ACCESS SOLUTIONS INTERNATIONAL INC
Form 10QSB
November 19, 2001

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

FORM 10-QSB

(Mark One)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period ended September 30, 2001

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 0-28920

Access Solutions International, Inc.
(Exact 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)

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 [X] No [ ]

The number of shares of the issuer's Common Stock, $.01 par value, outstanding as of September 30, 2001 was 3,963,940.

Access Solutions International, Inc.

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Access Solutions International, Inc.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Access Solutions International, Inc.
Condensed Balance Sheets

	September 30, 2001 (Unaudited)	June 30, 2001
Assets		
Current assets:		
Cash and cash equivalents	$2,149,426	$2,426,279
Trade accounts receivable, net of allowance for doubtful accounts of $2,000 and $4,344	95,403	191,145
Inventories	21,957	21,472
Prepaid expenses and other current assets	205,339	32,819
Total current assets	2,472,125	2,671,715
Fixed assets, net	4,671	6,038

Total assets	$2,476,976	$2,677,753

See notes to unaudited condensed financial statements.

Access Solutions International, Inc.
Condensed Balance Sheets

	September 30, 2001 (Unaudited)	June 30, 2001
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 181,080	$ 218,103
Accrued salaries and wages	23,711	29,341
Accrued expenses	64,827	65,471
Provision for income taxes	--	95,000
Deferred revenue-prepaid service contracts	300,097	367,951
Total current liabilities	569,715	775,866
Total liabilities	569,715	775,866
Stockholders' equity:		
Common Stock, $.01 par value, 13,000,000 shares authorized, 3,965,199 shares issued	39,652	39,652
Additional paid-in capital	17,637,694	17,637,694
Accumulated deficit	(15,752,209)	(15,757,403)
	1,925,137	1,919,943
Treasury stock, at cost (1,259 shares)	(18,056)	(18,056)
Total stockholders' equity	1,907,081	1,901,887
Total liabilities and stockholders' equity	$ 2,476,796	$ 2,677,753

See notes to unaudited condensed financial statements.

Access Solutions International, Inc.

Condensed Statements of Operations (Unaudited)

	Three months ending September 30, 2001	Three months ending September 30, 2000
Net sales:		
Products	$ 4,915	$ 7,367
Services	164,030	209,261
Total net sales	168,945	216,628
Cost of sales:		
Products	115	245
Services	36,165	53,457
Total cost of sales	36,280	53,702
Gross profit	132,665	162,926
Operating expenses:		
General and administrative expense	145,895	166,244
Selling expense	33,857	32,533
Total operating expenses	179,752	198,777
Profit/(Loss) from operations	(47,087)	(35,851)
Other revenue and (expenses):		
Interest income	28,661	80
Interest expense	--	(31,561)
Miscellaneous income	23,620	--
Total other revenue (expenses)	52,281	(31,481)
Net income (loss)	$ 5,194	($ 67,332)
Primary net loss per common share	$ .00	($ .02)
Weighted average number of common shares	3,963,940	3,963,940

See notes to unaudited condensed financial statements.

Access Solutions International, Inc.
Condensed Statements of Cash Flows (Unaudited)

For the Three Months Ended

	September 30, 2001	September 30, 2000
Cash flows from operating activities		
Net income (loss)	$ 5,194	($ 67,332)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,367	14,143
Provision for doubtful accounts	(2,344)	(13,167)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	98,086	263,378
Inventories	(485)	136
Prepaid expenses and other current assets	(172,520)	(14,073)
Increase (decrease) in:		
Accounts payable	(37,023)	16,751
Accrued expenses	(6,274)	11,891
Provision for income taxes	(95,000)	--
Deferred revenue - prepaid service contracts	(67,854)	(87,850)
Net Cash PROVIDED BY (used FOR) operating activities	(276,853)	123,877
Cash flows from financing activities		
Deferred financing costs	--	77,223
Net Cash Provided by financing activities	--	77,223
Net (decrease) INCREASE in cash and cash equivalents	(276,853)	201,100
Cash and cash equivalents, BEGINNING	2,426,279	58,042
Cash and cash equivalents, ending	$ 2,149,426	$ 259,142

See notes to unaudited condensed financial statements.

Access Solutions International, Inc.
Notes to Unaudited Condensed Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10-01 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2002. For further information, refer to the financial statements and footnotes thereto included in the Access Solutions International, Inc. ("ASI") annual report on Form 10-KSB for the year ended June 30, 2001.

2. 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 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.

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 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.

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Item 2. 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 September 30, 2001, ASI had deferred revenue in the amount of $300,097.

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 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.

Results of Operations

The following discussion should be read in conjunction with the unaudited condensed financial statements and notes thereto of Access Solutions International, Inc. contained elsewhere herein.

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Net Sales

Net sales for the three months ended September 30, 2001 was $168,945 compared with $216,628 for the three months ended September 30, 2000, a decrease of $47,683 or 22%. Product sales were $4,915 for the first quarter of Fiscal 2002,compared with $7,367 for the first quarter of Fiscal 2001, a decrease of $2,452 or 33%. Service revenues were $164,030 for the first quarter of Fiscal 2002 compared with $209,261 for the first quarter of Fiscal 2001, a decrease of $45,231 or 22%. This decrease was primarily due to the consolidation of services to two customers.

Cost of Sales

Cost of sales includes component costs, firmware license costs, labor, travel and certain overhead costs. Costs of sales in the aggregate decreased 32% to $36,280 for the three months ended September 30, 2001 from $53,702 for the three months ended September 30, 2000.

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The cost of product sales decreased 53% to $115 for the three months ended September 30, 2001 from $245 for the three months ended September 30, 2000. The decrease in product related cost of sales was a result of lower sales and a greater mix of higher margin media than peripherals. The cost of services decreased by 32% to $36,165 for the three months ended September 30, 2001 from $53,457 for the three months ended September 30, 2000, primarily due to lower sales and renegotiated third-party contracts.

General and Administrative Expenses

General and administrative expenses consist of administrative expenses and technical support. General and administrative expenses decreased 12% or $20,349 to $145,895 for the three months ended September 30, 2001 from $166,244 for the three months ended September 30, 2000. This decrease was primarily due to reduced personnel costs and legal fees and to lower depreciation expense following the disposal of several fixed assets in Fiscal Year 2000.

Selling Expenses

Selling expenses increased by $1,324 or 4% to $33,857 for the three months ended September 30, 2001 from $32,533 for the three months ended September 30, 2000. This increase was the result of higher personnel costs.

Other Income and Expenses

Other income and expenses consisted of interest income and interest expense. Interest income increased $28,581 from $80 for the three months ended September 30, 2000 to $28,661 for the three months ended September 30, 2001. This increase was due to interest earned on the cash received as the result of a legal settlement agreement with Anacomp, Inc. and the Eastman Kodak Company in May, 2001. Interest expense decreased 100% to $0 for the three months ended September 30, 2001 from $31,561 for the three months ended September 30, 2000. This elimination of interest expense is the result of the retirement of an outstanding note in May, 2001. Miscellaneous income of $23,620 at September 30, 2001 represents principal repayments on the note receivable from PaperClip Software, Inc., which is fully reserved for as of June 30, 2001. Consequently, other income and expenses in the aggregate increased $83,762 or 266% to $52,281 income for the three months ended September 30, 2001 from a loss of $31,481 for the three months ended September 30, 2000.

Net Income (Loss)

As a result of the foregoing, ASI's realized a net profit of $5,194 ($.00 per share on 3,963,940 weighted average shares outstanding) for the three months ended September 30, 2001, an increase of $72,526 from a net loss of $67,332 ($.02 per share on 3,963,940 weighted average shares outstanding) during the three months ended September 30, 2000.

Liquidity and Capital Resources

ASI had a working capital surplus of $1,902,410 as of September 30, 2001 compared to a working capital deficit of $864,938 at September 30, 2000.

Total cash used by operating activities during the three-month period ended September 30, 2001 was $276,853, compared to the three-month period ended September 30, 2000 in which operating activities provided a total of $123,877. For the three months ended September 30, 2001, the major use of cash was a pre-payment of income taxes, the repayment of old payables and a reduction in pre-paid service contracts. Cash provided during the three-month period ended September 30, 2000 was primarily the result of an improvement in billing procedures.

No cash was provided by financing activities during the three months ended September 30, 2001. In comparison, $77,223 was provided by financing activities for the three-month period ended September 30, 2000, the result of an increase in a long term note payable. This debt was retired in May, 2001.

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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 mentioned 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 remainder of the current fiscal year.

Seasonality and Inflation

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

Forward Looking Statements

Statements contained in this Form 10-QSB 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 are to 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 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. 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.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
None

(b) Reports on Form 8-K
None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the issuer caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Access Solutions International, Inc.

Date: November 19, 2001

/s/ Robert H. Stone

Robert H. Stone
President and CEO

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