servicer regardless of whether computer or electronically accessible "on-line". However, Trade Secrets do not include information Agent possesses or acquires independently of Agent's activities or duties as an agent of Servicer. The foregoing obligation shall continue to apply for two years after termination of this Agreement.

12. Return of Materials: Upon the request of Servicer and , in any event, upon the termination of Agent's engagement, Agent shall deliver to Servicer all memoranda, notes, records, manuals, disks, or other documents and media pertaining to Servicer's business or Agent's activities or duties as a Servicer agent, including all copies, extracts, summaries, and analyses thereof. This obligation shall not apply to publicity distributed documentation, or internal business or personal records of Agent's own creation that do not contain Servicer Trade Secrets.

13. Remedies: In the event of any breach by either party identified in Section 10 of this Agreement, the resulting injuries to the other party would be difficult or impossible to estimate accurately, but it is certain that injury or damages will result to the business of the other party. Both parties agree that, in the event of any such breach, the non-breaching party shall be entitled, in addition to any available legal or equitable remedies or damages, to an injunction to restrain the violation or anticipated violation thereof. Should the

non-breaching party have any basis to seek such legal or equitable action, the breaching party shall pay any and all attorney fees and court costs that the other party may incur. The non-breaching party's rights under this section shall be in addition to every other remedy (equitable, statutory, legal or contractual) to which the non-breaching party may be entitled.

14. Miscellaneous: No assignment by Agent or Servicer of this Agreement or any commissions due hereunder shall be valid unless approved in advance by an authorized officer of Servicer or Agent, as the case may be. No modification or waiver of any provision of this Agreement shall be binding on Servicer unless made in writing and signed by an authorized officer of Servicer. This Agreement is governed by the laws of the State of Georgia as it applies to a contract executed, delivered, and performed in such state. This Agreement supersedes and replaces any agreement previously entered into between Agent and Servicer. Servicer's failure to enforce any provision of this Agreement shall not constitute a waiver of any provision of this Agreement. The provisions of this Agreement shall be deemed severable. In the event that any provision of this Agreement is determined to be unenforceable or invalid, such provision shall nonetheless be enforced to the fullest extent permitted by applicable law, and such determination shall not affect the validity and enforceability of any other remaining provisions of this Agreement. This Agreement, together with all schedules attached hereto and all writings incorporated herein by reference, constitutes the entire agreement between Agent and Servicer with respect to the subject matter of this Agreement.

Servicer: Towne Services, Inc.	Agent:
By: ------------------------------------	By: -----------------------------
Title: ----------------------------------	Title: ---------------------------
Date: -----------------------------------	Date: ----------------------------

EXHIBIT A

Towne Services will pay ___ % of initial bank license fees and ___% of the ongoing revenue net of incremental processing expenses and sales commissions.

EXHIBIT 10.20

PROMISSORY NOTE

$50,000.00 October 8, 1998

Drew W. Edwards (hereinafter referred to as "Maker"), for value received, hereby promises to pay to the order of TOWNE SERVICES, INC., a Georgia corporation (hereinafter referred to as "Payee"), the aggregate principal sum of FIFTY THOUSAND DOLLARS ($50,000.00) on the earlier of (i) February 8, 2000 or (ii) the date that Maker sells any shares of capital stock of Payee that are held by Maker, together with interest on the unpaid principal balance at the rate of 8.5% per annum, compounded annually. The principal hereof and the interest thereon are payable at 3295 River Exchange Drive, Suite 350, Atlanta, Georgia 30092, or at such other place as Payee may from time to time designate to Maker in writing, in coin or currency of the United States of America.

Maker may, at any time and from time to time, prepay all or any portion of the principal of this Note remaining unpaid, without penalty or premium. Prepayments shall be applied first to the payment of accrued but unpaid interest on this Note and the balance to principal.

If any of the following events (an "Event of Default") shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise), then this Note shall thereupon be and become, forthwith due and payable, without any further notice or demand of any kind whatsoever, all of which are hereby expressly waived:

(a) If Maker defaults in the payment of principal or interest on this Note when and as the same shall become due and payable and such default continues for 20 days after Maker receives notice from Payee of such default; or

(b) If Maker makes an assignment for the benefit of creditors or admits in writing an inability to pay his or its debts generally as they become due;

(c) If an order, judgment or decree is entered adjudicating Maker bankrupt or insolvent;

(d) If Maker petitions or applies to any tribunal for the appointment of a trustee or receiver of Maker, or of any substantial part of the assets of Maker, or commences any proceedings relating to Maker under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or

(e) If any such petition or application is filed, or any such proceedings are commenced, against Maker, and Maker by any act indicates its approval thereof,

consent thereto, or acquiescence therein, or an order is entered appointing any such trustee or receiver, or approving the petition in any such proceedings, and such order remains unstayed and in effect for more than 90 days.

This Note is with full recourse to any assets of Maker.

Any failure on the part of Payee at any time to require the performance by Maker of any of the terms or provisions hereof, even if known, shall in no way affect the right thereafter to enforce the same, nor shall any failure of Payee to insist on strict compliance with the terms and conditions hereof be taken or held to be a waiver of any succeeding breach or of the right of Payee to insist on strict compliance with the terms and conditions hereof.

Time is of the essence.

This Note shall be governed by, and enforced and interpreted in accordance with, the laws of the State of Georgia without regard to the principles of conflict of laws.

In the event this note, or any part hereof, is collected by or through an attorney-at-law, Maker agrees to pay all costs of collection including, but not limited to, attorneys' fees equal to 15% of the principal and interest then due. In the event that Maker fails to make any payment when due, Payee shall provide written notice of default to Maker, which notice shall allow Maker ten (10) days from the date of receipt of such notice in which to cure such default. If such default is not cured within the time allowed, the balance hereof shall be deemed to be immediately accelerated without further notice to Maker.

IN WITNESS WHEREOF, Maker has executed this Note under seal as of the date first set forth above.

MAKER:

/s/ Drew W. Edwards

Drew W. Edwards

EXHIBIT 10.21

PROMISSORY NOTE

$30,000.00 October 8, 1998

Henry M. Baroco (hereinafter referred to as "Maker"), for value received, hereby promises to pay to the order of TOWNE SERVICES, INC., a Georgia corporation (hereinafter referred to as "Payee"), the aggregate principal sum of THIRTY THOUSAND DOLLARS ($30,000.00) on February 8, 2000 or (ii) the date that Maker sells any shares of capital stock of Payee that are held by Maker, together with interest on the unpaid principal balance at the rate of 8.5% per annum, compounded annually. The principal hereof and the interest thereon are payable at 3295 River Exchange Drive, Suite 350, Atlanta, Georgia 30092, or at such other place as Payee may from time to time designate to Maker in writing, in coin or currency of the United States of America.

Maker may, at any time and from time to time, prepay all or any portion of the principal of this Note remaining unpaid, without penalty or premium. Prepayments shall be applied first to the payment of accrued but unpaid interest on this Note and the balance to principal.

If any of the following events (an "Event of Default") shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise), then this Note shall thereupon be and become, forthwith due and payable, without any further notice or demand of any kind whatsoever, all of which are hereby expressly waived:

(a) If Maker defaults in the payment of principal or interest on this Note when and as the same shall become due and payable and such default continues for 20 days after Maker receives notice from Payee of such default; or

(b) If Maker makes an assignment for the benefit of creditors or admits in writing an inability to pay his or its debts generally as they become due;

(c) If an order, judgment or decree is entered adjudicating Maker bankrupt or insolvent;

(d) If Maker petitions or applies to any tribunal for the appointment of a trustee or receiver of Maker, or of any substantial part of the assets of Maker, or commences any proceedings relating to Maker under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or

(e) If any such petition or application is filed, or any such proceedings are commenced, against Maker, and Maker by any act indicates its approval thereof,

consent thereto, or acquiescence therein, or an order is entered appointing any such trustee or receiver, or approving the petition in any such proceedings, and such order remains unstayed and in effect for more than 90 days.

This Note is with full recourse to any assets of Maker.

Any failure on the part of Payee at any time to require the performance by Maker of any of the terms or provisions hereof, even if known, shall in no way affect the right thereafter to enforce the same, nor shall any failure of Payee to insist on strict compliance with the terms and conditions hereof be taken or held to be a waiver of any succeeding breach or of the right of Payee to insist on strict compliance with the terms and conditions hereof.

Time is of the essence.

This Note shall be governed by, and enforced and interpreted in accordance with, the laws of the State of Georgia without regard to the principles of conflict of laws.

In the event this note, or any part hereof, is collected by or through an attorney-at-law, Maker agrees to pay all costs of collection including, but not limited to, attorneys' fees equal to 15% of the principal and interest then due. In the event that Maker fails to make any payment when due, Payee shall provide written notice of default to Maker, which notice shall allow Maker ten (10) days from the date of receipt of such notice in which to cure such default. If such default is not cured within the time allowed, the balance hereof shall be deemed to be immediately accelerated without further notice to Maker.

IN WITNESS WHEREOF, Maker has executed this Note under seal as of the date first set forth above.

MAKER:

/s/ Henry M. Baroco

/s/ Henry M. Baroco

EXHIBIT 10.23

PROMISSORY NOTE

$5,000,000.00 December 31, 1998

Towne Services, Inc.
3295 River Exchange Drive, Suite 350
Norcross, Georgia 30092
(Individually and collectively "Borrower")

First Union National Bank
999 Peachtree Street - GA9104
Atlanta, Georgia 30309
(Hereinafter referred to as the "Bank")

Borrower promises to pay to the order of Bank, in lawful money of the United States of America, at its office indicated above or wherever else Bank may specify, the sum of Five Million and No/100 Dollars ($5,000,000.00) or such sum as may be advanced and outstanding from time to time with interest on the unpaid principal balance at the rate and on the terms provided in this Promissory Note (including all renewals, extensions or modifications hereof, this "Note").

SECURITY. Borrower has granted Bank a security interest in the collateral described in the Loan Documents, including, but not limited to, personal property collateral described in that certain Security Agreement of even date herewith.

INTEREST RATE. Interest shall accrue on the unpaid principal balance of this Note from the date hereof at the LIBOR Market Index Rate plus 2.0% as that rate may change from day to day in accordance with changes in the LIBOR Market index Rate ("Interest Rate"). "LIBOR Market Index Rate", for any day, is the rate for 1 month U.S. dollar deposits as reported on Telerate page 3750 as of 11:00 a.m., London time, on such day, or if such day is not a London business day, then the immediately preceding London business day (or if not so reported, then as determined by Bank from another recognized source or interbank quotation).

DEFAULT RATE. In addition to all other rights contained in this Note, if a Default (defined herein) occurs and as long as a Default continues, all outstanding Obligations shall bear interest at the Interest Rate plus 3% ("Default Rate"). The Default Rate shall also apply from acceleration until the Obligations or any judgment thereon is paid in full.

INTEREST AND FEE(S) COMPUTATION. (ACTUAL/360). Interest and fees, if any, shall be computed on the basis of a 360-day year for the actual number of days in the applicable period ("Actual/360 Computation"). The Actual/360 Computation determines the annual effective yield by taking the stated (nominal) rate for a year's period and then dividing said rate by 360 to determine the daily periodic rate to be applied for each day in the applicable period. Application of the Actual/360 Computation produces an annualized effective rate exceeding that of the nominal rate.

REPAYMENT TERMS. This Note shall be due and payable in consecutive monthly payments of accrued interest only commencing on February 1, 1999, and on the same day of each month thereafter until fully paid. In any event, all principal and accrued interest shall be due and payable on December 31, 1999.

APPLICATION OF PAYMENTS. Monies received by Bank from any source for application toward payment of the Obligations shall be applied to accrued interest and then to principal. If a Default occurs, monies may be applied to the Obligations in any manner or order deemed appropriate by Bank.

If any payment received by Bank under this Note or other Loan Documents is rescinded, avoided or for any reason returned by Bank because of any adverse claim or threatened action, the returned payment shall remain payable as an obligation of all persons liable under this Note or other Loan Documents as though such payment had not been made.

DEFINITIONS. LOAN DOCUMENTS. The term "Loan Documents" used in this Note and other Loan Documents refers to all documents executed in connection with the loan evidenced by this Note and any prior notes which evidence all or any portion of the loan evidenced by this Note, and may include, without limitation, a commitment letter that survives closing, a loan agreement, this Note, guaranty agreements, security agreements, security instruments, financing statements, mortgage instruments, any renewals or modifications, whenever any of the foregoing are executed, but does not include swap agreements (as defined in 11 U.S.C. ss. 101). OBLIGATIONs. The term "Obligations" used in this Note refers to any and all indebtedness and other obligations under this Note, all other obligations under any other Loan Document(s), and all obligations under any swap agreements as defined in 11 U.S.C. ss. 101 between Borrower and Bank whenever executed. CERTAIN OTHER TERMs. All terms that are used but not otherwise defined in any of the Loan Documents shall have the definitions provided in the Uniform Commercial Code.

LATE CHARGE. If any payments are not timely made, Borrower shall also pay to Bank a late charge equal to 5% of each payment past due for 15 or more days.

Acceptance by Bank of any late payment without an accompanying late charge shall not be deemed a waiver of Bank's right to collect such late charge or to collect a late charge for any subsequent late payment received.

ATTORNEYS' FEES AND OTHER COLLECTION COSTS. Borrower shall pay all of Bank's reasonable expenses incurred to enforce or collect any of the Obligations, including, without limitation, reasonable arbitration, paralegals', attorneys' and experts' fees and expenses, whether incurred without the commencement of a suit, in any trial, arbitration, or administrative proceeding, or in any appellate or bankruptcy proceeding.

USURY. If at any time the effective interest rate under this Note would, but for this paragraph, exceed the maximum lawful rate, the effective interest rate under this Note shall be the maximum lawful rate, and any amount received by Bank in excess of such rate shall be applied to principal and then to fees and expenses, or, if no such amounts are owing, returned to Borrower.

CURE PERIOD. Except as provided below, a Default may be cured within five days ("Cure Period") of Bank mailing written notice to Borrower ("Right to Notice and Cure"). During the Cure Period Bank shall not exercise its remedies to collect the Obligations except as the Bank reasonably deems necessary to protect its interest in collateral securing the Obligations. The Right to Notice and Cure is applicable only to curable Defaults and only to one occurrence of Default during any one year period. This Right to Notice and Cure shall have no effect with respect to subsequent Defaults within such one year period and shall not be applicable to False Warranty, Cessation or Bankruptcy Defaults.

DEFAULT. If any of the following occurs, a default ("Default") under this Note shall exist: NONPAYMENT; NONPERFORMANCE. The failure of timely payment or performance of the Obligations or

Default under this Note or any other Loan Documents. FALSE WARRANTY. A warranty or representation made or deemed made in the Loan Documents or furnished Bank in connection with the loan evidenced by this Note proves materially false, or if of a continuing nature, becomes materially false. CROSS DEFAULT. At Bank's option, any default in payment or performance of any obligation under any other loans, contracts or agreements of Borrower, any Subsidiary or Affiliate of Borrower, any general partner of or the holder(s) of the majority ownership interests of Borrower with Bank or its affiliates ("Affiliate" shall have the meaning as defined in 11 U.S.C. ss. 101, except that the term "debtor" therein shall be substituted by the term "Borrower" herein; "Subsidiary" shall mean any business in which Borrower holds, directly or indirectly, a controlling interest). CESSATION; BANKRUPTCY. The death of, appointment of guardian for, dissolution of, termination of existence of, (except as disclosed this date to Bank) loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or commencement of any bankruptcy or insolvency proceeding by or against the Borrower, its Subsidiaries or Affiliates, if any, or any general partner of or the holder(s) of the majority ownership interests of Borrower, or any party to the Loan Documents. MATERIAL CAPITAL STRUCTURE OR BUSINESS ALTERATION. Without prior written consent of Bank, (i) a material alteration in the kind or type of Borrower's business or that of Borrower's Subsidiaries or Affiliates, if any; (ii) the sale of substantially all of the business or assets of Borrower, any of Borrower's Subsidiaries or Affiliates or guarantor or a material portion (10% or more) of such business or assets if such a sale is outside the ordinary course of business of Borrower, or any of

Borrower's Subsidiaries or Affiliates or any guarantor or more then 50% of the outstanding stock or voting power of or in any such entity in a single transaction or a series of transactions; (iii) should any Borrower, or any of Borrower's Subsidiaries or Affiliates or any guarantor enter into any merger or consolidation where Borrower or Borrower's Subsidiaries are not the surviving entity.

REMEDIES UPON DEFAULT. If a Default occurs under this Note or any Loan Documents, Bank may at any time thereafter, take the following actions: BANK LIEN. Foreclose its security interest or lien against Borrower's accounts without notice. ACCELERATION UPON DEFAULT. Accelerate the maturity of this Note and all other Obligations, and all of the Obligations shall be immediately due and payable. CUMULATIVE. Exercise any rights and remedies as provided under the Note and other Loan Documents, or as provided by law or equity.

ANNUAL FINANCIAL STATEMENTS. Borrower shall deliver to Bank, within 90 days after the close of each fiscal year, audited financial statements reflecting its operations during such fiscal year, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules; all on a consolidated and consolidating basis and in reasonable detail, prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. All such statements shall be examined by an independent certified public accountant acceptable to Bank. The opinion of such independent certified public accountant shall not be acceptable to Bank if qualified due to any limitations in scope imposed by Borrower or its Subsidiaries, if any. Any other qualification of the opinion by the accountant shall render the acceptability of the financial statements subject to Bank's approval. Financial statements filed by Borrower with the Securities Exchange Commission are acceptable to Bank.

PERIODIC FINANCIAL STATEMENTS. Borrower shall deliver to Bank unaudited management-prepared quarterly financial statements, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules, as soon as available and in any event within 45 days after the close of each such period; all in reasonable detail and prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. Such statements shall be certified as to their correctness by a principal financial officer of Borrower. Financial statements filed by Borrower with the Securities Exchange Commission are acceptable to Bank.

FINANCIAL AND OTHER INFORMATION. Borrower shall deliver to Bank such information as Bank may reasonably request from time to time, including without limitation, financial statements and information pertaining to Borrower's financial condition. Such information shall be true, complete, and accurate in all material respects.

YEAR 2000 COMPATIBILITY. Borrower shall take all action necessary to ensure that Borrower's computer based systems are able to operate and effectively process data including dates on and after January 1, 2000. At the request of Bank, Borrower shall provide Bank assurance acceptable to Bank of Borrower's Year 2000 compatibility.

LINE OF CREDIT ADVANCES. Borrower may borrow, repay and reborrow, and Bank may advance and readvance under this Note respectively from time to time until the maturity hereof (each an "Advance" and together the "Advances"), so long as the total indebtedness outstanding at any one time does not exceed the lower of the principal amount stated on the face of this Note or 100% of the aggregate balance in the collateral account described in that certain Security Agreement of even date herewith. Bank's obligation to make Advances under this Note shall terminate if Borrower is in Default or a representation in any of the Loan Documents is false or has become false. As of the date of each proposed Advance, Borrower shall be deemed to represent that each representation made in the Loan Documents is true as of such date.

If Borrower subscribes to Bank's cash management services and such services are applicable to this line of credit, the terms of such service shall control the manner in which funds are transferred between the applicable demand deposit account and the line of credit for credit or debit to the line of credit.

WAIVERS AND AMENDMENTS. No waivers, amendments or modifications of this Note and other Loan Documents shall be valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default shall operate as a waiver of any other Default or the same Default on a future occasion. Neither the failure nor any delay on the part of Bank in exercising any right, power, or remedy under this Note and other Loan Documents shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

Each Borrower or any person liable under this Note waives presentment, protest, notice of dishonor, demand for payment, notice of intention to accelerate maturity, notice of acceleration of maturity, notice of sale and all other notices of any kind. Further, each agrees that Bank may extend, modify or renew this Note or make a novation of the loan evidenced by this Note for any period and grant any releases, compromises or indulgences with respect to any collateral securing this Note, or with respect to any other Borrower or any other person liable under this Note or other Loan Documents, all without notice to or consent of each Borrower or each person who may be liable under this Note or other Loan Documents and without affecting the liability of Borrower or any person who may be liable under this Note or other Loan Documents.

MISCELLANEOUS PROVISIONS. ASSIGNMENT. This Note and other Loan Documents shall inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. Bank's interests in and rights under this Note and other Loan Documents are freely assignable, in whole or in part, by Bank. In addition, nothing in this Note or any of the Loan Documents shall prohibit Bank from pledging or assigning this Note or any of the

Loan Documents or any interest therein to any Federal Reserve Bank. Borrower shall not assign its rights and interest hereunder without the prior written consent of Bank, and any attempt by Borrower to assign without Bank's prior written consent is null and void. Any assignment shall not release Borrower from the Obligations. APPLICABLE LAW; CONFLICT BETWEEN DOCUMENTS. This Note and other Loan Documents shall be governed by and

construed under the laws of the state named in Bank's address shown above without regard to that state's conflict of laws principles. If the terms of this Note should conflict with the terms of the loan agreement or any commitment letter that survives closing, the terms of this Note shall control. JURISDICTION. Borrower irrevocably agrees to non-exclusive personal jurisdiction in the state named in Bank's address shown above. SEVERABILITY. If any provision of this Note or of the other Loan Documents shall be prohibited or invalid under applicable law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note or other such document. NOTICES. Any notices to Borrower shall be sufficiently given, if in writing and mailed or delivered to the Borrower's address shown above or such other address as provided hereunder, and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that Borrower changes Borrower's address at any time prior to the date the Obligations are paid in full, Borrower agrees to promptly give written notice of said change of address by registered or certified mail, return receipt requested, all charges prepaid. PLURAL; CAPTIONS. All references in the Loan Documents to Borrower, guarantor, person, document or other nouns of reference mean both the singular and plural form, as the case may be, and the term "person" shall mean any individual, person or entity. The captions contained in the Loan Documents are inserted for convenience only and shall not affect the meaning or interpretation of the Loan Documents. BINDING CONTRACT. Borrower by execution of and Bank by acceptance of this Note agree that each party is bound to all terms and provisions of this Note. ADVANCES. Bank in its sole discretion may make other Advances under this Note pursuant hereto. POSTING OF PAYMENTS. All payments received during normal banking hours after 2:00 p.m. local time at the office of Bank first shown above shall be deemed received at the opening of the next banking day. JOINT AND SEVERAL Obligations. Each Borrower is jointly and severally obligated under this Note. FEES AND TAXES. Borrower shall promptly pay all documentary, intangible recordation and/or similar taxes on this transaction whether assessed at closing or arising from time to time.

ARBITRATION. Upon demand of any party hereto, whether made before or after institution of any judicial proceeding, any claim or controversy arising out of or relating to the Loan Documents between parties hereto (a "Dispute") shall be resolved by binding arbitration conducted under and governed by the Commercial Financial Disputes Arbitration Rules (the "Arbitration Rules") of the American

Arbitration Association (the "AAA") and the Federal Arbitration Act. Disputes may include, without limitation, tort claims, counterclaims, a dispute as to whether a matter is subject to arbitration, claims brought as class actions, or claims arising from documents executed in the future. A judgment upon the award may be entered in any court having jurisdiction. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to swap agreements. SPECIAL RULES. All arbitration hearings shall be conducted in the city named in the address of Bank first stated above. A hearing shall begin within 90 days of demand for arbitration and all hearings shall conclude within 120 days of demand for arbitration. These time limitations may not be extended unless a party shows cause for extension and then for no more than a total of 60 days. The expedited procedures set forth in Rule 51 et seq. of the Arbitration Rules shall be applicable to claims of less than $1,000,000.00. Arbitrators shall be licensed attorneys selected from the Commercial Financial Dispute Arbitration Panel of the AAA. The parties do not waive applicable Federal or state substantive law except as provided herein. PRESERVATION AND LIMITATION OF REMEDIES. Notwithstanding the preceding binding arbitration provisions, the parties agree to preserve, without diminution, certain remedies that any party may exercise before or after an arbitration proceeding is brought. The parties shall have the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable. (i) all rights to foreclose against any real or personal property or other security by exercising a power of sale or under applicable law by judicial foreclosure including a proceeding to confirm the sale; (ii) all rights of self-help including peaceful occupation of real property and collection of rents, set-off, and peaceful possession of personal property; (iii) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment,

attachment, appointment of receiver and filing an involuntary bankruptcy proceeding; and (iv) when applicable, a judgment by confession of judgment. Any claim or controversy with regard to any party's entitlement to such remedies is a Dispute. WAIVER OF EXEMPLARY DAMAGES. The parties agree that they shall not have a remedy of punitive or exemplary damages against other parties in any Dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any Dispute whether the Dispute is resolved by arbitration or judicially. WAIVER OF JURY TRIAL. THE PARTIES ACKNOWLEDGE THAT BY AGREEING TO BINDING ARBITRATION THEY HAVE IRREVOCABLY WAIVED ANY RIGHT THEY MAY HAVE TO JURY TRIAL WITH REGARD TO A DISPUTE.

IN WITNESS WHEREOF, Borrower, on the day and year first above written, has caused this Note to be executed under seal.

Towne Services, Inc.

Taxpayer Identification Number 62-1618121

CORPORATE SEAL

By: /s/ Drew Edwards

Drew Edwards, Chief Executive Officer

EXHIBIT 21.1

SUBSIDIARIES OF TOWNE SERVICES, INC.

BSI Acquisition Corp., a Georgia corporation and wholly-owned subsidiary of Towne Services, doing business under the name "Banking Solutions."

Banking Solutions, Inc., a Texas corporation and wholly-owned subsidiary of BSI Acquisition Corp., doing business under the name "Banking Solutions."

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K into Towne Services, Inc.'s previously filed Registration Statement File No. 333-53341.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Atlanta, Georgia
March 24, 1999

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