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ACCESS SOLUTIONS INTERNATIONAL INC  
Form 10KSB  
October 15, 2001

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year ended June 30, 2001

or

Transition Report Under to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-28920

Access Solutions International, Inc.

-----  
(Name of small business issuer as specified in its charter)

Delaware

05-0426298

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

650 Ten Rod Road  
North Kingstown, RI 02852  
(Address of principal executive offices)  
(401) 295-2691  
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Units, each consisting of two shares of common stock, \$.01 par value  
("Common Stock") and one redeemable common stock purchase warrant  
("Redeemable Warrant")

Common Stock

Redeemable Warrants

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Issuer's revenues for its most recent fiscal year: \$945,978.

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed at \$.19 per share, the closing price of the Common Stock on June 30, 2001: \$753,149.

The number of shares of the issuer's Common Stock, \$.01 par value, outstanding

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as of June 30, 2001 was 3,963,940.

Documents Incorporated by Reference:

None

### Part I

#### Item 1. Description of Business

##### Statements

Statements contained in this Form 10-KSB that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as "believes", "will", "should", "anticipates", "expects" and similar expressions are intended to identify forward looking statements. ASI cautions that a number of important factors could cause actual results for Fiscal 2002 and beyond to differ materially from those expressed in any forward-looking statements made by or on behalf of ASI. Such statements contain a number of risks and uncertainties, including, but not limited to the outcome of management's assessment of ASI's long-term strategic alternatives, ongoing capital needs, variable operating results, dependence on ASI's COLD system product, competing with rapid technological change and new product development, reliance on single or limited sources of supply, intense competition, turnover in management, dependence on significant customers and dependence on key personnel. ASI cannot assure that it will be able to anticipate or respond timely to changes that could adversely affect its operating results in one or more fiscal quarters. Results of operations in any past period should not be considered indicative of results to be expected in future periods. Fluctuations in operating results may result in fluctuations in the price of ASI's securities.

##### Recent Developments

In November of 2000, PaperClip Software, Inc. and ASI entered into an agreement whereby the indebtedness to ASI in the amount of \$300,000, plus all accrued interest through December 31, 1999 in the amount of \$105,300, will be paid for by the execution and delivery of a new promissory note from PaperClip to ASI in the aggregate principal amount of \$405,300. All amounts due under the new Note will be paid for over a period of three (3) years in thirty-six (36) equal installments of \$11,265 beginning on January 1, 2000. Although payments are current on the note, ASI has fully reserved for the value of the new promissory note due to PaperClip's poor financial condition.

As a result of advances issued to PaperClip from November 12, 1997 through August 24, 1998, PaperClip is indebted to ASI in the amount of \$2,305,506 including interest. ASI will exchange the above indebtedness for shares of a new class of PaperClip convertible preferred stock (the "Preferred Stock"). Each share of Preferred Stock will be convertible into one share of PaperClip's common stock ("common stock") subject to anti-dilution protection in the event of a stock split, stock dividend, recapitalization or similar change to the capital structure of PaperClip. The shares are convertible at anytime at ASI's option or at PaperClip's option, provided that immediately prior to conversion, the common stock has traded for not less than 60 consecutive days at a closing price of 150% of the implied conversion price. The implied conversion price is derived by dividing the amount of the additional indebtedness by the number of shares of common stock issuable upon conversion by ASI of the preferred stock. The "Converted Shares" would equal 27.5% of the then outstanding Common Stock. The holders of the converted common stock will have piggyback registration

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rights on the Converted Shares underlying the Preferred Stock. Such piggy back registration rights on the converted stock will expire with respect to the holder when such shares are eligible for sale pursuant to Rule 144(k) promulgated and the rules and regulations of the Securities Act of 1933. The preferred stock will not be entitled to dividends and will have a liquidation preference equal to \$2,305,506. No value has been recorded on the Company's financial statements for this investment due to PaperClip's deteriorating stock value and its poor financial condition.

On April 23, 2001, ASI announced that it had received a monetary settlement pursuant to a signed settlement agreement with Anacomp, Inc. ("Anacomp") and Kodak (See Item 3. Legal Proceedings.) As a result of this settlement, ASI also announced that management would be assessing strategic alternatives which will best benefit its shareholders, customers and employees.

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### Financing

On May 27, 1998, ASI completed a financing agreement that called for the purchase of a 30% interest in several of the Company's patents by a stockholder and former director, for \$100,000. These patents were the subject of a lawsuit pending in the United States District Court for the District of Rhode Island. See item 3. In addition, this same stockholder also loaned the Company \$650,000 and agreed to make additional advances up to \$1,000,000 for outstanding and future legal fees and costs incurred in connection with the lawsuit.

The loan was secured by a first priority interest in these patents and bore interest at the rate of 19% and was convertible into common stock under certain circumstances. See Item 7 - financial statements, convertible notes payable footnote. The loan had a term of the lesser of three years or completion of the Company's patent litigation and converted to a demand note at the end of its term.

On May 27, 2000, ASI obtained an amendment to the loan agreement extending the due date to three years from May 27, 2000 and increasing the amount that could be borrowed under the loan to \$1,500,000.

On May 1, 2001, this liability was retired in full, for the amount of \$1,614,642, which represented the aggregate value of the outstanding loans, including interest. The option to convert to common stock was not exercised.

### Business

ASI, a Delaware corporation formed in 1986, currently assembles and supports mainframe information storage and retrieval systems, including both software and hardware, for large companies. ASI believes that its proprietary computer output to laser disk (COLD) and data storage systems provide a faster, more reliable and more economical method of storing vast quantities of computer-generated data than is generally available from other COLD systems. ASI's COLD and optical disk storage systems, which are marketed under the brand names OAS and GIGAPAGE, and GIGAPAGE DASDI, are presently sold principally to a limited number of large organizations that have the need to store and retrieve large quantities of computer-generated data.

**Products.** ASI's COLD systems are high density hardware and software data storage systems that are designed to store, index and retrieve formatted computer output. COLD systems consist of an OAS controller, a storage subsystem, and GIGAPAGE application software.

**Hardware Products.** The hardware portion of ASI's solution, the OAS, is a high

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capacity, mainframe channel-attached hybrid magnetic/optical disk storage system, composed of the OAS controller and an optical disk "autochanger." The OAS can control various types and models of robotic autochanger systems, which are manufactured by a number of vendors, commanding such robots to mount and dismount disks and tapes automatically as needed in response to requests from the host software. These autochangers, which ASI purchases from independent third-party suppliers, are installed by ASI as a part of the integrated system at the customer site. Autochangers of varying capacities are available to meet the needs of the marketplace, for storage requirements from 166 million pages to multiple tens of billions of pages. A brief description of the hardware components of the OAS follows.

Optical Disk Autochangers. The entry-level optical disk autochanger supplied by ASI supports customers with relatively modest storage volumes. When used in conjunction with ASI's data compression technology, the capacity of this autochanger is significantly enlarged. With compression, this entry-level autochanger normally has the capacity to store over 166 million typical report pages.

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Because the optical disk drives housed within ASI's most commonly installed optical disk autochangers are American National Standards Institute ("ANSI")-standard 5-1/4 inch multifunction drives, the optical disk platters used within the autochanger may be a mixture of rewritable and write-once-read-many ("WORM") types. The rewritable disks are used to store those reports that do not have to be retained for long time periods. The disks are then re-used when the useful life of the reports has elapsed. WORM disks preclude modification of data, as required for data such as securities industry reports subject to the record retention rules of the Securities and Exchange Commission.

Customer need for greater capacity is addressed by a field-upgradeable family of optical disk autochangers. Middle range requirements are accommodated by a system which can store from 590 million to over 1 billion report pages in a compact (3 foot by 3 foot) floor area, while large capacity needs are served by ASI's largest system, which stores from 860 million to more than 2.5 billion pages. Multiple systems may be combined for even greater capacity. ASI also provides 12 and 14 inch format WORM solutions.

The OAS Control Unit. The control unit of the OAS system is directly attached to the mainframe via a conventional IBM-compatible interface to an input-output ("I/O") channel of the IBM-compatible mainframe. The control unit's dedicated I/O hardware passes data back and forth over the channel between the mainframe and the optical disk autochanger at up to 17 megabytes per second. The control unit is an intelligent storage management subsystem, with self-contained software to track and file associated media locations within the storage subsystems and automate the movement of media into optical disk drives within the robotic autochanger, when applicable.

The OAS Control Unit contains a cache buffer (a large bank of RAM used for temporary storage when transferring data from one device to another) to permit data to be exchanged rapidly between the mainframe and the optical disk drives. In addition, the control unit performs data compression using a patented hardware-based implementation of the Lempel-Ziv compression algorithm. When this hardware-based compression is combined with GIGAPAGE's host-based software data compression, compound compression ratios of 7.5:1 and higher are achieved.

Software Products. ASI has developed an application software product for IBM

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mainframe systems, GIGAPAGE, which can be installed in conjunction with the OAS and is an end-user application for report storage and retrieval. GIGAPAGE stores and retrieves computer-generated reports (such as customer statements) on various combinations of storage technologies. This enables organizations to eliminate their existing computer output microfiche or microfilm (COM) systems and reduce staff used for manual retrieval of microfilm, microfiche and paper reports. GIGAPAGE also provides its users with the ability to access report data efficiently, by displaying a retrieved document based upon criteria established by the user. ASI believes that this creates competitive advantages for end users that must quickly respond to customer inquiries. GIGAPAGE changes report access from a slow, cumbersome, manually intensive process to a fast, near-line computer-based process.

Customer Support and Service. ASI believes that its approach to customer service and support has been and will continue to be a continuing source of revenue. Because most of ASI's products are used in large-scale mainframe data centers, the successful utilization of ASI's products depends on ASI providing a high level of customer service and support. These resources include a 24-hour help desk to field all customer support and service inquiries and third-party service organizations with whom ASI contracts to provide on-site customer response for hardware-related issues.

In each of the years ended June 30, 2001 and 2000, service revenue generated from the post-sale maintenance of COLD systems accounted for approximately 85% of ASI's total revenues. All but one of ASI's customers have elected to extend their service contracts.

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As of June 30, 2001, the customer service and support group consisted of two employees, one of whom is in-house and one in the field. These personnel provide support for the engineers maintaining customer equipment in the field and provide ASI with an opportunity to recommend future system sales to such customers.

Marketing. The market for COLD systems is segmented into the mainframe, PC (stand-alone or LAN-based), client/server and CD-ROM markets. Within each market segment, product offerings may be divided into two categories: (i) COLD software packages and (ii) COLD turnkey systems. COLD turnkey systems are generally comprised of COLD software bundled with a controller and an optical disk system. Generally, the highest priced COLD systems are those that are mainframe or client/server based. Additionally, the market for COLD systems includes a revenue component derived from the service and support of COLD systems products.

Customers. One customer accounted for 21%, one customer accounted for 16%, and two customers each accounted for 13% of ASI's total net sales in the year ended June 30, 2001. One customer accounted for 32%, and three customers accounted for a total of 42% of ASI's net sales in Fiscal 2000.

Competition. The computer data storage and retrieval industry is highly competitive and ASI expects this level of competition to continue to intensify. Most of ASI's competitors have substantially greater financial, marketing, development, technological and production resources than ASI. ASI's primary competitors are IBM Corporation, FileTek Corporation, Eastman Kodak Company, Mobius Management Systems, Inc., FileNet Corporation and Digital Storage Solutions, Inc. ASI believes that participants in the data storage and retrieval market compete on the basis of a number of factors including vendor and product reputation, system features, product quality, performance and price, and quality

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of customer support services and training. ASI positions itself to compete effectively with its competitors by offering what it believes is excellent customer service and technical support in connection with its hardware and software products.

**Principal Suppliers.** ASI's principal suppliers for the production and maintenance of its COLD systems are Eastman Kodak, IBM Canada and Hewlett Packard.

**Intellectual Property.** ASI holds three United States patents on its directory structure and its implementation of hardware data compression. ASI relies primarily on a combination of copyright, trademark, trade secret laws and contractual provisions to establish and protect proprietary rights in its products. ASI typically enters into confidentiality and/or license agreements with its employees, strategic partners, customers and suppliers and limits access to and distribution of its proprietary information. Despite these precautions, it may be possible for unauthorized third parties to copy certain portions of ASI's products, reverse engineer or otherwise obtain and use information ASI regards as proprietary. In response to a perceived patent infringement, ASI instituted a lawsuit against Data/Ware Development, Inc. and Eastman Kodak Company, Inc., which was recently settled. (See "Item 3. Legal Proceedings" below.)

ASI is subject to the risk of litigation alleging infringement of third-party intellectual property rights. There can be no assurance that third parties will not assert infringement claims against ASI in the future with respect to its products. Any such assertion, if found to be true and legally enforceable, could require ASI to pay damages and could require ASI to develop non-infringing technology or acquire licenses of technology that is the subject of the asserted infringement, resulting in product delays, increased costs, or both.

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**Assembly.** Assembly of ASI's OAS is done at ASI's facility in North Kingstown, Rhode Island. ASI assembles portions of its COLD systems, which are then integrated at ASI's plant with optical disk autochanger systems manufactured by a variety of third parties. Production of the OAS entails testing, assembling and integrating standard and ASI-designed components and subassemblies built by and purchased from independent suppliers. As of June 30, 2001, ASI had one full-time manufacturing person. ASI configures and tests ASI-built and third-party-supplied hardware and software in combinations to meet a wide variety of customer requirements.

Although ASI generally uses standard parts and components for its products, certain components, such as CPU boards, ESCON hardware and high-density integrated circuits, are presently available only from single or limited sources. ASI has no supply commitments with its vendors and generally purchases components on a purchase order basis, as opposed to entering into long-term procurement agreements with vendors. ASI has generally been able to obtain adequate supplies of components in a timely manner from current vendors or, when necessary to meet production needs, from alternate vendors. ASI believes that alternative sources of supply would not be difficult to develop over a short period of time but that an interruption in supply or a significant increase in the price of these components could adversely affect ASI's operating results and business.

**Employees.** As of June 30, 2001, ASI had 3 full time and 2 part-time employees.

Item 2. Description of Property

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ASI's principal offices are located in North Kingstown, Rhode Island, in a leased facility consisting of approximately 4,200 square feet of space occupied under a lease expiring in September 2001 which may be extended for three months. The three month option has been exercised so that the Company can adequately determine its future needs and requirements.

### Item 3. Legal Proceedings

On August 29, 1997, ASI filed a complaint against Data/Ware Development, Inc., ("Data/Ware"), (Anacomp's predecessor) and Eastman Kodak Company ("Kodak") alleging infringement of ASI's patents 4,775,969 and 5,034,914. The defendants had counter-claimed and counter-sued ASI. The claim stated that Data/Ware and Kodak collectively manufactured, used and/or sold equipment for recording data on optical media and alleged that the manufacture and sale of such equipment, and use by purchasers thereof, infringed one or more of the Company's patents. The claim called for an order enjoining the defendants from further infringement of its patents, damages and interest for infringement and reasonable attorney's fees and such other relief that the court deemed proper.

On April 23, 2001, ASI announced that it had received a monetary settlement pursuant to a signed settlement agreement with Anacomp, Inc. ("Anacomp") and Kodak resolving its patent infringement lawsuit against defendants Anacomp and Kodak in the United States District Court for the District of Rhode Island.

After the payment of its proportionate share of the legal fees and related expenses and the share of the settlement allocated to the co-owner of the patent, on May 1, 2001, ASI received net proceeds of \$4,175,583. Approximately \$2,000,000 has been used to retire outstanding debt and payables.

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

None.

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## Part II

### Item 5. Market for Common Equity and Related Stockholder Matters

ASI's initial public offering ("IPO") was completed on October 16, 1996. Prior to that date there was no market for the ASI Common Stock, Redeemable Warrants or Units. The ASI Common Stock, Redeemable Warrants and Units consisting of two shares of Common Stock and one Redeemable Warrant were traded on the Nasdaq SmallCap Market under the symbols "ASIC," "ASICW" and "ASICU," respectively until August 13, 1998. On that date, ASI's shares of common stock, units and warrants were delisted from the Nasdaq SmallCap Market because ASI failed to meet the net tangible assets, market capitalization, net income, bid price and market value of public float requirements as stated in Marketplace Rule(s) 4310(c)(02), 4310(c)(04), and 4310(c)(07). ASI's shares of common stock, units and warrants currently trade on the Over the Counter Electronic Bulletin Board Market ("OTC EBB") under the symbols "ASIC," "ASICW" and "ASICU," respectively. As of June 30, 2001, there were approximately 151 holders of record of ASI Common Stock.

The following table sets forth, for the periods indicated, high and low closing

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bid and asked prices for the ASI Common Stock, Redeemable Warrants and Units, as reported on the Nasdaq SmallCap Market when available. Since such prices represent quotations between dealers, they do not include markups, markdowns or commissions and do not necessarily represent actual transactions.

### Common Stock

	Bid Low	Asked High
1999:		
Third Quarter	.01	.375
Fourth Quarter	.125	.25
2000:		
First Quarter	.06	.15
Second Quarter	.01	.15
Third Quarter	.01	.25
Fourth Quarter	.04	.16
2001:		
First Quarter	.04	.17
Second Quarter	.12	.26

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### Redeemable Warrants

	Bid Low	Asked High
1999:		
Third Quarter	.02	.02
Fourth Quarter	-	-
2000:		
First Quarter	.01	.01
Second Quarter	-	-
Third Quarter	-	-
Fourth Quarter	-	-
2001:		
First Quarter	-	-
Second Quarter	-	-

### Units

	Bid Low	Asked High
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1999:			
	Third Quarter	.11	.25
	Fourth Quarter	.01	.15
2000:			
	First Quarter	-	-
	Second Quarter	-	-
	Third Quarter	-	-
	Fourth Quarter	-	-
2001:			
	First Quarter	-	-
	Second Quarter	-	-

ASI has not paid any cash dividends on the ASI Common Stock since its inception.

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### Item 6. Management's Discussion and Analysis

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Overview

ASI's net sales consist of sales primarily of support and services. Products sold by ASI consist of COLD systems, software and hardware including replacement disk drives, subassemblies and miscellaneous peripherals. Support and services rendered by ASI include post-installation maintenance and support. ASI recognizes revenue from customers upon installation of COLD systems and, in the case of COLD systems installed for evaluation, upon acceptance by such customers of the products. ASI had no system sales in the current year. ASI sells extended service contracts on the majority of the products it has sold. Such contracts are one year in duration with payments received either annually in advance of the commencement of the contract or quarterly in advance. ASI recognizes revenue from service contracts on a straight-line basis over the term of the contract. The unearned portion of the service revenue is reflected as deferred revenue. As of June 30, 2001, ASI had deferred revenue in the amount of \$367,951.

ASI's operating results have in the past and may in the future fluctuate significantly depending upon the renewal of service contracts; the competitive technological advancements made by the industry; and the control of general and administrative expenses. The revenue from service contracts is recognized on a straight-line basis over the term of the contract.

ASI's primary operating expenses include maintenance and general and administrative expenses. General and administrative expenses consisted this fiscal year primarily of legal fees, employee compensation, office rental and normal contractual services.

In the past, ASI has expended substantial development resources to meet customer commitments. The majority of these services were provided at no charge to honor commitments made for added features when the systems were sold. These resource expenditures have in the past placed a high overhead burden on the GIGAPAGE product line offerings. After completion of GIGAPAGE 3.0, which occurred at the end of the second quarter of Fiscal 1998, management concluded that all

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significant product commitments had been met. In the future, development of any new features will not be initiated unless customers make a financial commitment to cover the minimum engineering costs.

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### Results of Operations

Year Ended June 30, 2001 Compared to Year Ended June 30, 2000

The following table presents certain items from ASI's Statement of Operations, and such amounts as percentages of net sale, for the periods indicated. Products and service costs percentages are of product and support and services sales, respectively.

	Year Ended June 30, 2001		Year Ended June 30, 2000	
Net sales				
Products	\$ 146,162	15%	\$ 138,153	15%
Support and services	799,816	85	780,420	85
Total net sales	945,978	100	918,573	100
Cost of Sales				
Products	17,339	2	15,842	2
Support and services	237,060	25	206,016	22
Total cost of sales	254,399	27	221,858	24
Gross profit	691,579	73	696,715	76
Operating expenses:				
Selling	118,429	13	145,621	16
	429,801	45	427,097	46
Research and development	--	--	90,343	10
Total operating expenses	548,230	58	663,061	72
				58
Interest and other expense, net				
	(213,272)	(23)	(124,318)	(14)
Profit (loss) before litigation settlement				
	(69,923)	(8)	(90,664)	(10)
Litigation settlement				
	4,175,583	441	--	--
Net profit (loss) before provision for income taxes				
	4,105,660	433	(90,664)	(10)
Provision for income taxes				
	95,000	10	--	--
Net Profit (Loss)	\$ 4,010,660	423%	\$ (90,664)	(10%)

Net sales. Net sales increased 3% to \$945,978 for the year ended June 30, 2001

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from \$918,573. Product sales increased 6% to \$146,162 for the year ended June 30, 2001 from \$138,153 for the year ended June 30, 2000 due to the sale of an optical storage system. Support and service revenues increased by 2% to \$799,816 for the year ended June 30, 2001 from \$780,420 for the year ended June 30, 2000.

Cost of sales. Cost of sales includes component costs, firmware, license costs, third-party equipment maintenance contractors and certain overhead costs. Cost of sales in the aggregate increased 15% to \$254,399 for the year ended June 30, 2001 from \$221,858 for the year ended June 30, 2000, primarily due to increased cost of service and support sales. Cost of sales for products increased by 9% to \$17,339 for the year ended June 30, 2001 from \$15,842 for the year ended June 30, 2000. This increase in cost was attributable to an increase in product sales. Cost of services increased by 15% to \$237,060 for the year ended June 30, 2001 from \$206,016 for the year ended June 30, 2000, due the addition of a service technician that was previously included in research and development. The research project was completed in the prior year and the individual now has service responsibilities. The Company's Gross margin decreased to 73% from 76% due to the above factors.

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Sales and Support Service expenses. Selling expenses decreased by 19% or \$27,192 to \$118,429 for the year ended June 30, 2001 from \$145,621 for the year ended June 30, 2000. The decrease was primarily the result of reductions in payroll, communication and depreciation expenses. Depreciation decreased in 2001 due to the disposal of obsolete assets.

General and administrative expenses. General and administrative expenses consist of administrative expenses and certain internal office and support expenses. General and administrative expenses decreased \$2,704 or 1% to \$429,801 for the year ended June 30, 2001 from \$427,097 for the year ended June 30, 2000. This decrease was primarily attributable to a decrease in insurance expense.

Research and development expenses. Research and development expenses decreased 100% to zero for the year ended June 30, 2001 from \$90,343 for the year ended June 30, 2000. This decrease reflects the completion of all research activity in the prior fiscal year.

Net interest and other expense. Interest expense was \$240,504 for the year ended June 30, 2001 and \$125,558 for the year ended June 30, 2000, an increase of 92%. This increase was primarily due to recognition of interest expense that had accrued on advances for legal fees and costs associated with the patent lawsuit. Interest income increased to \$22,462 for the year ended June 30, 2001 from \$1,240 for the year ended June 30, 2000. This increase was attributed to the payment of interest on a note receivable from PaperClip Software, Inc. Miscellaneous income of \$47,239 at June 30, 2001 represents principal repayments on the note receivable from PaperClip Software, Inc., which is fully reserved for as of June 30, 2001. The loss on disposal of fixed assets of \$42,469 for the year ended June 30, 2001 is due to the disposal of non-fully depreciated fixed assets.

Litigation settlement. For the year ended June 30, 2001, pursuant to the settlement resolving its patent infringement lawsuit against defendants Anacomp and Kodak, ASI received a net monetary award of \$4,175,583.

Net income (loss) before provision for income taxes. As a result of the foregoing, ASI's net income increased to \$4,105,660 for the year ended June 30, 2001 from a net loss of (\$90,664) for the year ended June 30, 2000.

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Provision for income taxes. The provision for income taxes is calculated after considering book and tax timing differences. Note 8 to the financial statements discusses the timing differences for the year ended June 30, 2001.

### Liquidity and Capital Resources

ASI had a working capital surplus of \$1,895,849 at June 30, 2001 as compared to a working capital deficit of \$888,971 at June 30, 2000. The increase in working capital was principally attributable to the increase in cash and reductions in accounts payable and accrued expenses.

Total cash provided by operating activities in fiscal year 2001 was \$3,655,786. The major use of cash was the reduction of accounts payable and deferred revenue. These amounts represent adjustments to net cash used by operating activities in the Company's Statement of Cash Flows. The reduction of accounts payable noted in working capital and cash used by operating activities was primarily attributable to repayment of old payables.

During Fiscal 2001, cash used by financing activities totaled \$1,287,549, reflecting retirement of \$650,000 note to a former director, plus \$373,053 for advances for litigation legal costs, and \$264,496 in accrued interest.

In Fiscal 2001, ASI received a net monetary award of \$4,175,583 that was related to the settlement of the DataWare/ Kodak patent infringement lawsuit.

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In previous years, ASI had suffered recurring losses from operations, had an accumulated deficit and incurred negative cash flows from its operating activities as it continued to develop its products and infrastructure. Without the proceeds from the settlement, the recurring losses and negative cash flow from operating activities would raise substantial doubt about the Company's ability to continue as a going concern.

On April 23, 2001, ASI announced that it had received a monetary settlement pursuant to a signed settlement agreement with Anacomp, Inc. ("Anacomp") and Kodak resolving its patent infringement lawsuit against defendants Anacomp and Kodak in the United States District Court for the District of Rhode Island.

After the payment of legal fees and the share of the settlement allocated to the co-owner of the patent, on May 1, 2001, ASI received net proceeds of \$4,175,586. Approximately \$2,000,000 has been used to retire outstanding debt and payables.

At June 30, 2001, ASI had federal and state net operating loss carryforwards available to reduce any future taxable income in the approximate amount of \$10,719,000. These net operating loss carryforwards will expire in various amounts between the years 2002 and 2020, if not previously utilized. In the event of a change in the ownership of ASI, as defined in Section 382 of the Internal Revenue Code, utilization of net operating loss carryforwards in periods following such ownership changes can be significantly limited. Management believes that ASI has incurred several changes of ownership under these rules. As a result, utilization of the net operating loss carryforwards is subject to various limitations, depending upon the year in which the net operating loss originated. Management estimates that federal net operating loss carryforwards in the approximate aggregate amount of \$400,000 will be available to offset taxable income that ASI may generate within the carryforward period subject to a limitation of approximately \$20,000 per year. Because the underlying calculations are complex and are subject to review by the Internal Revenue Service, these limitation amounts could be adjusted at a later date.

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## Seasonality and Inflation

To date, seasonality and inflation have not had a material effect on ASI's operations.

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## Item 7. Financial Statements

Access Solutions International, Inc.

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Access Solutions International, Inc.

We have audited the accompanying balance sheet of Access Solutions International, Inc. as of June 30, 2001, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Access Solutions International, Inc. as of June 30, 2001, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

CARLIN, CHARRON & ROSEN LLP

July 31, 2001

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
BALANCE SHEET

JUNE 30, 2001

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,426,279
Trade accounts receivable, net of allowance for doubtful accounts of \$4,344	191,145
Inventories	21,472
Prepaid expenses and other current assets	32,819

TOTAL CURRENT ASSETS	2,671,715
----------------------	-----------

PROPERTY AND EQUIPMENT, NET	6,038
-----------------------------	-------

TOTAL ASSETS	\$ 2,677,753
--------------	--------------

Continued--

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
BALANCE SHEET (CONTINUED)  
JUNE 30, 2001

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable	\$ 218,103
Accrued salaries and wages	29,341
Accrued expenses	65,471
Provision for income taxes	95,000
Deferred revenue	367,951
	-----

TOTAL CURRENT LIABILITIES	775,866
	-----

TOTAL LIABILITIES	775,866
	-----

COMMITMENTS AND CONTINGENCIES (Notes 1 and 7)	-
---	---

STOCKHOLDERS' EQUITY

Common stock, \$.01 par value; 13,000,000 shares authorized, 3,965,199 shares issued, and 3,963,940 shares outstanding	39,652
Additional paid-in capital	17,637,694
Accumulated deficit	(15,757,403)
	-----

TOTAL	1,919,943
-------	-----------

Treasury stock, at cost (1,259 shares)	(18,056)
	-----

TOTAL STOCKHOLDERS' EQUITY	1,901,887
	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,677,753
	=====

See accompanying notes to the financial statements  
and independent auditor's report.

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

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	YEAR ENDED 2001	JUNE 30, 2000
NET SALES		
Products	\$ 146,162	\$ 138,153
Support and services	799,816	780,420
TOTAL NET SALES	945,978	918,573
COST OF SALES		
Products	17,339	15,842
Support and services	237,060	206,016
TOTAL COST OF SALES	254,399	221,858
GROSS PROFIT	691,579	696,715
OPERATING EXPENSES		
Selling expenses	118,429	145,621
General and administrative expenses	429,801	427,097
Research and development expenses	--	90,343
TOTAL OPERATING EXPENSES	548,230	663,061
PROFIT FROM OPERATIONS	143,349	33,654
OTHER INCOME (EXPENSE)		
Loss on disposal of fixed assets	(42,469)	--
Interest income	22,462	1,240
Interest expense	(240,504)	(125,558)
Litigation settlement	4,175,583	--
Miscellaneous income	47,239	--
TOTAL OTHER INCOME (EXPENSE)	3,962,311	(124,318)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	\$ 4,105,660	\$ (90,664)
PROVISION FOR INCOME TAXES	95,000	--
NET INCOME (LOSS)	\$ 4,010,660	\$ (90,664)
NET INCOME (LOSS) PER COMMON SHARE	\$ 1.01	\$ (.02)
Weighted average number of common shares outstanding	3,963,940	3,963,940
Diluted earnings per share	\$ .92	n/a

See accompanying notes to the financial statements  
and independent auditor's report.



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ACCESS SOLUTIONS INTERNATIONAL, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

	Stockholders' Equity (Deficit)				
	Common Shares	Stock Amount	Additional Paid-In-Capital	Accumulated Deficit	Trea Shares
Balance at June 30, 1999	3,965,199	\$ 39,652	\$ 17,637,694	\$(19,677,399)	1,2
Net loss	--	--	--	(90,664)	--
Balance at June 30, 2000	3,965,199	\$ 39,652	\$ 17,637,694	\$(19,768,063)	1,2
Net income	--	--	--	4,010,660	--
Balance at June 30, 2001	3,965,199	39,652	17,637,694	(15,757,403)	1,2

See accompanying notes to the financial statements  
and independent auditor's report.

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

	YEAR ENDED JUNE 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,010,660	\$ (90,664)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	19,240	72,459
Loss on disposal of fixed assets	42,469	--
Provision for doubtful accounts-trade receivables	(8,823)	(8,400)
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Trade accounts receivable	76,986	(108,978)
Inventories	3,935	(407)
Prepaid expenses and other current assets	6,310	32,405
Increase (decrease) in:		
Accounts payable	(393,686)	(19,572)

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Accrued expenses and salaries and wages	(78,595)	(381,997)
Provision for income taxes	95,000	--
Deferred revenue	(117,710)	(18,382)
	-----	-----
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	3,655,786	(523,536)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	--	(435)
	-----	-----
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	--	(435)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Patent litigation loan addendum	--	498,611
Repayment of Note Payable	(1,287,549)	--
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	(1,287,549)	498,611
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,368,237	(25,360)
CASH AND CASH EQUIVALENTS, BEGINNING	58,042	83,402
	-----	-----
CASH AND CASH EQUIVALENTS, ENDING	\$ 2,426,279	\$ 58,042
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for interest	\$ 502,862	\$ --
	=====	=====

See accompanying notes to the financial statements  
and independent auditor's report

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001 AND 2000

1. NATURE OF OPERATIONS

Access Solutions International, Inc. (formerly Aquidneck Systems International, Inc.) (the "Company" or "ASI") assembles and services optical data storage systems consisting of integrated computer hardware and software for the archival storage and retrieval of computer-generated information. The Company's optical data storage systems have been sold principally to a limited number of large organizations that need to store and retrieve large quantities of computer-generated data. To date, the Company's customers primarily operate in the financial services and

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insurance industries. No new systems were sold in this year.

During 1996, the Company consummated an initial public offering (IPO) of 1,066,667 Units. Each Unit consisted of two shares of common stock and one redeemable common stock purchase warrant. Each warrant entitles the holder to purchase one share of common stock at an initial exercise price of \$5.00 per share, subject to adjustments, through October 15, 2001. The shares of common stock and warrants comprising the Units are separately tradable. An over-allotment option to purchase an additional 160,000 Units upon the same terms and conditions set forth above was exercised by the Company's underwriter on October 29, 1996. An aggregate of 2,453,334 shares of common stock and 1,226,667 warrants were issued by the Company, resulting in net proceeds of \$7,062,507.

On April 23, 2001, ASI announced that it had received a monetary settlement pursuant to a signed settlement agreement with Anacomp, Inc. ("Anacomp") and Kodak resolving its patent infringement lawsuit against defendants Anacomp and Kodak in the United States District Court for the District of Rhode Island. After the payment of legal fees and the share of the settlement allocated to the co-owner of the patent, on May 1, 2001, ASI received net proceeds of \$4,175,586. Approximately \$2,000,000 has been used to retire outstanding debt and payables.

In previous years, ASI has suffered recurring losses from operations, has had an accumulated deficit, and has incurred negative cash flows from operating activities. Without the proceeds from the settlement discussed above, the recurring losses and negative cash flow from operating activities would raise substantial doubt about the Company's ability to continue as a going concern. However, the cash received from the settlement has provided the Company the opportunity to reevaluate its market position and opportunities and maintain a sufficient level of working capital to continue as a going concern for at least the next twelve months.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 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.

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components used in production, finished goods held for sale and for service needs, and optical disk storage libraries purchased from third-party vendors for resale to the Company's customers as part of integrated systems. Base stock service inventories are maintained at customer locations as required under service contracts.

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001 AND 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories, Continued

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The Company's products consist of integrated computer hardware and software. Rapid technological change and frequent new product introductions and enhancements could result in excess inventory quantities over current requirements based on the projected level of sales. The amount of loss that is reasonably possible should such technological developments be realized is not estimable.

### Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Assets recorded under capital leases are amortized over the estimated useful lives or lease terms, whichever is shorter.

### Revenue Recognition

Product revenues include the sale of optical archiving systems, software licenses, peripheral hardware, and consumable media.

Revenue from the sale of optical archiving systems and software licenses is recognized when the system is installed and only insignificant post-installation obligations remain. In the case of systems installed subject to acceptance criteria, revenue is recognized upon acceptance of the system by the customer. Revenue from hardware upgrades is recognized upon shipment.

Service revenues include post installation software and hardware maintenance and consulting services.

The Company provides the first year of software maintenance to customers as part of the software license purchase price and recognizes the revenue upon installation of the software. Costs associated with initial year maintenance are not significant and enhancements provided during this period are minimal and are expected to be minimal. All software maintenance contracts after the first year are billed in advance of the service period and revenues are deferred and recognized ratably over the contract term. Hardware maintenance is billed for varying terms, and is deferred and recognized ratably over the term of the agreement. Revenues from consulting services are recognized upon customers' acceptances or during the period in which services are provided if customer acceptance is not required and such amounts are fixed and determinable.

### Software Development Costs

Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established and until the related product is available for general release to customers, any additional material amounts of development costs are capitalized and amortized to cost of sales over the economic life of the related product. Costs eligible for capitalization have not been significant to date.

### Income Taxes

Income taxes are accounted using an asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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### ACCESS SOLUTIONS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001 AND 2000

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Income Taxes, Continued

Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those differences are expected to be recovered or settled. The primary component of the Company's deferred tax asset as of June 30, 2001, which is fully reserved, is net operating loss carryforwards.

##### Earnings (Loss) Per Common Share

In 2001 and 2000, earnings (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares of common stock and an additional 375,000 shares which represent exercisable options at June 30, 2001.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 period reported. Actual results could differ from those estimates.

##### Reliance on Single or Limited Sources of Supply

The Company currently purchases all of its optical disk storage libraries, CPU boards, fiber optic channel hardware and high-density integrated circuits from single or limited sources. Although there are a limited number of manufacturers of these components, management believes that other suppliers could provide similar products on comparable terms. Total or partial loss of any such source, however, could cause a delay in manufacturing and a possible loss of sales, which would affect operating results adversely.

##### Stock Based Compensation

The Company measures compensation expense relative to employee stock-based compensation plans using the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". However, the Company will disclose the pro forma amounts of net income and earnings per share as though the fair value-based method of accounting prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", had been applied. See the stock options note for these disclosures.

#### 3. PAPERCLIP MERGER, MANAGEMENT AGREEMENTS

On April 15, 1997, the Company and PaperClip entered into an agreement for the Company to acquire substantially all the assets and liabilities of PaperClip, which was later amended to change the acquisition to a merger. The Company and PaperClip also entered into a management agreement (the "Management Agreement") which allowed the Company to manage the day-to-day operations of PaperClip and to advance funds on behalf of PaperClip pursuant to an operating budget, in each case until the closing of the

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Merger or the termination of the Merger Agreement. On January 29, 1997, the Company provided a \$300,000 bridge loan to PaperClip for use as operating capital in exchange for a 12% convertible note from PaperClip secured by substantially all the assets of PaperClip. In addition, the Company had made unsecured advances to PaperClip of \$140,813, \$1,252,689, and \$529,052 during the years ended June 30, 1999, 1998 and 1997, respectively, for funding of working capital requirements.

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### ACCESS SOLUTIONS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001 AND 2000

#### 3. PAPERCLIP MERGER, MANAGEMENT AGREEMENTS, CONTINUED

The Company and PaperClip also entered into a one-year distribution agreement effective June 1, 1997 pursuant to which the Company acted as a distributor for PaperClip's products in the United States to dealers and resellers.

Ultimately, the merger agreement was terminated on August 24, 1998. Accordingly, the Company wrote off approximately \$2,443,000 effective June 30, 1998 and approximately \$141,000 effective June 30, 1999 in connection with the terminated merger.

In November of 2000, PaperClip Software Inc. and ASI entered into an agreement whereby the indebtedness to ASI in the amount of \$300,000, plus all accrued interest through December 31, 1999 in the amount of \$105,300, will be paid for by the execution and delivery of a new promissory note from PaperClip to ASI in the aggregate principal amount of \$405,300. All amounts due under the new Note will be paid for over a period of three (3) years in thirty-six (36) equal installments of \$11,265 beginning on January 1, 2001. Although payments on the note are current, ASI has fully reserved for the value of the new promissory note due to PaperClip's poor financial condition.

As a result of advances issued to PaperClip from November 12, 1997 through August 24, 1998, PaperClip was indebted to ASI in the amount of \$2,305,506 including accrued interest through December 31, 1999. In November 2000, ASI exchanged the above indebtedness for 3,649,543 shares of PaperClip's Series A Preferred Stock, \$.01 par value per share (the "Series A Preferred Stock"). Each share of Preferred Stock is convertible into one share of PaperClip's common stock ("common stock") subject to anti-dilution protection in the event of a stock split, stock dividend, recapitalization or similar change to the capital structure of PaperClip. The shares are convertible at anytime at ASI's option or at PaperClip's option, provided that immediately prior to conversion, the common stock had traded for not less than 60 consecutive days at a closing price of 150% of the implied conversion price. The implied conversion price was derived by dividing the amount of the additional indebtedness by the number of shares of common stock issuable upon conversion by ASI of the preferred stock. The "Converted Shares" would equal 27.5% of the then outstanding Common Stock. The holders of the converted common stock would have piggy back registration rights on the Converted Shares underlying the Preferred Stock. Such piggy-back registration rights on the converted stock would expire with respect to the holder when such shares were eligible for sale pursuant to Rule 144(k) promulgated and the rules and regulations of the Securities

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Act of 1933. The preferred stock is not entitled to dividends and will have a liquidation preference equal to \$2,305,506. No value has been recorded on the Company's financial statements for this investment due to PaperClip's deteriorating stock value and its poor financial condition.

### 4. INVENTORIES

Inventories at June 30, 2001 consist of the following:

Production inventory	\$ 371,132
Less - inventory reserves	(349,660)
	-----
TOTAL INVENTORY AVAILABLE FOR SALE	\$ 21,472
	=====

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### ACCESS SOLUTIONS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001 AND 2000

### 5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2001 consists of the following:

Computers and office equipment	\$ 56,574
Furniture and fixtures	9,313
	-----
TOTAL	65,887
Accumulated depreciation and amortization	(59,849)
	-----
NET PROPERTY AND EQUIPMENT	\$ 6,038
	=====

### 6. CONVERTIBLE NOTES PAYABLE

On May 27, 1998, the Company completed a financing agreement for the sale of a 30% interest in several of the Company's patents to a stockholder who was also a former director, for \$100,000. Subsequent to June 30, 1999, this shareholder sold all of his Company common stock. These patents were the subject of a lawsuit pending in the United States District Court for the District of Rhode Island. In addition, the same shareholder also loaned the Company \$650,000 reflected as convertible notes payable in these financial statements, and has agreed to make additional advances for outstanding and future legal fees and costs incurred in connection with the lawsuit.

The loan was secured by a first priority interest in these patents and bore interest at the rate of 19% per annum, which amounted to \$238,952 in fiscal year 2001. The loan had a term of the lesser of three years or completion of the Company's patent litigation and converted to a demand note at the end of its term. On May 27, 2000, the above convertible note payable was amended to extend the date upon which the note becomes payable upon demand to July 1, 2003. In addition, the maximum amount to be advanced under the loan agreement was increased from \$1,000,000 to \$1,500,000.

The loan was also convertible at the option of the lender after August 24,

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1998 (provided that and as long as the Company was not then a party to a binding equity infusion as defined in the agreement) to convert the note into that number of fully paid nonaccessible shares into the Company's common stock as is obtained by dividing the outstanding principal and interest balance of the note as of the date of conversion by the hereinafter defined market price. Such optional conversion could be exercised by the lender giving written notice of such election to convert, surrender of the note to the Company, the Company's payment to the lender of interest accrued on the note through the date of such conversion and the issuance by the Company to the lender of that number of shares of the Company's common stock as is obtained by the market price formula. The market price formula is obtained by taking the average market price of the daily market prices of the shares of the Company's common stock over a period of 20 consecutive business days prior to the day as of which "market price" is being determined.

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### ACCESS SOLUTIONS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001 AND 2000

#### 6. CONVERTIBLE NOTES PAYABLE, CONTINUED

On April 23, 2001, ASI announced that it had received a monetary award pursuant to a signed settlement agreement with Anacomp, Inc. and Kodak resolving its patent infringement lawsuit against defendants Anacomp and Kodak in the United States District Court for the District of Rhode Island (Note 1).

On May 1, 2001, the aggregate value of the outstanding loans, including interest, was \$1,614,642. The option to convert was not exercised, and this liability was retired in full on May 1, 2001.

#### 7. COMMITMENTS

##### Operating Lease

The Company leases building space for office and plant facilities. In October, 1998, the Company entered into a new lease for approximately 40% of the previous space utilized, through September 30, 2001. The new lease may be terminated after twelve months, but such termination would accelerate certain unamortized leasehold improvements. Total rent expense for the years ended June 30, 2001 and 2000 amounted to \$35,909 and \$34,713, respectively. The Company has extended the current lease for three months.

#### 8. INCOME TAXES

The tax effects of net operating loss ("NOL") carryforwards and temporary differences that give rise to deferred tax assets and liabilities at June 30, 2001 are as follows:

JUNE 30, 2001 Deferred tax assets:	
Net operating loss carryforwards	\$4,288,000
Research and development costs capitalized for tax purposes	85,000
	-----
	4,373,000



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Valuation allowance	(4,373,000)
	-----
Net Deferred Tax Asset	\$ -
	=====

The Company records a valuation allowance for deferred tax assets, if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company has determined that a full valuation allowance is required given its history of operating losses since its inception.

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2001 AND 2000

8. INCOME TAXES, CONTINUED

At June 30, 2001, the Company has total federal and state NOL carryforwards, prior to any limitations, available to reduce future taxable income of approximately \$10,719,000, which expire in various amounts between the fiscal years 2002 and 2020, if not previously utilized. In the event of an ownership change, as defined under Section 382 of the Internal Revenue Code, utilization of NOL carryforwards in the period following the ownership change can be significantly limited. The Company has incurred several changes of ownership under these rules. As a result, utilization of the NOLs is subject to various limitations, depending upon the year in which the NOL originated. As of June 30, 2001 management estimates that approximately \$400,000 (after limitations) of the Company's federal NOL carryforwards will be available to offset taxable income that may be generated within the carryforward period subject to a limitation of approximately \$20,000 of utilization per year. However, because the limitation calculations are complex and subject to review by the Internal Revenue Service, these limitations could be adjusted.

The following reconciles approximate net income before provision for income tax purposes to approximate taxable net income at June 30, 2001:

Net income before provision for income tax purposes	\$ 4,105,700
Legal fees	377,200
Interest expense	264,500
Paperclip write-off	2,584,100
Research and development	213,300
Net operating loss carryforwards	424,800
	-----
Taxable net income	\$ 241,800
	=====

The Company has timing differences relating to the capitalization of legal fees and interest charges for income tax reporting in prior periods. Those charges were deducted for June 30, 2001 tax reporting but had been expensed as incurred in prior years for financial reporting.

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The Company also has timing differences relating to expenses incurred during a failed merger with Paperclip (Note 3). The Company had notes receivable due from Paperclip that they expensed (set up allowances for) for financial reporting purposes in prior years. However, the write-offs were deducted for June 30, 2001 tax reporting when the Company determined that the value of the notes could not be recovered.

Further, the Company has a research and development tax deduction from research and development expenses capitalized in prior periods for tax reporting purposes, and a net operating loss carryforward deduction that can be utilized for the year ending June 30, 2001.

The federal and state income tax provision is summarized as follows:

Federal		\$ 70,000
State		25,000
		-----
		\$ 95,000
		=====

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2001 AND 2000

9. STOCK OPTIONS

In August 1996, the Company adopted the 1996 Stock Option Plan pursuant to which key employees of the Company, including directors who are employees, are eligible to receive options to purchase common stock, at the discretion of the Compensation Committee.

The Company has reserved 500,000 shares of common stock for issuance under the 1996 Plan. Options granted under the 1996 Plan can be either incentive stock options or non-qualified options, at the discretion of the Compensation Committee.

On August 1, 1996 the Company granted options to purchase 263,351 shares of Common Stock at an exercise price equal to \$3.75 per share. The options must be exercised within five years of the date of grant.

On June 15, 1999 the Company granted to employees non-qualified options under the 1996 Plan to purchase 375,000 shares of Common Stock at an exercise price equal to \$.08 per share. The options vest immediately and must be exercised July 31, 2006.

The Company has also granted options from time to time to consultants and in connection with equity and debt offerings at exercise prices which were not less than the fair market value of the common stock on the date the option was granted.

As of June 30, 2001 and 2000, the following stock options were outstanding:

Exercise Price Per Share	Number Outstanding	
-----	June 30, 2001	June 30, 2000
-----	-----	-----

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\$ .08	375,000	375,000
3.75	45,393	45,393
74.00	0	0
222.00	1,014	1,014
351.50	0	0
399.60	9	9
	-----	-----
	421,416	421,416
	=====	=====

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2001 AND 2000

9. STOCK OPTIONS, CONTINUED

The following is a summary of stock option activity for the years ended June 30, 2001

	Number of Options	Exercise Price Per Share	Exercise Price	Weighted Fair V At Gr
	-----	-----	-----	-----
Outstanding July 1, 1996	10,256	\$74-\$399.60	\$ 212.53	
Granted to employees	263,351	\$ 3.75	\$ 3.75	\$ 1.
Cancelled	(62,873)	\$74-\$399.60	-	
	-----	-----	-----	-----
Outstanding June 30, 1997	210,734	\$3.75-\$399.60	5.91	
Granted to former employees	45,393	\$3.75	3.75	3.
Cancelled	(121,478)	3.75-\$399.60	-	
	-----	-----	-----	-----
Outstanding June 30, 1998	134,649	\$3.75-\$399.60	\$ 8.67	
	-----	-----	-----	-----
Granted to employees	375,000	\$ .08	.08	.
Cancelled	(88,175)	3.75-\$399.60	-	
	-----	-----	-----	-----
Outstanding June 30, 1999	421,474	\$ .08-\$399.60	\$ 1.04	
	-----	-----	-----	-----
Cancelled	(58)	\$74.00-\$351.50	-	
	-----	-----	-----	-----
Outstanding June 30, 2000	421,416	\$ .08-\$399.60	\$ 1.02	
	-----	-----	-----	-----
Cancelled	-	-	-	
	-----	-----	-----	-----
Outstanding June 30, 2001	421,416	\$ .08-\$399.60	\$ 1.02	

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Stock-based compensation expense under the fair value-based method of accounting would have resulted in pro forma net loss and loss per common share approximating the following amounts:

	2001	2000	
	As Reported -----	Pro Forma -----	As Reported -----
Net income (loss)	\$ 4,105,660 =====	\$ 4,105,660 =====	\$ (90,664) =====
Earnings (loss) per common share	\$1.04 =====	\$1.04 =====	\$(.02) =====

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ACCESS SOLUTIONS INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001 AND 2000

9. STOCK OPTIONS, CONTINUED

The fair value for each option granted reflecting the basis for the above from pro forma disclosures was determined on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used in determining fair value through the model:

	2001 ----	2000 ----
Expected life	5 years	6 years
Risk-free yields	4.80%	5.44%
Expected volatility	50%*	4.30%*

\*Since there were no employee grants in FY 2001, this assumption did not influence the stock-based compensation expense calculation for FY 2001.

The Company recognizes forfeitures as they occur.

10. INTERNATIONAL SALES, MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

The Company sells optical archiving systems and related licenses for software products to customers domestically and internationally. International sales have all been denominated in U.S. dollars and were approximately \$99,800 and \$108,000 in the years ended June 30, 2001 and 2000, respectively. The Company's foreign sales represented approximately 11% and 12% of total revenues for the year ended June 30, 2001 and 2000, respectively.

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Amounts due from two customers represented approximately 100% of total accounts receivable outstanding at June 30, 2001.

The Company also has a concentration of credit represented by cash balances in certain large commercial banks in amounts which occasionally exceed current federal deposit insurance limits. The financial stability of these institutions is continually reviewed by senior management.

11. RESEARCH AND DEVELOPMENT

Research and development expense in the prior year represents costs associated with the Company's completion of GIGAPAGE 3.0, which also represented completion of all significant product commitments.

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Item 8. Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(A) of the Exchange Act

Director and Executive Officers. The current ASI directors and executive officers are as follows:

Name and Age -----	Position -----
Robert H. Stone, 51(1).....	President, Chief Executive Officer, Director
Thomas E. Gardner, 63 (1)(2).....	Chief Financial Officer, Treasurer, Chairman of the Board
Adrian Hancock, 54.....	Director

- 
- (1) Member of the Compensation Committee.
  - (2) Member of the Audit Committee.

All directors hold office until the annual meeting of stockholders next following their election and/or until their successors are elected and qualified. Officers are elected annually by the Board of Directors and serve at the discretion of the Board. Information with respect to the business experience and affiliations of the ASI directors and the executive officers is set forth below.

Mr. Stone was elected President and Chief Executive Officer of ASI on August 1, 1996. Prior to joining ASI, Mr. Stone was Director of Marketing of Standard Duplicating Machines Corporation since June 1994 and prior to that President of Marketplex, Inc., a marketing services company, since 1992. From June 1989 to

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February 1992, Mr. Stone was Director of Product Marketing of Riso, Inc., a developer and distributor of high speed printing systems.

Mr. Gardner has served as Chief Financial Officer of ASI since April 1996, Treasurer since May 1994 and has been a director since May 1994. Mr. Gardner does not serve full time as ASI's Chief Financial Officer or Treasurer. Mr. Gardner is currently providing consulting services to ASI. Mr. Gardner has also served as the President of LJT Associates (a planning and financial consulting firm) since April 1992. From 1979 to October 1992, Mr. Gardner was Senior Vice President at Rhode Island Hospital Trust National Bank. Mr. Gardner has served on various Rhode Island and Providence commissions and committees and currently serves as the Rhode Island Governor's appointee to the Depositors' Economic Protection Corporation Performance Review Committee. Mr. Gardner, through LJT Associates, is presently providing consulting services to ASI and to Point Gammon Corporation, whose principal owner, Mr. Malcolm G. Chace III, is a former ASI stockholder and director.

Mr. Hancock has been a Director of ASI since May 1997. Currently Mr. Hancock is Vice President, Marketing, of PictureTel Corporation's Enterprise Services Division which he joined in 1998 from a previous position with The Planning Technologies Group. Prior to that Mr. Hancock held a variety of marketing, distribution and international roles at The Timberland Company, Riso Inc. and Prime Computer as well as consulting positions with McKinsey and Company.

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### Item 9, Continued

Section 16(A) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires ASI's officers and directors, and persons who own more than 10% of a registered class of ASI's equity securities ("insiders"), to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Insiders are required by SEC regulation to furnish ASI with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnished to ASI, ASI believes that during its fiscal year ended June 30, 2001 all Section 16(a) filing requirements applicable to its insiders were complied with.

### Item 10. Executive Compensation

Director Compensation. ASI's directors do not receive cash compensation for service on the Board of Directors, although they are reimbursed for certain out-of-pocket expenses in connection with attendance at Board and committee meetings.

Executive Compensation. Summary Compensation Table. The following table sets forth certain information with respect to the compensation paid by ASI for services rendered during the fiscal year ended June 30, 2001 to the chief executive officer and the other executive officers of ASI whose compensation exceeded \$100,000 (the "Named Executive Officers").

Name and Principal Position	Fiscal Year	Annual Compensation Salary	Paid Bonus	Securit Underly Option
				Lon

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-----	----	-----	-----	-----
Robert H. Stone, President and Chief Executive Officer	2001	15,000	--	--
	2000	39,546	--	--
	1999	120,995	--	--

Option Grants in Last Fiscal Year. The following table sets forth certain information with respect to option grants during the fiscal year ended June 30, 2001 to the Named Executive Officers.

Name	Number Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/sh)
----	-----	-----	-----
Robert H. Stone, President and Chief Executive Officer	none		

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Item 10. Executive Compensation, Continued

Year-end Option Table. During the fiscal period ended June 30, 2001, none of the Named Executive Officers exercised any options issued by ASI. The following table sets forth information regarding the stock options held as of July 1, 2001 by the Named Executive Officers.

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised Money-Options at Year-End
----	Exercisable	Unexercisable	-----
----	-----	-----	-----
Robert H. Stone.....	100,000	0	\$0

Stock Option Plans. In August 1996, ASI terminated the 1994 Directors Stock Option Plan (the "1994 Directors Plan"), which was a stock option plan for non-employee directors. There are options outstanding to purchase 676 shares pursuant to the 1994 Directors Plan at an exercise price of \$222 per share. Under the 1994 Directors Plan, upon a director's election to the Board, the director was automatically awarded an option to purchase 338 shares of ASI Common Stock, at an exercise price equal to 100% of the fair market value on the date the option was granted. The option then vested 25% on each of the first through fourth anniversaries of the date of the grant.

In August 1996, ASI terminated its Previous Stock Option and Purchase Plans (the

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"Terminated Plans") and adopted the 1996 Plan pursuant to which key employees of ASI, including directors who are employees, are eligible to receive grants of options to purchase ASI Common Stock for issuance under the 1996 Plan. Options granted under the 1996 Plan can be either incentive stock options or non-qualified options, at the discretion of the Compensation Committee. On August 1, 1996, ASI cancelled the 8,351 employee options outstanding under the Terminated Plans (having exercise prices ranging from \$74 to \$240.50 per share) and granted options to purchase 263,351 (of which 8,351 are immediately exercisable) shares of ASI Common Stock at an exercise price equal to \$3.75 per share.

In July and September of 1997, ASI cancelled the employee stock option plans of Messrs. Matthias Lukens for 24,311 shares and George Steele for 21,082 shares and granted them non-qualified options for the same amounts of shares at the same exercise price of \$3.75. Mr. Luken's options expire on July 14, 2007 and Mr. Steele's options expire on July 31, 2006.

Non-Plan Options. From time to time, ASI has issued options to purchase shares of ASI Common Stock to certain consultants and in connection with certain equity and debt financing arrangements provided to ASI. As of December 15, 2000 ASI had non-plan options to purchase 46,474 shares of ASI Common Stock outstanding; of such amount, options to purchase 21,082 and 24,311 shares were held by Mr. Steele and Mr. Matthias Lukens, respectively, former officers of ASI. Additionally, 338 shares each were held by former directors of ASI, Mr. Christopher Ingraham and Mr. Marvyn Carton. Also, the Chairman of Mossburg Industries, Mr. Malcolm G. Chace III, held 338 shares. The non-plan options are all 100% vested and the exercise price of the options range from \$3.75 to \$399.60 per share. Mr. Ingraham received his options as compensation for services rendered to ASI as a consultant, each of Messrs. Chace and Lukens received his options as compensation for serving as a director, and Mossberg received its options in connection with certain debt financing it provided to ASI.

On June 15, 1999 the Company granted non-qualified options to purchase 375,000 shares of Common Stock at an exercise price equal to \$.08 per share. The options vest immediately and must be exercised by July 31, 2006.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to ASI with respect to beneficial ownership of the ASI Common Stock as of July 1, 2001 by (i) each stockholder who is known by ASI to own beneficially more than 5% of the outstanding ASI Common Stock, (ii) each of ASI's directors, (iii) the Named Executive Officers of ASI as of the end of ASI's fiscal year, and (iv) all directors and executive officers as a group. Unless otherwise indicated, each has sole voting and investment power with respect to the shares beneficially owned.

Name and Address of Beneficial Owner -----	Shares of Common Stock Beneficially Owned -----
Robert H. Stone (1) c/o Access Solutions International, Inc. 650 Ten Rod Road	100,000



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North Kingstown, RI 02852

Thomas E. Gardner and Leslie A. Gardner c/o Point 113,891  
Gammon Corporation (1)  
One Providence Washington Plaza  
4th Floor  
Providence, RI 02903

Adrian Hancock (1) 100,000  
c/o The Planning Technologies Group  
92 Hayden Avenue  
Lexington, MA 02173

David J. Capraro, Trustee of the David J. Capraro 390,000  
Living Trust U/A/D 3/31/00  
1682 Graefield  
Birmingham, Michigan 48009

J. Michael Costello c/o Baldwin Brothers 757,212  
One Providence Washington Plaza  
Providence, RI

-----  
(1) Consists of 100,000 shares of ASI Common Stock issuable upon exercise  
of stock options.

\* Less than 1%

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### Item 12. Certain Relationships and Related Transactions

#### Certain Transactions between ASI and PaperClip

On January 29, 1997, ASI provided a \$300,000 loan to PaperClip for use as operating capital in exchange for a convertible note of PaperClip (the "PaperClip Note"). The PaperClip Note was due and payable on January 27, 1998, bore interest at a rate of 12% per annum payable quarterly and was secured by a first priority security interest in all of PaperClip's assets. At any time, all or a portion of the outstanding principal amount of the PaperClip Note could be converted into shares of PaperClip Common Stock at a conversion price of \$.25 per share.

On April 15, 1997, the Company and PaperClip entered into an agreement for the Company to acquire substantially all the assets and liabilities of PaperClip, which was later amended to change the acquisition to a merger. The Company and PaperClip also entered into a management agreement (the "Management Agreement") which allowed the Company to manage the day-to-day operations of PaperClip and to advance funds on behalf of PaperClip pursuant to an operating budget, in each case until the closing of the Merger or the termination of the Merger Agreement.

ASI and PaperClip entered into a one-year non-exclusive regional distribution agreement commencing June 1, 1997. Under the terms of this agreement, ASI acted as a distributor for PaperClip's products in the United States to dealers and

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resellers. ASI's sole compensation under this agreement was its gross profit on any products sold, which was equal to any excess of the price at which ASI distributes the products to its customers over the price at which PaperClip licenses the products to ASI. The agreement expired on May 31, 1998 and was not renewed.

In October, 2000, PaperClip entered into an agreement with ASI whereby the Company's original secured advance to PaperClip in the amount of \$300,000 and accrued interest of \$105,530 was restructured to an interest free note with the principal amount of Four Hundred Five Thousand Five Hundred Thirty (\$405,530) Dollars with substantially the same security. Under the terms of the note, PaperClip is to pay this note in thirty-five consecutive equal monthly installments of Eleven Thousand Two Hundred Sixty-four and 72/100 (\$11,264.72) Dollars commencing on January 1, 2001 and continuing on the same day of each successive month thereafter with a thirty sixth and final payment of all indebtedness evidenced hereby on December 1, 2003. If the above described payments are not paid as and when due (including without limitation payment being due as a result of the acceleration of the repayment of the indebtedness noted below), the indebtedness outstanding hereunder shall bear interest from the date such payment was due at fifteen (15%) percent per annum. PaperClip may prepay this Note at any time after having given at least thirty (30) days prior written notice to Payee.

The repayment of the indebtedness evidenced by the note may be accelerated at the election of the Payee, upon the happening of any of the following events:

(a) PaperClip (i) discontinues its business (as evidenced by a resolution of PaperClip's Board of Directors or stockholders), (ii) applies for or consent to the appointment of a receiver, trustee, custodian or liquidator of it or any of its property, (iii) admits in writing of its inability to pay its debts as they mature, except for the obligations set forth on Schedule 2.10 of the Disclosure Schedules of the Series A Preferred Stock Purchase Agreement between PaperClip and Payee dated October, 2000, (iv) makes a general assignment for the benefit of creditors, (v) becomes adjudicated a bankrupt or insolvent or becomes the subject of an order for relief under Title 11 of the United States Code or (vi) files a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or takes advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or answers, admitting the material allegations of a petition filed against it in any such proceeding under any such law;

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### Item 12. Certain Relationships and Related Transactions, Continued

(b) An involuntary petition under any bankruptcy, reorganization or insolvency law of any jurisdiction is filed against PaperClip, whether now or hereafter in effect if, within one hundred and eighty days (180) following the service on PaperClip of any such petition, is not discharged, released or vacated;

(c) PaperClip sells or transfers substantially all of its assets or business units to someone other than ASI;

(d) PaperClip fails to pay any payment obligation contained in the restructured note within five (5) days of when due;

(e) PaperClip is in default of any other material obligation contained in the

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restructured note or in the Security Agreement dated January 29, 1997, as amended, and the default has not been cured within ten (10) days after notice from ASI, or, if the default is not capable of being cured within ten days, PaperClip has not begun efforts satisfactory to ASI to cure the default within that ten-day period.

The agreement also provides for ASI and PaperClip to convert the advanced amount, including interest, of \$2,305,506.10 as a result of the party's April 15, 1997 subsequently terminated merger activities into 3,649,543 shares of PaperClip's Series A Preferred, \$.01 par value Stock and to waive the management fees of \$300,000 earned by ASI under the April 15, 1997 agreement. Although the payments on the note are current, no value has been recorded on the Company's financial statements for this investment due to Paperclip's deteriorating stock value and poor financial condition.

### Certain Transactions between ASI and its Affiliates

On May 17, 2001, ASI Directors engaged the Chairman, Thomas E. Gardner, as a consultant to the Company on an as needed basis "to complete the following scope of work or until the Board deems that the project has progressed to a point where your (his) day to day consulting efforts are no longer required". The project scope is described as follows: "To investigate the alternative strategies open to the Board in realizing for the shareholders an appropriate return on their investment in the company." The project scope continues that, "the Board has no preconceived idea of the ideal outcome apart from the goal of returning the best overall return (balancing risk with reward) to the shareholders. The scope of the project includes supervisory and investigative activities taken since our last Board meeting."

Fairness of Certain Transactions. Article XI of the ASI By-laws governs transactions between ASI and its directors. An affirmative vote of a majority of disinterested directors is required to authorize a contract or transaction entered into with a director of ASI; provided, however, that the director's interest in the contract or transaction is disclosed or known to the disinterested directors. Any future contract or transaction between ASI and its directors will be transacted in accordance with the provisions of the By-laws. Any future contract or transaction between ASI and its officers and affiliates will be transacted in the same manner.

### Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits.

None.

(b) Reports on Forms 8-K

None.

### SIGNATURES

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

ACCESS SOLUTIONS INTERNATIONAL, INC.

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Dated: October 15, 2001  
-----

By: /s/ Robert H. Stone  
-----

Robert H. Stone  
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on September 1, 2001.

Signature  
-----

/s/ Robert H. Stone  
-----

Robert H. Stone

Title  
-----

President, Chief Executive Officer and  
Director

/s/ Thomas E. Gardner  
-----

Thomas E. Gardner

Chief Financial Officer, Treasurer and  
Chairman of the Board

/s/ Adrian Hancock  
-----

Adrian Hancock

Director