

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

ACCESS SOLUTIONS INTERNATIONAL INC
Form 10KSB
May 03, 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, 2000

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 X

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. [X]

Issuer's revenues for its most recent fiscal year: \$918,572

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed at \$.12 per share, the closing price of the Common Stock on November 15, 2000: \$475,672.

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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

as November 15, 2000 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 2001 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 availability of necessary financing after September 2000, future capital needs, uncertainty of additional funding, variable operating results, lengthy sales cycles, dependence on ASI's COLD system product, rapid technological change and new product development, reliance on single or limited sources of supply, intense competition, turnover in management, ASI's ability to manage growth, dependence on significant customers, dependence on key personnel, and ASI's ability to protect its intellectual property. ASI cannot assure that it will be able to anticipate or respond timely to changes which 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.

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 piggy back registration rights on the Converted Shares underlying the Preferred Stock. Such piggy back registration rights on the converted stock will expire

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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.

1

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 are 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 has 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 is secured by a first priority interest in these patents and bears interest at the rate of 19% and is convertible into common stock under certain circumstances. See Item 7 - financial statements, convertible notes payable footnote. The loan has a term of the lesser of three years or completion of the Company's patent litigation and converts 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 can be borrowed under the loan to \$1,500,000. At June 30, 2000, the aggregate value of the outstanding loans, including interest, is \$1,287,549.

Business

ASI, a Delaware corporation formed in 1986, designs, develops, assembles and markets 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 or from traditional data storage methods. 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 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 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.

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 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 microfiche, 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.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

New Product Developments. ASI has improved its current OAS product (see "OAS Control Unit" above) so that the control unit will now allow transfers of data at up to 3 to 4 times the rate of the old controller. There can be no assurance that these new product enhancements will achieve market acceptance.

3

Customer Support and Service. In addition to being a source of revenue generation, ASI believes that its approach to customer service and support has been and will continue to be a significant factor in the market acceptance of its products. Because most of ASI's products are used in complex, large-scale mainframe data centers, the successful implementation and utilization of ASI's products substantially depends on ASI providing a high level of customer service, training and support. Consequently, ASI typically allocates substantial resources to customer installations, particularly in the first few weeks before and the first several weeks after a new installation. These resources include field support personnel who assess the systems operating environment of the customer prior to installation, install and test the hardware, support the hardware and coordinate the efforts of third-party service providers that service ASI's installed base of systems; systems engineering personnel who install and configure the software components of ASI's systems, assist the customer in assuring that the other elements of the customer's data center properly interface with ASI's system, assist the customer in defining reports to be stored on ASI's system and in supporting ASI's software; training personnel who train the customer's data center managers and users on the operation and use of ASI's system; 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 the years ended June 30, 2000 and 1999, service revenue generated from the post-sale maintenance of COLD systems accounted for approximately 85% and 91%, respectively, of ASI's total revenues. Substantially all of ASI's customers have elected to extend their service contracts with ASI beyond the one-year period that is customarily afforded to customers at the time of installation of new products.

As of November 15, 2000, the customer service and support group consisted of three employees, one of whom is in-house and the other two are 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.

ASI advertises and markets its products and Support and services through direct mailings, participation and exhibition of products at industry trade shows, personal solicitations at businesses which have been identified as likely resellers of ASI's products and industry referrals.

Customers. One customer accounted for 32% and three customers accounted for 19%, 12% and 11% of ASI's total net sales in the year ended June 30, 2000.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

One customer accounted for 24%, and four customers accounted for 49% of ASI's total net sales in Fiscal 1999.

4

Competition. The computer data storage and retrieval industry is highly competitive and ASI expects this level of competition to intensify. There are certain competitors of ASI that have substantially greater financial, marketing, development, technological and production resources than ASI. ASI's primary competitors are IBM Corporation, FileTek Corporation, Eastman Kodak Company, Anacomp, Inc., Mobius Management Systems, Inc., Computer Associates International, Inc., RSD America, Inc. and Network Imaging Systems Corp. 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 of customer support services and training. ASI positions itself to compete effectively with its competitors by offering what it believes is superior customer service and technical support in connection with hardware and software products which provide certain technological and user application advantages.

Principal Suppliers. ASI's principal suppliers for the production and maintenance of its COLD systems are Bell & Howell, IBM Canada and Hewlett Packard .

Research and Development. ASI's total expenditures for Research and Development for Fiscal 2000 and Fiscal 1999 were \$90,343 and \$119,243, respectively.

Intellectual Property. Although ASI believes that its continued success will depend primarily on its continuing product innovation, sales, marketing and technical expertise, product support and customer relations, ASI believes it also needs to protect the proprietary technology contained in its products. 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. ASI recently instituted a lawsuit against Data/Ware Development, Inc. and Eastman Kodak Company, Inc. alleging infringement of one or more of ASI's patents. 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 current or future 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.

Assembly. Assembly of ASI's OAS is done at ASI's facility in North Kingstown, Rhode Island. ASI designs and 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 November

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

15, 2000, 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.

5

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 November 15, 2000, ASI had 7 employees.

Item 2. Description of Property

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.

Item 3. Legal Proceedings

On August 29, 1997, ASI filed a complaint in the United States District Court for the District of Rhode Island against Data/Ware Development, Inc. ("Data/Ware") and Eastman Kodak Company, Inc. ("Kodak") alleging infringement of ASI's patents. The claim states that Data/Ware and Kodak collectively manufacture, use and/or sell equipment for recording data on optical media and alleges that the manufacture and sale of such equipment, and use by purchasers thereof, infringes one or more of ASI's patents. The claim calls 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 deems proper.

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

None.

6

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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 May 19, 2000 there were approximately 251 holders of record of ASI Common Stock.

The following table sets forth, for the periods indicated, low closing bid and asked prices for the ASI Common Stock, Redeemable Warrants and Units, as reported on the Nasdaq SmallCap Market. 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 -----	----- A -----
1996:		
Fourth Quarter (commencing October 16, 1996)	3.500	
1997:		
First Quarter	3.500	
Second Quarter	3.000	
Third Quarter	2.500	
Fourth Quarter	.625	
1998:		
First Quarter	1.1875	
Second Quarter	.25	
Third Quarter	.04	
Fourth Quarter	.1875	
1999:		
First Quarter	.32	
Second Quarter	.32	
Third Quarter	.01	
Fourth Quarter	.125	
2000:		
First Quarter	.06	
Second Quarter	.01	
Third Quarter	.01	

7

Redeemable Warrants

	----- Bid Low -----	----- A -----
1996:		
Fourth Quarter (commencing October 16, 1996)	1.00	
1999:		
First Quarter	.9375	

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

	Second Quarter	.75
	Third Quarter	.75
	Fourth Quarter	.25
1998:	First Quarter	.0625
	Second Quarter	.0625
	Third Quarter	.0625
	Fourth Quarter	-
1999:	First Quarter	.01
	Second Quarter	.02
	Third Quarter	.02
	Fourth Quarter	-
2000:	First Quarter	.01
	Second Quarter	-
	Third Quarter	-

Units

		----- Bid Low -----	----- A -----
1996:			
	Fourth Quarter (commencing October 16, 1996)	8.00	
1997:			
	First Quarter	8.875	
	Second Quarter	7.00	
	Third Quarter	5.50	
	Fourth Quarter	1.375	
1998:			
	First Quarter	.625	
	Second Quarter	.4375	
	Third Quarter	.0625	
	Fourth Quarter	.01	
1999:			
	First Quarter	.01	
	Second Quarter	.13	
	Third Quarter	.11	
	Fourth Quarter	.01	
2000:			
	First Quarter	-	
	Second Quarter	-	
	Third Quarter	.01	

ASI has not paid any cash dividends on the ASI Common Stock since its inception and ASI does not anticipate paying cash dividends in the foreseeable future.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 of products and 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 sells extended service contracts on the majority of the products it sells. 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, 2000, ASI had deferred revenue in the amount of \$485,661.

ASI's operating results have in the past and may in the future fluctuate significantly depending upon a variety of factors which vary substantially over time, including industry conditions; the timing of orders from customers; the timing of new product introductions by ASI and competitors; customer acceleration, cancellation or delay of shipments; the length of sales cycles; the level and timing of selling, general and administrative expenses and research and development expenses; specific feature needs of customers; and production delays. A substantial portion of ASI's quarterly revenues are derived from the sale of a relatively small number of COLD systems which range in price from approximately \$150,000 to \$900,000. As a result, the timing of recognition of revenue from a single order has in the past and may in the future have a significant impact on ASI's net sales and operating results for particular financial periods. Counterbalancing this volatility is the fact that the anticipated sales of annual service contracts increase as system sales increase. The revenue from service contracts is recognized on a straight line basis over the term of the contract.

ASI's primary operating expenses include selling expenses, general and administrative expenses and research and development expenses. General and administrative expenses consist primarily of employee compensation and certain internal office and support expenses. Research and development expenses include compensation paid to internal research and development staff members and expenses incurred in connection with the retention of independent research and development consultants. ASI utilizes its own employees for research and development functions except in certain circumstances involving product enhancements. In those circumstances, ASI retains independent experts to consult and design new software modules which are subsequently evaluated and tested by ASI's internal research and development staff. Upon successful testing of such product enhancements, ASI's internal staff integrates the new products with ASI's existing COLD systems and products.

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 believes that all significant product commitments have been met. In the future, development of new features will not be initiated unless customers make a

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

financial commitment to cover the minimum engineering costs. If excess development resources are available and not committed to specific contracts, the resources will be brokered to third parties due to the high market demand for these resources. This is expected to result in either significantly reduced research and development expenditures or increased offsetting revenues for the GIGAPAGE product offerings.

9

Results of Operations

Year Ended June 30, 2000 Compared to Year Ended June 30, 1999

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, 2000	Year Ended June 30, 1999		
	-----	-----		
Net sales				
Products	\$ 138,153	15%	\$ 88,239	9%
Support and services	780,420	85	847,597	91
	-----	-----	-----	-----
Total net sales	918,573	100	935,836	100
Cost of Sales				
Products	15,842	2	119,553	13
Support and services	206,016	22	240,190	25
	-----	-----	-----	-----
Total cost of sales	221,858	24	359,743	38
Gross profit	696,715	76	576,093	62
	-----	-----	-----	-----
Operating expenses:				
Selling	145,621	16	205,404	22
General and administrative	427,097	46	770,330	82
Research and development	90,343	10	119,243	13
	-----	-----	-----	-----
Total operating expenses	663,061	72	1,094,977	117
Interest (income) and other expense, net	(124,318)	(14)	(319,379)	(34)
	-----	-----	-----	-----
Net loss	\$ (90,664)	(10%)	\$ (838,263)	(89%)
	=====	=====	=====	=====

Net sales. Net sales decreased 2% to \$918,573 for the year ended June 30, 2000 from \$935,836. Product sales increased 57% to \$138,153 for the year ended June 30, 2000 from \$88,239 for the year ended June 30, 1999 due to the sale of a product upgrade and two other hardware product sales. Support and service revenues decreased by 8% to \$780,420 for the year ended June 30, 2000 from \$847,597 for the year ended June 30, 1999.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 decreased 38% to \$221,858 for the year ended June 30, 2000 from \$359,743 for the year ended June 30, 1999, primarily due to reduced volume of service and support and slightly improved margins on hardware product sales. Cost of sales for products decreased by 87% to \$15,842 for the year ended June 30, 2000 from \$119,553 for the year ended June 30, 1999. This decrease was attributable to the sale of existing inventory that had been purchased in the past at significantly lower prices or had been written down in connection with the Fiscal 1999 annual audit. Cost of services decreased by 14% to \$206,016 for the year ended June 30, 2000 from \$240,190 for the year ended June 30, 1999 due to better management of third party contract maintenance costs and slightly reduced support and services volume. The Company's Gross margin increased to 76% from 62% due to the above factors.

Selling expenses. Selling expenses decreased by 29% or \$59,784 to \$145,620 for the year ended June 30, 2000 from \$205,404 for the year ended June 30, 1999. The decrease was primarily the result of reductions in payroll, travel and communication expenses.

10

General and administrative expenses. General and administrative expenses consist of administrative expenses and certain internal office and support expenses. General and administrative expenses decreased \$343,233 or 45% to \$427,097 for the year ended June 30, 2000 from \$770,330 for the year ended June 30, 1999. This decrease was primarily attributable to a reduction in litigation expenses in regard to a complaint filed in the United States District Court for the District of Rhode Island against Data/Ware Development, Inc. ("Data/Ware") and Eastman Kodak Company, Inc. ("Kodak") alleging infringement of ASI's patents. Previously, during FY 1999, legal expenses incurred in connection with the above lawsuit were paid fully by Access Solutions International, Inc. In FY 2000, it was recognized and agreed that one third of the patent litigation costs should be shared by the co-owner of the suit. Consequently, the total of lawsuit expenses incurred year-to-date were re-billed to Malcolm Chace III, in FY 2000. This re-billing resulted in a significant reduction in FY 2000 net legal expenses. In addition to legal expenses, payroll expense and depreciation expense represented the remaining primary reductions from FY 1999 to FY 2000.

Research and development expenses. Research and development expenses decreased 24% to \$90,343 for the year ended June 30, 2000 from \$119,243 for the year ended June 30, 1999. This reduction reflected reductions in depreciation expense. Several assets became fully depreciated during FY 2000, significantly reducing net depreciation expense.

Net interest and other expense. Interest expense was \$125,558 for the year ended June 30, 2000 and \$125,327 for the year ended June 30, 1999. Other expense in FY 1999 included a \$140,813 charge due to residual expenses relating to the termination of the Company's merger of PaperClip and a \$55,621 loss relating to the sale of fixed assets. No expenses of this type were reported in FY 2000.

Net loss. As a result of the foregoing, ASI's net loss decreased 89% to \$90,664 for the year ended June 30, 2000 from \$838,263 for the year ended June 30, 1999.

Liquidity and Capital Resources

ASI had a working capital deficit of \$888,971 at June 30, 2000 as

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

compared to a working capital deficit of \$1,369,375 at June 30, 1999. The decrease in working capital deficit was principally attributable to reductions in accrued expenses and accounts payable and an increase in accounts receivable.

Total cash used by operating activities in fiscal year 2000 was \$523,536. The major use of cash was the reduction of accrued expenses and the net loss. These amounts represent adjustments to net cash used by operating activities in the Company's Statement of Cash Flows. The reduction of accrued expenses noted in working capital and cash used by operating activities was primarily attributable to a reclassification of litigation expenses from accrued expenses to Long Term Notes Payable - Malcolm Chace, III.

Cash provided by investing activities was \$435 in Fiscal 2000. The major use of cash in investing activities was for the purchase of additional fixed assets.

During fiscal 2000, cash provided by financing activities totaled \$498,611. This amount was for the reclassification of litigation expenses from accrued expenses and for litigation costs incurred during Fiscal 2000 which were funded by the above long-term note.

11

ASI has suffered recurring losses from operations, has an accumulated deficit and incurred negative cash flows from its operating activities as it continued to develop its products and infrastructure. The recurring losses and negative cash flows from operating activities raise substantial doubt about ASI's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities or any other adjustments that might be necessary should ASI be unable to continue as a going concern. In response to these factors, ASI's independent auditors in their report dated July 20, 1999 on the Financial Statements have included an explanatory paragraph that describes factors raising substantial doubt about ASI's ability to continue as a going concern. ASI has introduced new products and has enhanced certain of its existing products; and is pursuing collaborative relationships with vendors and customers which are intended to create new opportunities to foster sales and reduce overhead for its products and Support and services. ASI anticipates improved financial performance based upon increased sales resulting from its product introductions, product enhancements, overhead reduction and new collaborative relationships.

As of June 30, 2000, ASI had no long-term debt, except for convertible notes payable of approximately \$1,287,549 including accrued interest. ASI believes that funds generated from operations will be sufficient to meet ASI's working capital requirements through July, 2001. If ASI has insufficient funds from the above noted operations, further equity or debt financing will be sought. There can be no assurance that such additional funds can be obtained on acceptable terms, if at all. If additional financing is not available, ASI's business will be materially adversely affected.

At June 30, 2000, ASI had federal and state net operating loss carryforwards available to reduce any future taxable income in the approximate amount of \$12,360,000. These net operating loss carryforwards will expire in various amounts between the years 2003 and 2018 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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 \$9,696,000 will be free from Section 382 limitations and available to offset taxable income that ASI may generate within the carryforward period. Of that amount, carryforwards in the approximate amount of \$4,696,000 are available for future utilization in any year during the carryforward period without limitation. The other \$5,000,000 is subject to a limitation of approximately \$330,000 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.

ASI believes that its current corporate infrastructure can support significant increases in sales without proportionate increases in costs. However, there can be no assurances that sales will increase or that any cost advantages will result.

Seasonality and Inflation

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

Item 7. Financial Statements

12

Access Solutions International, Inc.

Index to Financial Statements

	PAGE

Report of Independent Auditors	F-2
Financial Statements:	
Balance Sheet - June 30, 2000	F-3
Statements of Operations - Years Ended June 30, 2000 and 1999	F-5
Statements of Stockholders' Equity (Deficit) - Years Ended June 30, 2000 and 1999	F-6
Statements of Cash Flows - Years Ended June 30, 2000 and 1999	F-7
Notes to Financial Statements	F-9

F-1

REPORT OF INDEPENDENT AUDITORS

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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, 2000, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Access Solutions International, Inc. as of June 30, 2000, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2000, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has an accumulated deficit, and has incurred negative cash flows from operating activities which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ CARLIN, CHARRON & ROSEN LLP

CARLIN, CHARRON & ROSEN LLP

December 12, 2000

F-2

ACCESS SOLUTIONS INTERNATIONAL, INC.

BALANCE SHEET

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 58,042
Trade accounts receivable, net of allowance for doubtful accounts of \$ 13,167	259,308

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

Inventories	25,407
Prepaid expenses and other current assets	39,129

TOTAL CURRENT ASSETS	381,886

PROPERTY AND EQUIPMENT, NET	62,626

OTHER ASSETS	
Patent, net of amortization	5,121

TOTAL ASSETS	\$449,633
	=====

Continued --

F-3

ACCESS SOLUTIONS INTERNATIONAL, INC.
BALANCE SHEET (CONTINUED)
JUNE 30, 2000

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	\$ 611,789
Accrued salaries and wages	84,891
Accrued expenses	88,516
Deferred revenue	485,661

TOTAL CURRENT LIABILITIES	1,270,857

CONVERTIBLE NOTES PAYABLE	1,287,549

TOTAL LIABILITIES	2,558,406

COMMITMENTS AND CONTINGENCIES (Notes 1 and 8)	
STOCKHOLDERS' DEFICIT	
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	(19,768,063)

TOTAL	(2,090,717)
Treasury stock, at cost (1,259 shares)	(18,056)

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

TOTAL STOCKHOLDERS' DEFICIT	(2,108,773)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 449,633
	=====

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

F-4

ACCESS SOLUTIONS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	YEAR ENDED JUNE 30,	
	2000	1999
	-----	-----
NET SALES		
Products	\$ 138,153	\$ 88,239
Support and services	780,420	847,597
	-----	-----
TOTAL NET SALES	918,573	935,836
	-----	-----
COST OF SALES		
Products	15,842	119,553
Support and services	206,016	240,190
	-----	-----
TOTAL COST OF SALES	221,858	359,743
	-----	-----
GROSS PROFIT	696,715	576,093
	-----	-----
OPERATING EXPENSES		
Selling expenses	145,620	205,404
General and administrative expenses	427,097	770,330
Research and development expenses	90,343	119,243
	-----	-----
TOTAL OPERATING EXPENSES	663,061	1,094,977
	-----	-----
LOSS FROM OPERATIONS	(518,884)	
OTHER INCOME (EXPENSE)		
Gain on sale of patent	--	--
Loss on sale of fixed assets	(55,621)	
Interest income	1,240	2,382
Interest expense	(125,558)	(125,327)
Loss on PaperClip acquisition termination	--	(140,813)
Miscellaneous income	--	--
	-----	-----

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

TOTAL OTHER INCOME (EXPENSE)	(124,318)	(319,379)
	-----	-----
NET LOSS	\$ (90,664)	\$ (838,263)
	=====	=====
LOSS PER COMMON SHARE	\$ (.02)	\$ (.21)
	=====	=====
Weighted average number of common shares outstanding	3,963,940	3,963,940
	=====	=====

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

F-5

ACCESS SOLUTIONS INTERNATIONAL, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	Stockholders' Equity (Deficit)				
	Common Stock		Additional Paid-In-Capital	Accumulated Deficit	Treasury S Shares
	Shares	Amount			
	-----	-----	-----	-----	-----
Balance at June 30, 1998	3,965,199	\$ 39,652	\$ 17,637,694	\$ (18,839,134)	1,2
Net loss	--	\$ --	\$ --	\$ (838,263)	--
	-----	-----	-----	-----	-----
Balance at June 30, 1999	3,965,199	\$ 39,652	\$ 17,637,694	\$ (19,677,397)	1,2
	=====	=====	=====	=====	=====
Net loss	--	\$ --	\$ --	\$ (90,664)	--
Balance at June 30, 2000	3,965,199	\$ 39,652	\$ 17,637,694	\$ (19,768,061)	1,2
	=====	=====	=====	=====	=====

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

F-6

ACCESS SOLUTIONS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	YEAR ENDED JUNE 30,	
	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (90,664)	\$ (838,263)

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	72,459	116,936
Loss on sale of fixed assets	55,621	
Provision for doubtful accounts	(13,545)	(18,087)
Provision for doubtful accounts	(8,400)	(13,545)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	(108,978)	213,541
Inventories	386,901	82,263
Inventories	(407)	87,855
Prepaid expenses and other current assets	32,405	32,187
Deposits and other assets	(41,705)	74,363
Increase (decrease) in:		
Accounts payable	(19,572)	(290,716)
Accrued expenses and salaries and wages	(381,997)	306,649
Deferred revenue	(18,382)	27,889
	-----	-----
NET CASH USED FOR OPERATING ACTIVITIES	(523,536)	(301,846)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(435)	--
Proceeds from sale of fixed assets	--	14,567
Loans and advances to PaperClip	--	(140,813)
Advances and notes receivable written off relating to PaperClip merger termination	--	140,813
	-----	-----
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	\$ (435)	14,567
	=====	=====

Continued --

F-7

ACCESS SOLUTIONS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	YEAR ENDED JUNE 30,	
	2000	1999
	=====	=====
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party loans	\$ --	\$ 138,938
Patent litigation loan addendum (see General & Administrative Expenses)	498,611	--
Repayments on capital lease obligations	--	(6,716)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	498,611	132,222
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH		

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

EQUIVALENTS	(25,360)	(155,057)
CASH AND CASH EQUIVALENTS, BEGINNING	83,402	238,459
	-----	-----
CASH AND CASH EQUIVALENTS, ENDING	\$ 58,042	\$ 83,402
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for interest	\$ --	\$ --
	=====	=====

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

F-8

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

1. NATURE OF OPERATIONS

Access Solutions International, Inc. (formerly Aquidneck Systems International, Inc.) (the "Company" or "ASI") develops, assembles, sells 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 are sold principally to 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 insurance industries.

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.

ASI has suffered recurring losses from operations, has an accumulated deficit, and has incurred negative cash flows from operating activities. The Company has enhanced certain of its existing products and is working to establish additional collaborative relationships with vendors and customers which may create new opportunities. However, the recurring losses and negative cash flow from operating activities raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

concern.

As of June 30, 2000, the Company believes that income generated from operations, will be sufficient to meet the Company's working capital requirements through September 2001. If the Company has insufficient funds from the above noted operations, further equity or debt financing will be sought. There can be no assurance that such additional funds can be obtained on acceptable terms, if at all. If additional financing is not available, the Company's ability to continue as a going concern will be adversely affected.

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.

Continued --

F-9

ACCESS SOLUTIONS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000 AND 1999

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

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.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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. 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, 2000, which is fully reserved, is net operating loss carryforwards.

Continued --

F-10

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss Per Common Share

In 2000 and 1999, loss per common share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted per share computations are not presented since the effect would be antidilutive.

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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 AND SUBSEQUENT EVENTS

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.

Continued --

F-11

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

In November of 2000, PaperClip Software Inc. and ASI entered into an

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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.

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 piggy back 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.

Continued --

F-11

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

4. INVENTORIES

Inventories at June 30, 2000 consist of the following:

Production inventory	\$ 375,067

Less - inventory reserves	(349,660)
TOTAL INVENTORY AVAILABLE FOR SALE	\$ 25,407
	=====

5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2000 consists of the following:

Computers and office equipment	\$ 287,850
Furniture and fixtures	9,177

TOTAL	297,027

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

Accumulated depreciation and amortization	(234,401)

NET PROPERTY AND EQUIPMENT	\$ 62,626
	=====

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 are 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. At June 30, 2000, the aggregate value of the outstanding loans, including interest is \$1,287,549.

The loan is secured by a first priority interest in these patents and bears interest at the rate of 19% per annum and amounted to \$125,558 in fiscal year 2000. The loan has a term of the lesser of three years or completion of the company's patent litigation and converts 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 has been increased from \$1,000,000 to \$1,500,000.

Continued --

F-12

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

6. CONVERTIBLE NOTES PAYABLE (CONTINUED)

The loan is also convertible at the option of the lender after August 24, 1998 (provided that and as long as the Company is 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 shall 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.

7. COMMITMENTS

Operating Lease

The Company leases building space for office and plant facilities. In

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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, 2000 and 1999 amounted to \$34,713 and \$43,117, respectively.

Continued --

F-13

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

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, 2000 are as follows:

	JUNE 30, 2000
Deferred tax assets:	
Net operating loss carryforwards	\$ 5,515,000
Research and development costs capitalized for tax purposes	787,000
Provision for doubtful accounts	5,000
Inventory reserves/263(A)	140,000

	6,447,000
Deferred tax liabilities:	
Valuation allowance	(6,447,000)

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.

At June 30, 2000, the Company has total federal and state NOL carryforwards, prior to any limitations, available to reduce future taxable income of approximately \$13,788,000, which expire in various amounts between the fiscal years 2003 and 2019, 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, 2000 management estimates that approximately \$11,124,000 of the Company's federal NOL carryforwards will be available to offset taxable income that may be generated within the carryforward period. Of this amount, approximately \$6,124,000 is available for future utilization without limitation. The other \$5,000,000 is subject to a limitation of approximately \$330,000 of utilization per year. However,

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

because the limitation calculations are complex and subject to review by the Internal Revenue Service, these limitations could be adjusted.

Continued --

F-14

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

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, 2000 and 1999, the following stock options were outstanding:

Exercise Price Per Share -----	Number Outstanding	
	June 30, 2000 ----	June 30, 1999 ----
\$.08	375,000	375,000
3.75	45,393	45,393
74.00	0	44
222.00	1,014	1,014
351.50	0	14
399.60	9	9
	-----	-----
	421,416	421,474
	=====	=====

The following is a summary of stock option activity for the years ended June 30, 2000

Weigh

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

	Number of Options	Exercise Price Per Share	Exercise Price	Fair Va At Gran
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	

Continued --

F-15

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

9. STOCK OPTIONS (CONTINUED)

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:

	2000 As Reported	Pro Forma	1999 As Reported
Net loss	\$ (90,664)	\$ (90,664)	\$ (838,263)
Loss per common share	\$ (.02)	\$ (.02)	\$ (.21)

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

The fair value for each option granted reflecting the basis for the above from 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:

	2000	1999
	----	----
Expected life	6 years	7 years
Risk-free yields	5.44%	6.90%
Expected volatility	4.30%	11.00%

*Since there were no employee grants in FY 2000, this assumption did not influence the stock-based compensation expense calculation for FY 2000.

The Company recognizes forfeitures as they occur.

Because additional option grants are expected to be made each year, the application of fair value-based accounting in arriving at the pro forma disclosures above is not an indication of future income statement effects.

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 \$108,000 and \$79,000 in the years ended June 30, 2000 and 1999, respectively. The Company's foreign sales represented approximately 12% and 8% of total revenues for the year ended June 30, 2000 and 1999, respectively.

Amounts due from one customer represented approximately 83% of total accounts receivable outstanding at June 30, 2000.

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 current year represents costs associated with the Company's completion of GIGAPAGE 3.0, which also represented completion of all significant product commitments.

Continued --

F-16

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

12. OPEN LITIGATION

On August 29, 1997, the Company filed a complaint in the United States District Court for the District of Rhode Island against Data/Ware Development, Inc. ("Data/Ware") and Eastman Kodak Company, Inc. ("Kodak") alleging infringement of the Company's patents. The claim states that

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

Data/Ware and Kodak collectively manufacture, use and/or sell equipment for recording data on optical media and alleges that the manufacture and sale of such equipment, and use by purchasers thereof, infringes one or more of the Company's patents. The claim calls 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 deems proper. No outcome of this claim can be determined at this time.

Continued --

F-17

ACCESS SOLUTIONS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

Item 8. Disagreements with Accountants on Accounting and Financial Disclosure

(a) (i) Carlin, Charron, & Rosen LLP's annual reports for the last two years did not contain any adverse opinions, disclaimers of opinion, modifications or qualifications as to uncertainty, audit scope or accounting principals, except to include a modification with respect to the Registrant's ability to continue as a going concern for the years ended June 30, 2000 and 1999.

(ii) In connection with the audit for the 2000 fiscal year, there were no disagreements of the type described in Item 304 (a) (1) (iv) of Regulation S-K with the Company's auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

13

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, (1)	50	President, Chief Executive Officer, Director
Thomas E. Gardner,	62 (1) (2)	Chief Financial Officer, Treasurer, Director
Adrian Hancock,	53	Director
Denis L. Marchand,	47	Vice President - Finance & Administration

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 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 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 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 Point Gammon Corporation, whose principal owner, Mr. Malcolm G. Chace III, is an ASI stockholder and former 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.

Mr. Marchand served as Financial Controller from September 1994 to December 1997, and has served as Vice President of Finance and Administration since December 1997. From July 1993 to September 1994 he was a Firm Administrator for Rubin, Hay & Gould, P.C., a law firm located in Framingham, MA. From October 1990 through May 1993 he was the financial controller of the U.S. subsidiary of EWAG Corporation, a high precision grinding machine manufacturer. Mr. Marchand holds an M.B.A. degree from Bryant College, is a certified internal auditor and has successfully passed the Uniform Certified Public Accountant's examination.

14

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, 2000 all Section 16(a) filing requirements applicable to its insiders were complied with.

Item 10. Executive Compensation

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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, 2000 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		Lo Secur Under Opt
		Salary -----	Paid Bonus -----	
Robert H. Stone, President and Chief Executive Officer	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, 2000 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) -----	Expiration Date -----
Robert H. Stone, President and Chief Executive Officer	none			

15

Year-end Option Table. During the fiscal period ended June 30, 2000, 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, 2000 by the Named Executive Officers.

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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 1,014 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 "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, 2000 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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 -----	Percentage Common Stock -----
Robert H. Stone (1) c/o Access Solutions International, Inc. 650 Ten Rod Road North Kingstown, RI 02852	100,000	2.52
Thomas E. Gardner c/o Point Gammon Corporation (2) 731 Hospital Trust Building Providence, RI 02903	13,891	*
Adrian Hancock c/o The Planning Technologies Group 92 Hayden Avenue Lexington, MA 02173	---	---
Directors and Executive Officers as a Group (5 persons) (3) -----	188,891	4.77

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

(2) Includes 67 shares of ASI Common Stock jointly held with Leslie A. Gardner.

(3) Includes 75,000 shares of ASI Common Stock issuable upon exercise of stock options.

* Less than 1%

17

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 is 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 may 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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

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 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;

(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; 18

18

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

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

(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 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.

Certain Transactions between ASI and its Affiliates

Transactions with Mr. Lukens. Pursuant to an agreements dated as of July 14, 1997, Matthias E. Lukens, Jr., a former President and Chief Executive Officer and a former Vice President-Research and Development of ASI, resigned as an officer and employee of ASI and ASI agreed to pay Mr. Lukens severance benefits equal to six months salary or \$57,200. ASI also agreed to exchange incentive stock options to purchase 24,311 shares of ASI Common Stock at an exercise price of \$3.75 pursuant to the 1996 Plan for non-qualified stock options to purchase 24,311 shares of ASI Common Stock at an exercise price of \$3.75 pursuant to the 1996 Plan.

Fairness of Certain Transactions. ASI believes that the terms of each of the foregoing transactions are at least as favorable to ASI as could be obtained from third parties in arms' length 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.
 - 27 Financial Data Schedule
- (b) Reports on Forms 8-K

19

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.

Edgar Filing: ACCESS SOLUTIONS INTERNATIONAL INC - Form 10KSB

Dated: December 29, 2000 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 October 3, 1997.

Signature	Title
/s/ Robert H. Stone	President, Chief Executive Officer and Director

Robert H. Stone

/s/ Denis L. Marchand	Chief Accounting Officer
-----------------------	--------------------------

Denis L. Marchand

/s/ Thomas E. Gardner	Chief Financial Officer and Director
-----------------------	--------------------------------------

Thomas E. Gardner

/s/ Adrian Hancock	Director
--------------------	----------

Adrian Hancock