

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

ACCESSPOINT CORP /NV/
Form 10KSB
March 30, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PUSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

TRANSITION REPORT PUSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 000-29217

ACCESSPOINT CORPORATION

(Name of Small Business Issuer in its Charter)

Nevada

95-4721385

(State or Other Jurisdiction of
Incorporation or Organization)

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

3030 S Valley View Blvd., Ste 190

Las Vegas, NV 89102

(Address of Principle Executive Offices)

(Zip Code)

702-880-1040

(Issuer's Telephone Number, Including Area Code)

6171 W. Century Blvd. Suite 200, Los Angeles, Ca. 90045

Previous Address

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

None

Securities Registered Pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$0.001 Par Value

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that registrant was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to
Item 405 of Regulation S-B not contained in this form, and no disclosure will be
contained, to the best of registrant's knowledge, in definitive proxy or

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The registrant's revenues for its most recent fiscal year were \$12,667,551.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 9, 2004 was \$934,019 based upon the market price of the registrant's Common Stock of \$0.07 as of March 9, 2004.

The number of the Company's shares of Common Stock outstanding as of December 31, 2003 was 18,971,230.

Transitional Small Business Disclosure Format (check one): Yes [] No [X]

ACCESSPOINT CORPORATION
FORM 10-KSB ANNUAL REPORT
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003
TABLE OF CONTENTS

| | |
|--|----|
| Forward-Looking Statements | 3 |
| PART I | |
| Item 1. DESCRIPTION OF BUSINESS | 4 |
| Item 2. DESCRIPTION OF PROPERTIES | 9 |
| Item 3. LEGAL PROCEEDINGS | 9 |
| Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS | 12 |
| PART II | |
| Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS | 12 |
| Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION | 13 |
| Item 7. FINANCIAL STATEMENTS | 15 |
| Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | 32 |
| PART III | |
| Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT | 32 |
| Item 10. EXECUTIVE COMPENSATION | 33 |
| Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS | 34 |
| Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 37 |
| PART IV | |
| Item 13. EXHIBITS AND REPORTS ON FORM 8-K | 39 |
| Item 14. CONTROLS AND PROCEDURES | 40 |
| SIGNATURES | 41 |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-KSB contains forward-looking statements about the business, financial condition and prospects of the Company that reflect assumptions made by management and management's beliefs based on information currently available to it. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, the Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, the acceptance by customers of the Company's products and services, the Company's ability to develop new products and services cost-effectively, the ability of the Company to raise capital in the future, the development by competitors of products or services using improved or alternative technology, the retention of key employees and general economic conditions.

There may be other risks and circumstances that management is unable to predict. When used in this Form 10-KSB, words such as, "believes," "expects," "intends," "plans," "anticipates" "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. All forward-looking statements are intended to be covered by the safe harbor created by Section 21E of the Securities Exchange Act of 1934.

3

PART I

ITEM 1. DESCRIPTION OF BUSINESS

A. GENERAL

We were incorporated in Nevada on October 11, 1995. On March 19, 1999 we merged with Yamaha's, Inc., a Nevada corporation. On April 12, 2000 we merged with J.S.J. Capital, III, Inc., a Nevada corporation. Reference to Company or Accesspoint Corporation ("we", "us" and "our") in this report refers to the historical Accesspoint Corporation, and its wholly owned subsidiaries, Processing Source International and Black Sun Graphics, unless the context otherwise requires.

B. BUSINESS OVERVIEW

We are a vertically integrated provider of electronic transaction processing and value-added business services. Our transaction processing service routes, authorizes, captures, and settles all types of non-cash payment transactions for retailers and businesses nationwide. We service the payment processing needs of sellers by (1) providing merchant underwriting, risk management and account services, and (2) supporting the network and technology services necessary for both retail (in-store) and Internet point of sale transactions. To this core function we provide sellers with a entire suite of integrated business applications that centralize the management of (A) both in-store and online transaction processing and accounting, (B) automated web site design, hosting services and catalog creation and management, (C) merchandising and benefits management, (D) order processing and tracking services, and (E) a whole host of reporting and monitoring tools.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Our multi-application e-payment and e-commerce systems provide a single source solution to merchants, businesses and the sales organizations that market our products. Our clients enjoy the benefits of a versatile, powerful, multi-purpose system that provides a comprehensive level of payment acceptance options and value-added businesses services without having to manage the multiple business relationships normally required for these functions.

Major changes are occurring within the payment systems that enable the exchange of value between buyers and sellers. The proliferation of non-cash payment methods such as credit and debit card, smart card, electronic checking and Automatic Clearing House (ACH), stored value, electronic benefit transfer (EBT), loyalty programs, gift card and future electronic payment systems require that merchants be prepared to accept an array of e-payment types subject to the demands of which ever payment type a buyer chooses for a given purchase.

Businesses such as banks, transaction processors, software vendors and internet service providers (ISPs) that service the needs of businesses in this changing environment typically provide single service solutions, such as Internet hosting services from an ISP or credit card processing through a processor. Typically, businesses are forced to manage many disjointed relationships without the benefits of a centralized service that provides systems management, customer service and a multi-faceted e-payment and e-commerce solution.

The complexities and inherent flaws of this service environment present a significant business opportunity for us and have served to increase the need for our solutions and our value proposition for our prospective clients.

4

C. ACCESSPOINT PRODUCTS AND SERVICES

Merchant bankcard services and e-commerce tools highlight our solutions. These components may each be broken down into many individual products and services that may be sold in any combination and customized delivery methods can be developed for their unique marketplace.

MERCHANT ACCOUNTS (MERCHANT BANKCARD PROCESSING)

We are a primary processor and underwriter of electronic financial transactions as a member processor, under the sponsorship of Chase Manhattan Bank, within the Visa/MasterCard association for the processing of card transactions and the National Automated Clearing House Association (NACHA) network for the processing of electronic checks and check conversion under the sponsorship of Provident Bank.

We provide sellers with point of sale (POS) terminal equipment, transaction routing and authorization, settlement, Internet-based processing services, risk management, stored value, loyalty program support and sponsorship into all credit card associations (such as VISA and MasterCard) and major debit networks (such as STAR, Pulse, and NYCE). This combination of products are all sold and serviced through Processing Source International.

5

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

E-COMMERCE AND SOFTWARE SERVICES

We offer a number of e-commerce and value-added business services to our resellers in the bankcard industry and the merchants they support. These services are delivered through two primary software products - Transaction Manager and Merchant Manager Enterprise.

TRANSACTION MANAGER is a secure web-based merchant account administration and transaction processing system. The system provides Real-time electronic payment solutions that enable the acceptance of Credit cards, electronic checks and alternative payment types, as well As ACH payments.

MERCHANT MANAGER ENTERPRISE offers a complete, secure electronic commerce solution that is cost-effective and easy to use. Web browser-based administration tools provide businesses with a simple interface for controlling catalog and content creation, accounts and discount management, point of sale and inventory control systems, marketing tools and program administration, legacy systems information management (through extensive information import and export features), reporting and tracking tools, tax and shipping calculation, and the secure transaction processing features of our Transaction manager system. These services come complete with hosting, e-mail and technical support. The system is virtually platform-independent and is accessed through a simple Internet connection.

While there are some weaknesses inherent in our products, one notable marketplace disadvantage is the added time and expense required if a business insists that our e-commerce system be fully integrated into the business' back-end systems. Because there is so much diversity in back-end systems, no single e-commerce software product will automatically link to all existing order entry and inventory management modules. Full integration requires either replacing the back-end systems or customizing the e-commerce system to work automatically with the existing back-end systems.

6

E. COMPETITION

Our current and prospective competitors in the market segments we serve include many large companies that have substantially greater market presence and financial, technical, marketing and other resources than we do. The major strengths of our competitors in many cases include their longer operating histories, greater installed bases and greater name recognition. Our principal competitors include major national and regional banks such as Wells Fargo & Co. and Bank of America Corp., local processing banks such as Imperial Bank and Universal Savings Bank, F.A., non-bank processors such as Nova Information Systems, Concord EFS, Inc. and First Data Merchant Services, check conversion and authorization processors such as CrossCheck, Inc. and TeleCheck Services, Inc. and other independent service organizations who re-sell these payment processing services such as Electronic Exchange Systems, Retriever Payment Systems and Cardservice International, Inc. In each of our payment processing service types, we compete against other companies who have a dominant share of each market.

Additionally, there are competitors in the processing market who focus exclusively on providing electronic payment processing software and hardware services. Our services provide web-based or outsourced transaction processing and management software services, which compete in this market segment in an Application Service Provider (ASP) model. Our principal competitors in software

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

services include boxed software, or merchant-deployed software, developers such as Go Software, Inc. and Hewlett-Packard Co., outsourced or ASP model developers and service providers such as Clear Commerce Corp., Signio (a subsidiary of VeriSign, Inc.) and AuthorizeNet.

The potential exists that our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Competition could impede our ability to sell additional services on terms favorable to us. Our current and potential competitors may develop new technologies that render our existing or future services obsolete, unmarketable or less competitive. Our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other e-commerce transaction service providers, thereby increasing the ability of their services to address the needs of our prospective customers. Our current and potential competitors may establish or strengthen cooperative relationships with our current or future channel partners, thereby limiting our ability to sell services through these channels. Competitive pressures could reduce our potential market share or require the reduction of the prices of our services, either of which could materially and adversely affect our business, results of operations or financial condition.

7

F. CUSTOMERS AND MARKETING

We market our services through a variety of channels including direct solicitation and limited advertising. Our employees are utilized in the direct solicitation of new clients and the cross selling of additional Company services to existing clients. We market on a nationwide basis for card processing services. Most of the merchant service businesses are marketed regionally by sales forces associated with independent sales organizations ("ISO").

G. SEASONALITY

Portions of our business are seasonal. Revenues and earnings are affected favorably by increased card and check volume during the Halloween and subsequent holiday shopping period in the fourth quarter and, to a lesser extent, during the back-to-school buying period in the third quarter.

H. REGULATION

Various aspects of our service areas are subject to federal and state regulation, which, depending on the nature of any noncompliance, may result in the suspension or revocation of any license or registration at issue, as well as the imposition of civil fines and criminal penalties.

Certain of our activities are subject to the Federal Fair Credit Reporting Act, various similar state laws. Our collection activities are subject to the Fair Debt Collection Practices Act and various similar state laws.

We have developed compliance programs to monitor regulatory requirements and developments, and to implement policies and procedures to help satisfy these requirements. We have developed compliance programs focused on agent training and monitoring to help ensure legal and regulatory compliance by our agents. Additionally, we continue to enhance our compliance policies and programs to help augment our compliance efforts.

I. EMPLOYEES

As of December 31, 2003, we have no full-time or part-time employees.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

We lease our employees from Merchants Billing Services ("MBS") under the terms of that certain Master Support Services Agreement. We leased 51 full-time and 1 part-time employees from MBS. None of our leased employees is represented by a labor union or is subject to a collective bargaining agreement, nor have we experienced any work stoppage.

8

ITEM 2. DESCRIPTION OF PROPERTY

We do not own any real property. As of December 31, 2003, we pay MBS for the use of a shared facility under the terms of the Master Support Services Agreement dated October 15, 2002.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Listed below are only those matters considered to be material to the Company by management and its counsel.

CITICORP - During 2001 the Company vacated office facilities it had leased under an operating lease agreement in Chicago, Illinois. The lessor subsequently filed suit against the Company for the remaining amount of unpaid rent and other various expenses. A judgment was filed against the Company in the amount of \$95,000. As of December 31, 2003 the Company has accrued for the liability in full on its Balance Sheet. No payments have been made.

ROYCAP - In June 2002, Roycap filed suit against the Company for default on a loan agreement. Judgment was entered in favor of Roycap in the amount of \$730,000. This amount plus additional possible penalties was fully accrued by the Company as December 31, 2003. On March 19, 2004 an assignment of judgment and Settlement Agreement was executed whereby the judgment in full was settled for \$300,000, \$250,000 of which is payable immediately upon execution of the settlement and \$50,000 payable in monthly installments over two years beginning April 1, 2004.

BENTLEY PROMISSORY NOTES - Various family trusts related to James W. Bentley, a former Director of the Company, have filed three related actions seeking to collect in excess of \$500,000 in promissory notes allegedly due. The Company believes these claims were settled by the June 26, 2002 Settlement and in any event, believes the sums due are substantially less than claimed. The Company continues to fight these actions vigorously. These cases have been consolidated with the case of Bentley v. Barber, et al (see below) and are scheduled to go to trial on July 25, 2004

MERCHANTSWAREHOUSE.COM - This is a claim against PSI for breach of an independent sales agent agreement. The claim is disputed. The matter was submitted to arbitration and was heard by the arbitrator. The arbitrator made an interim award of \$296,720 and denied the Company's counterclaim. The Company is directed to pay the agent residuals according to the terms of the Company's agreement with the agent. The Company has made all payments to the agent since the date of the award. On November 7, 2003, Merchantwarehouse.com obtained a judgment consistent with the arbitrator's award. The Company is presently

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

assessing the advisability of an appeal. The amount of the award has been accrued.

NORTHWEST SYSTEMS, LLC - Two inter-related claims, one lawsuit and one arbitration claim arising out of a dispute over a contract whereby PSI agreed to purchase certain merchant accounts from Northwest Systems, LLC ("NWS"). The first case (lawsuit) sought to recover damages of \$300,000 for alleged breach of the contract to purchase, while the second case (arbitration) claimed that NWS had not been paid all residual payments due it under its agency contract with PSI. In May 2003, an award in the arbitration claim in the amount of \$149,000 was made for the benefit of the plaintiff. In mediation on July 2, 2003, the registrant settled both claims. The settlement calls for the Company to allow the conversion/transfer of all merchants accounts associated with NWS effective, July 1, 2003, and to pay \$40,000 for attorney costs, which have now been paid. While no accurate forecast can be made as to the amount and timing of the anticipated conversion, NWS merchants accounted for approximately 10% of the Company's gross processing revenue for the quarter ended March 31, 2003. The settlement also calls for a mutual release on both parties of all and any current or contemplated actions arising from their business relationship.

9

MOCERI LEASING CO. - This is an action by an equipment lessor on a defaulted lease. In August 2003 the Company entered into a structured settlement agreement for a total payout of \$30,000 payable in 20 installments through April of 2005.

CIT COMMUNICATIONS CO. ("CIT") - CIT, an equipment lessor, claims that we defaulted on an equipment lease. We are vigorously defending against this claim. The total amount of any potential judgment for the value of the equipment has been accrued.

GLOBAL ATTORNEYS NETWORK CO. - This is an action filed on behalf of an equipment lessor on a defaulted lease. In April 2003 the matter was settled for \$16,900. This amount has been accrued. No payments have been made.

BAS MULDER - This is a lawsuit filed by the former owner and employee of Black Sun Graphics, Inc. ("BSG"), claiming damages in excess of \$430,000 related to the purchase of BSG by the Company. The Company has entered into a structured settlement agreement calling for payments totaling \$45,000 payable over 20 months and has begun making these payments.

FOSTER TEPPER - This is an action recently brought by a former attorney for the Company for approximately \$63,000 in legal fees, which are allegedly due and payable.

ACCESS HOLDINGS LIMITED PARTNERSHIP - This is a lawsuit brought on behalf of two holders of Company stock who claim the Company has violated a prior settlement agreement and that they are therefore entitled to the return of approximately 4.1 million shares of Company stock, which they had previously surrendered, to the Company per that agreement. The Company denies both that it has breached the prior settlement agreement and that the plaintiffs are entitled to the relief they seek. Plaintiffs are not seeking monetary damages from the

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Company, though they are seeking court costs and attorney fees. The Company is fighting this action vigorously. No trial date has been set.

BENTLEY V. WILLIAM R. BARBER, ET AL. - On March 22, 2002, James Bentley ("Plaintiff"), a shareholder of the Company, filed a shareholder derivative lawsuit against the Company and several individual defendants for breach of contract, breach of fiduciary duty, misappropriation of trade secret, recovery of personal property, imposition of a constructive trust, unfair competition in violation of Business and Profession Code Section 17200, conversion, unfair business practices, and usurpation of corporate opportunity. On several occasions, Plaintiff also sought provisional remedies with the Court, including multiple applications for preliminary injunction and the appointment of a receiver. To date, none of Plaintiff's requests for provisional relief have been granted. On June 26, 2002, the parties to the action executed a Settlement Agreement. Plaintiff purported to rescind the Settlement Agreement in early December 2002. Plaintiff thereafter filed an ex parte application for temporary restraining order, which the court denied on December 24, 2002. The Court set a hearing for Plaintiff's application for preliminary injunction in late January 2003. Plaintiff thereafter continued the hearing on the application for preliminary injunction on several occasions. Ultimately, after Defendant's; opposition to the preliminary injunction request was filed; Plaintiff took his application for preliminary injunction off calendar completely. A number of depositions and law and motion were conducted during January and February 2003. On July 3, 2003 in a special meeting of the Board of Directors, the Directors received, reviewed and considered the report of the findings of the Special Litigation Committee ("the Committee").

10

BENTLEY V. WILLIAM R. BARBER, ET AL. (continued) - The Committee was formed in January 2003 for the purpose of investigating the allegations contained within the shareholder derivative action known as BENTLEY v. BARBER (" the Bentley matter"). Based on its investigation, which included the review of thousands of pages of documents, 1,200 pages of transcripts of depositions, reviews of the declarations of ten witnesses, and interviews of the Plaintiff, and his representatives, as well as of at least fifteen other witnesses, the Committee met on July 2, 2003 and unanimously agreed and found as follows:

- 1) The action was previously settled, after both the plaintiff and the court in the Bentley matter concluded the settlement agreement was in the best interests of the Company, so that the Committee likewise concludes that the best interests of the company are served by a dismissal of the action and the enforcement of the settlement agreement previously approved by the court:
- 2) That the allegations raised in the Bentley matter are without merit;
- 3) That it is not in the Company's interests to pursue the litigation, as the costs of prosecuting the litigation far exceed any possible recovery to the Company, particularly given the possible indemnity obligations of the Company;
- 4) The balance of the Company's corporate interests, including its need to maintain its relationship with Chase, the need for and ability to focus on obtaining new accounts, the need to apply the

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Company's resources, management, and assets to the payment and resolution of outstanding debts and the need to repair the Company's reputation that has been damaged by this litigation, warrants dismissal of the action, regardless of the merits of the Bentley matter; and

- 5) The Company has new management and has carefully reviewed the subject matter of the litigation and the accounting of the assets of the Company and the handling of related party transactions.

Based on the findings of the Committee, the Directors determined it to be in the best interests of the company to cause the Bentley matter to be dismissed. On July 3, 2003, the company's attorneys filed a motion for summary judgment with the Orange County Superior Court, the motion contends that: there is no merit to the charges, the suit is not being prosecuted for the benefit of the shareholders or the company, but is a vendetta by the a shareholder brought for its own purposes and that the burdens of litigation are largely responsible for the fall in the corporation's stock price since the case was filed. On July 3, 2003, the Company's attorneys concurrently filed a motion for an indefinite stay in discovery pending judgment on the motion for summary judgment. On July 25, 2003, the court granted the Company's request for stay pending ruling on the motion for summary judgment. On September 18, 2003, the Court denied the summary judgment motion, finding that there were triable issues of material fact as to the Committee's investigation. As of this writing, the Court has not entered a formal order on this motion. The Company believes the Court's ruling is incorrect and plans to seek further review once the written order is issued. The Court's ruling also ended the stay of proceedings which had been in effect since July 25, and the case - along with the Bentley Promissory Note cases (see above), with which it has been consolidated - is now set for trial on July 26, 2004. The Company continues to fight this action vigorously. The Company has recorded no liability for the potential of an adverse outcome of the action.

11

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the year ended December 31, 2003.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the over-the-counter bulletin board system (OTC-BB) under the symbol "ASAP." The table below reflects the high and the low bid and ask quotations for each of our fiscal quarters for the last fiscal year. The prices reflect inter-dealer prices, without retail mark-up, markdown or commission and do not necessarily represent actual transactions.

| | 2003 | |
|-------------|---------|---------|
| | HIGH | LOW |
| 1st Quarter | \$ 0.43 | \$ 0.20 |
| 2nd Quarter | \$ 0.38 | \$ 0.12 |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | |
|-------------|---------|---------|
| 3rd Quarter | \$ 0.40 | \$ 0.12 |
| 4th Quarter | \$ 0.35 | \$ 0.10 |
| 2002 | | |
| | HIGH | LOW |
| 1st Quarter | \$ 1.45 | \$ 0.60 |
| 2nd Quarter | \$ 1.00 | \$ 0.33 |
| 3rd Quarter | \$ 0.83 | \$ 0.33 |
| 4th Quarter | \$ 0.43 | \$ 0.20 |

A. NUMBER OF HOLDERS

As of December 31, 2003, we had 1,288 common shareholders of record. On, December 31, 2003 the last reported sales price of our common stock on the Pink sheet was \$0.10 per share.

Our stock has had a market price of less than \$5.00 per share in recent times. The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price less than \$5.00 per share, subject to certain exceptions. Accordingly, our common stock may become subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase.

12

Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule prepared by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of investors to sell our common stock in the public market.

B. DIVIDENDS

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

The payment of dividends is within the discretion of the Board of Directors of our Company. We currently intend to retain all earnings, if any, in the foreseeable future for use in the development of our business. We have not paid dividends since inception. It is not anticipated that any dividends will be paid in the foreseeable future and there can be no assurance that dividends can or will ever be paid. The payment of dividends is contingent upon future earnings, if any, our financial condition and capital requirements, general business conditions and other factors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements and related notes contained elsewhere in this document. The discussion contained herein relates to the financial statements, which have been prepared in accordance with GAAP.

THE DISCUSSION IN THIS SECTION AND OTHER PARTS OF THIS REGISTRATION STATEMENT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. THEY ARE MADE AS OF THE DATE OF THIS REPORT, AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE THEM.

A. PLAN OF OPERATION

Our primary software products consist of: Merchant Manager Enterprise, a complete and secure fully-hosted e-commerce solution for small to midsize businesses, which provides an on-line store, catalog and credit card processing abilities; Transaction Manager, an on-line credit card and ACH processing solution for small to midsize businesses; and Merchant Manager, a hosted e-commerce solution providing a simple-to-learn and simple-to-use set of tools derived from Merchant Manager Enterprise. We provide hosting services in conjunction with the software products.

During the coming twelve months, we will not be able to satisfy the cash requirements and have no financing alternatives to satisfy the obligations except for the sale of a portion of the merchant portfolio. The plans for the coming twelve months include the contemplation of a sale of the merchant portfolio for the purpose of recapitalizing the company and paying down debt. Should a portion of the merchant portfolio be sold, we will be forced to reduce the staffing levels in line with the reduction in revenue realized. During the coming twelve months, we will continue to pursue enhancements of the existing Merchant Manager and Transaction Manager products to meet the demands of an increasingly competitive marketplace. We do not anticipate the development of any products during the coming twelve-month period and will not expend significant resources on the research or development of new product lines.

13

B. RESULTS OF OPERATIONS

For the year ended December 31, 2003 compared with year ended December 31, 2002.

Revenues for the year ended December 31, 2003 decreased to \$12,687,551 from \$13,264,318 for the year ended December 31, 2002. The decrease of \$576,767, 4% is due primarily to the decreased revenues associated with credit card processing which resulted in an overall decrease in sales.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Cost of sales for the year ended December 31, 2003 decreased to \$9,768,557 from \$11,176,910 for the year ended December 31, 2002. The decrease of \$1,408,353 or 13%, resulted primarily from lowered agent residual expenses and more attention focused on the profitability of each merchant's relationship.

Selling and marketing expenses for the year ended December 31, 2003 \$10,117 remained about the same as the \$13,595 for the year ended December 31, 2002.

General and administrative expenses for the year ended December 31, 2003 decreased to \$2,982,035 from \$3,166,032 for the year ended December 31, 2002. The decrease of \$183,997, or (6%), resulted primarily from a decrease of salaries and wages, occupancy costs, and other operating efficiencies realized through the consolidation of three offices into one.

The loss from operations for the year ended December 31, 2003 was \$73,158 as compared to a loss of \$1,092,219 for the year ended December 31, 2002. The increase in income of \$1,019,061 resulted primarily from the reduction of salaries, operating efficiencies, lowered residual expenses, increased transaction profitability and a reduction in bad debt expenses.

Interest expense, net, for the year ended December 31, 2003 was \$278,227, as compared to \$529,646 for the year ended December 31, 2002. The decrease resulted primarily from the Company's continued reduction of in-debtedness and borrowing costs.

Other (Income) Expense, net of Interest expense was \$(304,879) income for the year ended December 31, 2003, as compared to \$5,222,287 expense for the year ended December 31, 2002. The turn around of \$5,527,166 resulted primarily from the reduction of the write downs on deferred financing (\$3,756,927), lowered amortization of deferred financing costs (\$751,385), reduction in litigation expenses (\$224,998), reduced penalties (\$206,393) and reduced loss on sale of asset (\$153,477) realized for the year ended December 31, 2003, as compared to the year ended December 31, 2002 and the favorable settlement of a law suit resulting in cancellation of debt and interest in the amount of \$432,000.

Net loss for the year ended December 31, 2003 was (\$50,615), as compared to (\$6,846,552) for the year ended December 31, 2002. The difference is the result of the increase in Income (loss) from operations and decrease in Other (Income) expense as explained above.

C. Liquidity and Capital Resources

The Company had cash of \$28,393 at December 31, 2003, as compared to cash of \$35,961 at December 31, 2002.

The Company had negative working capital at December 31, 2003. We believe that cash generated from operations will not be sufficient to fund the current and anticipated cash requirements and the pay down of existing debts. The plans for the coming twelve months include the contemplation of a sale of the merchant portfolio for the purpose of re-capitalizing the company and paying down debt. Should a portion of the merchant portfolio be sold, we will be forced to reduce the staffing levels in line with the reduction in revenue realized.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

FINANCIAL INFORMATION

ITEM 7. FINANCIAL STATEMENTS

TABLE OF CONTENTS

| | |
|---|----|
| Independent Auditors' Report | 16 |
| Consolidated Balance Sheets | 17 |
| Consolidated Statements of Operations | 18 |
| Consolidated Statements of Cash Flow | 19 |
| Consolidated Statement of Changes in Stockholders' Equity | 20 |
| Notes to Consolidated Financial Statements | 21 |

15

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
Accesspoint Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Accesspoint Corporation and Subsidiaries (a Nevada Corporation) as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Accesspoint Corporation and Subsidiaries as of December 31, 2003 and 2002 and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note L to the financial statements, the Company has suffered recurring losses from operations and its limited capital resources 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 L. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Mendoza Berger & Company, LLP.

March 23, 2004

Irvine, CA

16

ACCESSPOINT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31, 2003 | December 31, 2002 |
|---|----------------------|----------------------|
| | ----- | ----- |
| Current Assets | | |
| Cash | \$ 28,393 | \$ 35,961 |
| Accounts receivable, net of allowance for doubtful accounts \$80,000 at 2003 and 2002 | 446,870 | 348,708 |
| Receivable from a related party | 0 | 157,172 |
| Prepaid expenses | 39,235 | 1,488 |
| | ----- | ----- |
| Total Current Assets | 514,498 | 543,329 |
| | ----- | ----- |
| Fixed Assets | | |
| Furniture and equipment (net) | 91,099 | 178,139 |
| | ----- | ----- |
| Total Fixed Assets | 91,099 | 178,139 |
| | ----- | ----- |
| Other Assets | | |
| Deferred financing costs (net) | 752,873 | 1,266,764 |
| Portfolio Purchase | 0 | 154,667 |
| Deposits | 285,108 | 280,108 |
| | ----- | ----- |
| Total Other Assets | 1,037,981 | 1,701,539 |
| | ----- | ----- |
| Total Assets | \$ 1,643,578 | \$ 2,423,007 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|-------------------------------------|------------|--------------|
| Current Liabilities | | |
| Accounts payable | \$ 939,851 | \$ 1,527,457 |
| Accrued payroll taxes and penalties | 1,328,138 | 1,412,432 |
| Accrued liabilities | 504,014 | 560,707 |
| Merchant loss reserve | 2,778 | 19,465 |
| Lines of credit | 1,373,049 | 1,364,761 |
| Capitalized leases | 577,638 | 419,460 |
| Notes payable | 415,000 | 565,000 |
| | ----- | ----- |
| Total Current Liabilities | 5,140,468 | 5,869,282 |
| | ----- | ----- |
| Total Liabilities | 5,140,468 | 5,869,282 |
| | ----- | ----- |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Stockholders' Equity

| | | |
|--|--------------|--------------|
| Preferred Stock, \$.001 par value, 5,000,000 shares authorized, 1,055,600 shares issued and outstanding, respectively | 1,056 | 1,056 |
| Common stock, \$.001 par value, 25,000,000 shares authorized, 18,971,230 and 24,163,965 issued and outstanding at December 31, 2003 and 2002, respectively | 18,971 | 24,164 |
| Additional paid in capital | 15,119,197 | 15,114,004 |
| Accumulated (deficit) | (18,636,114) | (18,585,499) |
| | ----- | ----- |
| Total Stockholders' (Deficit) | (3,496,890) | (3,446,275) |
| | ----- | ----- |
| Total liabilities and Stockholders' Equity | \$ 1,643,578 | \$ 2,423,007 |
| | ===== | ===== |

Refer to notes to the financial statements

17

ACCESSPOINT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended | |
|---|----------------------|----------------------|
| | December 31, 2003 | December 31, 2002 |
| | ----- | ----- |
| Sales, net | \$ 12,687,551 | \$ 13,264,318 |
| Cost of sales | 9,768,557 | 11,176,910 |
| | ----- | ----- |
| Gross profit | 2,918,994 | 2,087,408 |
| Selling expenses | 10,117 | 13,595 |
| General and administrative expenses | 2,982,035 | 3,166,032 |
| | ----- | ----- |
| Income (loss) from operations | (73,158) | (1,092,219) |
| | ----- | ----- |
| Other (income) expense | | |
| Interest income | (19,386) | (15,634) |
| Loss on sale of asset | 0 | 153,477 |
| Penalties | 14,659 | 221,052 |
| Miscellaneous | 2,040 | (95,926) |
| Litigation expense | 0 | 224,998 |
| Amortization of deferred financing costs | 513,891 | 1,265,276 |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | |
|--|-------------|-------------|
| Write down of deferred financing costs | 0 | 3,756,927 |
| Debt forgiveness | (816,083) | (287,883) |
| Interest expense | 278,227 | 529,646 |
| | ----- | ----- |
| Total Other (income) expense | (26,652) | 5,751,933 |
| | ----- | ----- |
| Income (loss) before income taxes | (46,506) | (6,844,152) |
| Provision for income taxes | 4,109 | 2,400 |
| | ----- | ----- |
| Net income (loss) | \$ (50,615) | (6,846,552) |
| | ===== | ===== |
| Net loss per share | | |
| Basic | \$ (0.00) | \$ (0.29) |
| Weighted average number of shares | | |
| Basic | 20,786,413 | 23,826,300 |

Refer to notes to the financial statements

18

ACCESSPOINT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended | |
|--|--------------|----------------|
| | December 31, | December 31, |
| | 2003 | 2002 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net (loss) | \$ (50,615) | \$ (6,846,552) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Forgiveness of debts and notes payable | (816,083) | 0 |
| Amortization | 513,891 | 1,265,276 |
| Depreciation | 271,957 | 221,743 |
| Impairment loss | 0 | 45,333 |
| Write down of deferred financing costs | 0 | 3,756,927 |
| Loss on disposal of assets | 0 | 153,477 |
| Decrease in deferred compensation | 0 | (221,477) |
| Increase in receivables | (98,162) | (92,835) |
| Decrease in inventory | 0 | 6,366 |
| Decrease (increase) in other current assets | 157,172 | (157,172) |
| Increase (decrease) in prepaid expenses | (37,748) | 12,319 |
| (Decrease) increase in deposits | (5,000) | 11,950 |
| (Decrease) increase in accounts payable and accrued expenses | 5,098 | 59,769 |
| (Decrease) increase in accrued payroll taxes | (84,293) | 321,352 |
| Decrease in merchants loss reserve | 0 | (80,000) |
| Increase in accrued liabilities | 0 | 222,474 |
| | ----- | ----- |
| Total adjustments | (93,168) | 5,525,502 |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | |
|--|------------|--------------|
| Net cash contributed by (used in) operations | (143,783) | (1,321,050) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Purchase) reduction of portfolio | 154,667 | (200,000) |
| Purchase of fixed assets | (740) | 0 |
| Net cash provided (used in) investing activities | 153,927 | (200,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital leases | (26,000) | (32,281) |
| Sale of stock | 0 | 149,393 |
| Line of credit | 8,288 | 1,361,670 |
| Net cash provided by (used in) financing activities | (17,713) | 1,478,782 |
| Net change in cash | (7,568) | (42,268) |
| Cash at beginning of period | 35,961 | 78,229 |
| Cash at end of period | \$ 28,393 | \$ 35,961 |
| Supplemental cash flow disclosures: | | |
| Conversion of notes payable | \$ 0 | \$ (546,500) |
| Forgiveness of accrued expenses | \$ 666,083 | \$ 0 |
| Forgiveness of notes payable | \$ 150,000 | \$ 0 |

Refer to notes to the financial statements

ACCESSPOINT CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | COMMON STOCK | | | Preferred Stock 1,055,600 shares issued |
|--|---------------------|----------------------|----------------------------------|--|
| | Number of shares | Par value \$0.001 | Additional paid-in capital | |
| Balance at December 31, 2001 | 23,375,208 | \$ 23,375 | \$ 14,418,900 | \$ 1,056 |
| Stock issued various dates for cash at \$1.50 per share | 788,757 | 789 | 148,604 | -- |
| Conversion of notes payable | -- | -- | 546,500 | -- |
| Net loss | -- | -- | -- | -- |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | | | |
|---|-------------|-----------|---------------|----------|
| Balance at December 31, 2002 | 24,163,965 | 24,164 | 15,114,004 | 1,056 |
| Stock returned by shareholders and cancelled | (5,192,735) | (5,193) | 5,193 | |
| Net loss | -- | -- | -- | -- |
| Balance at December 31, 2003 | 18,971,230 | \$ 18,971 | \$ 15,119,197 | \$ 1,056 |

Refer to notes to the financial statements

20

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE A - NATURE OF OPERATIONS

Accesspoint Corporation (subsequently referred to as "Accesspoint", the "Company" or "We") was incorporated as Accesspoint Corporation in Nevada in 1995 and is a provider of card-based and web-based payment processing services to small businesses throughout the United States. The Company enables merchants to accept credit cards as payment for their products and services by providing card authorization, data capture, settlement, risk management, fraud detection and chargeback services. Our services also include transaction organization and retrieval, ongoing merchant assistance and support in connection with disputes with cardholders. We market and sell our services primarily through independent sales organizations ("ISOs") and registered sales agents ("RSAs").

Our payment processing services enable merchants to process both traditional swipe transactions, as well as card-not-present transactions. A card-not-present transaction occurs whenever a customer does not physically present a payment card at the point-of-sale and may occur over the Internet or by mail, fax or telephone. Our processing services include evaluation and acceptance of card numbers, detection of fraudulent transactions, receipt and settlement of funds and service and support. By outsourcing some of these services to third parties, including the evaluation and acceptance of card numbers and receipt and settlement of funds, we maintain an efficient operating structure, which allows us to easily expand our operations without significantly increasing our fixed costs. We believe our experience and knowledge in providing payment processing services to merchants of all sizes gives us the ability to effectively identify, evaluate and manage the payment processing needs and risks that are unique to businesses of varying levels.

We market and sell our services primarily through our relationships with ISOs and RSAs. ISOs and RSAs act as a non-employee, external sales force in communities throughout the United States. By providing the same high level of service and support to our ISOs and RSAs as we do to our merchants, we maintain our access to an experienced sales force sales professionals who market our services, with minimal direct investment in sales infrastructure and management. After an agent

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

refers a merchant to us and we execute a processing agreement with that merchant, we pay the referring ISO or RSAs a percentage of the revenues generated by that merchant. Although our relationships with agents are mutually non-exclusive, we believe that our understanding of the unique payment processing needs of merchants of all sizes enables us to develop compelling incentives for agents to continue to refer newly identified merchants to us.

Revenue Recognition

The Company recognizes revenue from: settlement fees for electronic payment processing, credit and debit card payment settlement, check conversion and financial processing programs and transaction fees related to the use of its software and credit card processing products, licensing of its software products. Revenue from software and hardware sales and services are recognized as products are shipped, downloaded, or used.

The Company reports income and expenses on the accrual basis for both financial and income tax reporting purposes.

21

ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2003 AND 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Accesspoint Corporation, and its wholly owned subsidiaries Processing Source International, Inc. (PSI) and Black Sun Graphics, Inc. (BSG), collectively referred to within as the Company. All material intercompany accounts, transactions and profits have been eliminated in consolidation.

Risks and Uncertainties

The Company is subject to substantial risks from, among other things, intense competition from the providers of financial electronic payment processing, settlement services, software development and e-commerce service companies specifically and the technology industry in general, other risks associated with the Internet services industry, financing, liquidity requirements, rapidly changing customer requirements, limited operating history, and the volatility of public markets.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Reserve for Merchant Credit Losses

The Company establishes reserves for merchant credit losses, which arise as a result of, among other things, cardholder dissatisfaction with merchandise quality or merchant services. Such disputes may not be resolved in the merchant's favor. In these cases, the transaction is "charged back" to the merchant and the purchase is refunded to the customer by the merchant. If the merchant is unable to grant a refund, the Company or, under limited circumstances, the Company and the processing bank, must bear the credit risk for the full amount of the transaction. The Company estimates its potential loss for chargebacks based primarily on historical experience. Obtaining collateral from merchants considered higher risk often mitigates the risk of loss. At December 31, 2003 and December 31, 2002, the Company had aggregate collateral classified as merchant loss reserves of \$2,778 and \$19,465 respectively.

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include collectibility of accounts receivable, accounts payable, sales returns and recoverability of long-term assets.

Allowance for Doubtful Accounts

The Company has made an allowance for doubtful accounts for trade receivables.

Fixed Assets

Property and equipment are stated at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, or the remaining term of the lease, as follows:

| | |
|------------------------|---------|
| Furniture and Fixtures | 5 years |
| Equipment | 5 years |
| Hardware and Software | 3 years |

Leasehold Improvements

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Capital Leases

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Concentration of Credit Risk

Concentration of credit risk with respect to trade accounts receivable is not diversified. As of December 31, 2003 87% of the trade receivables are from Chase Merchant Services, LLC. The loss of Chase Merchant Services to our Company would be severely detrimental and could result in the termination and liquidation of our Company. Our Company actively evaluates the creditworthiness of Chase Merchant Services, LLC and is confident that the failure of the firm is neither likely nor imminent.

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are expensed in the year incurred.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

NOTE C - STOCK AND STOCK WARRANTS

The Company has two classes of capital stock: Preferred Stock and Common Stock. Holders of common stock are entitled to one vote for each share held. Preferred stock holders are not entitled to voting privileges and are convertible into Common Stock under certain circumstances on a share-for-share basis.

At December 31, 2003, the Company has 25,000,000 common shares authorized and 18,971,230 shares issued and outstanding. The Company had 5,000,000 preferred shares authorized and 1,055,600 shares issued and outstanding.

Net Integrated Systems, Ltd. ("NIS") acquired shares as a result of a series of transactions and agreements consummated on or about December 14, 2001. Those agreements were terminated effective October 15, 2002. NIS and another stockholder who had received stock in accordance with the agreements, returned their common shares (5,192,735) to be cancelled in 2003.

In addition, our Company had outstanding at December 31, 2003, warrants convertible into common shares at various prices ranging from \$0.34 to \$7.50, with expirations dates through November 2006.

| Exercise Price Range | Weighted Average | | Weighted Average |
|----------------------|------------------|------------------|------------------|
| | Amount | Contractual Life | Exercise Price |
| \$0.01 - \$0.34 | 80,000 | 21 months | \$0.34 |
| \$0.71 - \$0.81 | 312,223 | 46 months | \$0.78 |
| \$5.25 - \$6.00 | 90,000 | 23 months | \$5.96 |

Reconciliation of stock warrants from December 31, 2002 to December 31, 2003 is as follows:

| | |
|-------------------------------|-------------|
| Balance at December 31, 2001 | 1,772,223 |
| Warrants expired or exercised | (1,290,000) |
| Warrants issued | 0 |
| Balance at December 31, 2002 | 482,223 |
| Warrants expired or exercised | 0 |
| Warrants issued | 0 |
| Balance at December 31, 2003 | 482,223 |

NOTE D - LOSS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted net earnings, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of common shares outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

ACCESSPOINT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2003 AND 2002

NOTE E - FIXED ASSETS

Fixed assets consist of the following:

| | December 31, 2003 | December 31, 2002 |
|---------------------------------------|----------------------|----------------------|
| Office equipment | \$ 740 | \$ 0 |
| Computer hardware and software | 816,099 | 631,922 |
| Leasehold improvements | 2,064 | 2,064 |
| | 818,903 | 633,986 |
| Accumulated depreciation and disposal | (727,804) | (455,847) |
| Total | \$ 91,099 | \$ 178,139 |

For the years ended December 31, 2003 and 2002, our Company recorded depreciation of \$271,957 and \$221,743, respectively.

NOTE F - INCOME TAXES

The components of the deferred tax assets are as follows:

| | December 31, 2003 | December 31, 2002 |
|-----------------------------------|----------------------|----------------------|
| Deferred tax assets: | | |
| Net operating loss carry-forwards | \$ 5,032,000 | \$ 3,791,000 |
| Depreciation and amortization | 1,192,000 | 1,520,000 |
| Other temporary differences | 25,000 | 199,000 |
| Valuation allowance | \$ (6,249,000) | \$ (5,510,000) |
| Net deferred tax assets | \$ -- | \$ -- |

The Company had available approximately \$12,640,000 of unused Federal and state net operating loss carry-forwards at December 31, 2003. that may be applied against future taxable income. These net operating loss carry-forwards begin to expire for Federal purposes in 2017. There is no assurance that the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At December 31, 2003 and 2002, valuations for the full amount of the net deferred tax asset were established due to the uncertainties as to the amount of the taxable income that would be generated in future years.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

| December 31, 2003 | December 31, 2002 |
|----------------------|----------------------|
|----------------------|----------------------|

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | |
|--------------------------------------|----------|----------|
| Statutory federal tax (benefit) rate | (34.0)% | (34.0)% |
| Statutory state tax (benefit) rate | (5.83)% | (5.83)% |
| Effective tax rate | (39.83)% | (39.83)% |
| Valuation allowance | 39.83 % | 39.83 % |
| Effective income tax rate | 0.00 % | 0.00 % |

25

ACCESSPOINT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2003 AND 2002

NOTE G - LITIGATION AND CONTINGENCIES

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Listed below are only those matters considered to be material to the Company by management and its counsel.

CITICORP - During 2001 the Company vacated office facilities it had leased under an operating lease agreement in Chicago, Illinois. The lessor subsequently filed suit against the Company for the remaining amount of unpaid rent and other various expenses. A judgment was filed against the Company in the amount of \$95,000. As of December 31, 2003 the Company has accrued for the liability in full on its Balance Sheet. No payments have been made.

ROYCAP - In June 2002, Roycap filed suit against the Company for default on a loan agreement. Judgment was entered in favor of Roycap in the amount of \$730,000. This amount plus additional possible penalties was fully accrued by the Company as December 31, 2003. On March 19, 2004 an assignment of judgment and Settlement Agreement was executed whereby the judgment in full was settled for \$300,000, \$250,000 of which is payable immediately upon execution of the settlement and \$50,000 payable in monthly installments over two years beginning April 1, 2004. This transaction has been reflected in the financial statements for the year ended December 31, 2003 as a gain on the forgiveness of debt in the amount of \$580,000.

BENTLEY PROMISSORY NOTES - Various family trusts related to James W. Bentley, a former Director of the Company, have filed three related actions seeking to collect in excess of \$500,000 in promissory notes allegedly due. The Company believes these claims were settled by the June 26, 2002 Settlement and in any event, believes the sums due are substantially less than claimed. The Company continues to fight these actions vigorously. These cases have been consolidated with the case of Bentley v. Barber, et al (see below) and are scheduled to go to trial on July 25, 2004

MERCHANTSWAREHOUSE.COM - This is a claim against PSI for breach of an independent sales agent agreement. The claim is disputed. The matter was submitted to arbitration and was heard by the arbitrator. The arbitrator made an interim award of \$296,720 and denied the Company's

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

counterclaim. The Company is directed to pay the agent residuals according to the terms of the Company's agreement with the agent. The Company has made all payments to the agent since the date of the award. On November 7, 2003, Merchantwarehouse.com obtained a judgment consistent with the arbitrator's award. The Company is presently assessing the advisability of an appeal. The amount of the award has been accrued.

NORTHWEST SYSTEMS, LLC - Two inter-related claims, one lawsuit and one arbitration claim arising out of a dispute over a contract whereby PSI agreed to purchase certain merchant accounts from Northwest Systems, LLC ("NWS"). The first case (lawsuit) sought to recover damages of \$300,000 for alleged breach of the contract to purchase, while the second case (arbitration) claimed that NWS had not been paid all residual payments due it under its agency contract with PSI. In May 2003, an award in the arbitration claim in the amount of \$149,000 was made for the benefit of the plaintiff. In mediation on July 2, 2003, the registrant settled both claims. The settlement calls for the Company to allow the conversion/transfer of all merchants accounts associated with NWS effective, July 1, 2003, and to pay \$40,000 for attorney costs, which have now been paid. While no accurate forecast can be made as to the amount and timing of the anticipated conversion, NWS merchants accounted for approximately 10% of the Company's gross processing revenue for the quarter ended March 31, 2003. The settlement also calls for a mutual release on both parties of all and any current or contemplated actions arising from their business relationship.

26

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE G - LITIGATION AND CONTINGENCIES (CONTINUED)

MOCERI LEASING CO. - This is an action by an equipment lessor on a defaulted lease. In August 2003 the Company entered into a structured settlement agreement for a total payout of \$30,000 payable in 20 installments through April of 2005. The Company has made all payment since the date of the settlement agreement.

CIT COMMUNICATIONS CO. ("CIT") - CIT, an equipment lessor, claims that we defaulted on an equipment lease. We are vigorously defending against this claim. The total amount of any potential judgment for the value of the equipment has been accrued.

GLOBAL ATTORNEYS NETWORK CO. - This is an action filed on behalf of an equipment lessor on a defaulted lease. In April 2003 the matter was settled for \$16,900. This amount has been accrued. No payments have been made.

BAS MULDER - This is a lawsuit filed by the former owner and employee of Black Sun Graphics, Inc. ("BSG"), claiming damages in excess of \$430,000 related to the purchase of BSG by the Company. During 2003 the Company entered into a structured settlement agreement calling for payments totaling \$45,000 payable over 20 months and has begun making these payments.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

FOSTER TEPPER - This is an action recently brought by a former attorney for the Company for approximately \$63,000 in legal fees, which are allegedly due and payable. The Company has accrued \$37,000 for this matter. Trial is scheduled to start August 30, 2004

ACCESS HOLDINGS LIMITED PARTNERSHIP - This is a lawsuit brought on behalf of two holders of Company stock who claim the Company has violated a prior settlement agreement and that they are therefore entitled to the return of approximately 4.1 million shares of Company stock, which they had previously surrendered, to the Company per that agreement. The Company denies both that it has breached the prior settlement agreement and that the plaintiffs are entitled to the relief they seek. Plaintiffs are not seeking monetary damages from the Company, though they are seeking court costs and attorney fees. The Company is fighting this action vigorously. No trial date has been set.

BENTLEY V. WILLIAM R. BARBER, ET AL. - On March 22, 2002, James Bentley ("Plaintiff"), a shareholder of the Company, filed a shareholder derivative lawsuit against the Company and several individual defendants for breach of contract, breach of fiduciary duty, misappropriation of trade secret, recovery of personal property, imposition of a constructive trust, unfair competition in violation of Business and Profession Code Section 17200, conversion, unfair business practices, and usurpation of corporate opportunity. On several occasions, Plaintiff also sought provisional remedies with the Court, including multiple applications for preliminary injunction and the appointment of a receiver. To date, none of Plaintiff's requests for provisional relief have been granted. On June 26, 2002, the parties to the action executed a Settlement Agreement. Plaintiff purported to rescind the Settlement Agreement in early December 2002. Plaintiff thereafter filed an ex parte application for temporary restraining order, which the court denied on December 24, 2002. The Court set a hearing for Plaintiff's application for preliminary injunction in late January 2003. Plaintiff thereafter continued the hearing on the application for preliminary injunction on several occasions. Ultimately, after Defendant's opposition to the preliminary injunction request was filed; Plaintiff took his application for preliminary injunction off calendar completely. A number of depositions and law and motion were conducted during January and February 2003. On July 3, 2003 in a special meeting of the Board of Directors, the Directors received, reviewed and considered the report of the findings of the Special Litigation Committee ("the Committee").

27

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE G - LITIGATION AND CONTINGENCIES (CONTINUED)

BENTLEY V. WILLIAM R. BARBER, ET AL. (continued) - The Committee was formed in January 2003 for the purpose of investigating the allegations contained within the shareholder derivative action known as BENTLEY v. BARBER (" the Bentley matter"). Based on its investigation, which included the review of thousands of pages of documents, 1,200 pages of

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

transcripts of depositions, reviews of the declarations of ten witnesses, and interviews of the Plaintiff, and his representatives, as well as of at least fifteen other witnesses, the Committee met on July 2, 2003 and unanimously agreed and found as follows:

- 1) The action was previously settled, after both the plaintiff and the court in the Bentley matter concluded the settlement agreement was in the best interests of the Company, so that the Committee likewise concludes that the best interests of the company are served by a dismissal of the action and the enforcement of the settlement agreement previously approved by the court:
- 2) That the allegations raised in the Bentley matter are without merit;
- 3) That it is not in the Company's interests to pursue the litigation, as the costs of prosecuting the litigation far exceed any possible recovery to the Company, particularly given the possible indemnity obligations of the Company;
- 4) The balance of the Company's corporate interests, including its need to maintain its relationship with Chase, the need for and ability to focus on obtaining new accounts, the need to apply the Company's resources, management, and assets to the payment and resolution of outstanding debts and the need to repair the Company's reputation that has been damaged by this litigation, warrants dismissal of the action, regardless of the merits of the Bentley matter; and
- 5) The Company has new management and has carefully reviewed the subject matter of the litigation and the accounting of the assets of the Company and the handling of related party transactions.

Based on the findings of the Committee, the Directors determined it to be in the best interests of the company to cause the Bentley matter to be dismissed. On July 3, 2003, the company's attorneys filed a motion for summary judgment with the Orange County Superior Court, the motion contends that: there is no merit to the charges, the suit is not being prosecuted for the benefit of the shareholders or the company, but is a vendetta by the a shareholder brought for its own purposes and that the burdens of litigation are largely responsible for the fall in the corporation's stock price since the case was filed. On July 3, 2003, the Company's attorneys concurrently filed a motion for an indefinite stay in discovery pending judgment on the motion for summary judgment. On July 25, 2003, the court granted the Company's request for stay pending ruling on the motion for summary judgment. On September 18, 2003, the Court denied the summary judgment motion, finding that there were triable issues of material fact as to the Committee's investigation. As of this writing, the Court has not entered a formal order on this motion. The Company believes the Court's ruling is incorrect and plans to seek further review once the written order is issued. The Court's ruling also ended the stay of proceedings which had been in effect since July 25, and the case - along with the Bentley Promissory Note cases (see above), with which it has been consolidated - is now set for trial on July 26, 2004. The Company continues to fight this action vigorously. The Company has recorded no liability for the potential of an adverse outcome of the action.

NOTE H - PAYROLL TAXES

The IRS has made formal demand of amounts due and unpaid for the period of January 1 - December 31, 2000, including interest and penalties, from the Company, and has appropriately filed tax liens against all

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

assets of the Company. The Company filed requests for an "Offer in Compromise" for all amounts owed by the Company and its subsidiaries, Processing Source International and Black Sun Graphics, all of which are awaiting a response from the IRS. The Company has recorded its liability in full to the IRS, including penalties and interest, on its balance sheet. As of December 31, 2003, the Company has accrued liability of approximately \$1,310,000 to the IRS.

28

ACCESSPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE I - COMMITMENTS

In October 2002, the Company entered into a Master Support Services Agreement ("Agreement") with Merchants Billing Services ("MBS"). This Agreement called for the payment of \$180,000 per month for salaries, office space & utilities, travel & entertainment, telecommunications, professional services and a management fee, with a quarterly adjustment of the payment based on actual expenses for the preceding three months activity. The Agreement is for an initial period of one year. In March 2003, the Company received notification of MBS's intention to terminate the agreement effective June 30, 2003. The termination was subsequently amended to maintain MBS as the management over the Merchant Portfolio only, effective June 1, 2003. As of October 1, 2003, with the reduction in overhead costs, the Company amended the Agreement to reflect reimbursement at actual cost only. The disinterested members of the Board have accepted these amendments. There are no future minimum payments under the amended Agreement and the management fee has been discontinued. The Company paid MBS \$55,000 and \$110,000 for the years ended December 31, 2003 and 2002, respectively.

Associated with the original Agreement was the assignment of that certain Agreement of Sublease ("Sublease") dated as of August 2002 between Veridian and the Company. Veridian and the landlord Carlsberg Properties, Inc agreed upon the assignment of the Sublease.

Capital Leases - The Company leases certain machinery and equipment under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the Balance Sheets as fixed assets; see Note E regarding related amounts. Future minimum payments under capital leases as of December 31, 2003, are as follows:

| | |
|---|------------|
| Total minimum lease payment | \$ 632,072 |
| Less amounts representing interest | (54,434) |
| Present value of minimum lease payments | 577,638 |
| Current capital lease obligations | \$577,638 |

Operating lease expense for the years ended December 31, 2003 and 2002 was \$117,157 and \$230,453, respectively.

NOTE J - DEFERRED FINANCING COSTS

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

In December 2001, the Company, in accordance with APB 21 and SAB 79 the Company recorded a deferred financing cost asset of \$6,326,381. This amount is based on the number of shares that three shareholders directly transferred to Net Integrated Systems, Inc. ("NIS") as an inducement for NIS to enter into the Revolving Line of Credit Agreement. In October 2002, the Revolving Line of Credit Agreement and related Management Agreement with NIS, was terminated. This resulted in the Company recording a write down on the deferred financing cost asset of \$3,756,927 in the year ended December 31, 2002.

The Company will amortize the remaining deferred financing cost over the life of the line of credit, which is five years. For the year ended December 31, 2003 and 2002 the Company recorded amortization expense of \$513,891 and \$1,265,276 respectively.

NOTE K - RELATED PARTY TRANSACTIONS

The Company has entered into a number of relationships that fit the definition provided by Statement of Financial Accounting Standards No. 57, "Related Party Disclosures". An entity that can control or significantly influence the management or operating policies of another entity to the extent one of the entities may be prevented from pursuing its own interests. As of December 31, 2003, the following related party relationships existed between the Company, its shareholders, officers and directors:

MBS, partially owned by William P. Barber, President and Chief Executive Officer of the Company and currently a Director of the Company, is also an agent of the Company and sells the Company's products and services through its own network of subagents and sales personnel. As of December 31, 2003 under the terms of the agency agreement with MBS, the Company paid \$423,016 in residuals. The Company paid \$101,550 for the year ended December 31, 2002. Refer to Note I - Commitments for further discussion of the operating arrangement between the Company and MBS.

29

ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2003 AND 2002

NOTE L - GOING CONCERN

The accompanying financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America, contemplates the continuation of the Company as a going concern. However, the Company has sustained significant recurring operating losses, has limited capital resources, is involved in several pending lawsuits and has been assessed by the Internal Revenue Service for unpaid payroll taxes. Continuation of the Company as a going concern is contingent upon the ability of the Company to expand its operations, generate increased revenues, secure additional sources of financing and sell a portion of the merchant portfolio. However, there is no assurance that the Company will realize the necessary capital expansion.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Note M - DEBT

 At December 31, 2003 and 2002, the Company had notes payable outstanding in the aggregate amount of \$415,000 and \$984,460, respectively. Payable as follows:

| | 2003 | 2002 |
|--|------------|------------|
| Note payable to an individual, interest at 5% per annum, due on demand | \$115,000 | \$115,000 |
| Note payable to a corporation \$250,000 payable On execution of the settlement agreement (March, 2004) and \$50,000 due in monthly installments beginning April 1, 2004 | 300,000 | 0 |
| Note payable to a corporation, interest at 8% per annum, due October 16, 2001, convertible at the option of the holder into common stock equal to the face value of the note | 0 | 450,000 |
| Capitalized lease obligations, interest at varying rates, payments through May 2004, | 0 | 419,460 |
| | ----- | ----- |
| | \$ 415,000 | \$ 984,460 |
| Current portion | \$ 415,000 | \$ 984,460 |

30

Note N - EMPLOYEE STOCK OPTIONS AND BENEFIT PLANS

 In March 1999, our Company's stockholders approved the Accesspoint Corporation 1999 Stock Incentive Plan ("the Plan"), which superseded and incorporated, in all respects, the Accesspoint Corporation 1997 Stock Option Plan. Under the Plan, incentive or non-statutory stock options may be granted to employees, directors, and consultants. The options, option prices, vesting provisions, dates of grant and number of shares granted under the plans are determined primarily by the Board of Directors or the committee authorized by the Board of Directors to administer such plans. The Plan also permits payment in shares of our Company's common stock for options to be exercised. The maximum number of shares of our Company's common stock available for issuance under the Plan is six million (6,000,000) shares. Proceeds received by our Company from exercise of stock options are credited to common stock and additional-paid-in capital. Additional information with respect to the Plan's stock option activity is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|----------------------------------|---------------------|------------------------------------|
| Outstanding at December 31, 2001 | 3,629,000 | \$.59 |
| Granted | 0 | 0 |
| Exercised | 0 | 0 |
| Cancelled | (1,852,555) | \$.81 |
| Outstanding at December 31, 2002 | 1,776,445 | \$.35 |
| Granted | 0 | 0 |
| Exercised | 0 | 0 |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | |
|--|-----------|-------|
| Cancelled | 0 | 0 |
| Outstanding at December 31, 2003 | 1,776,445 | \$.35 |
| Options exercisable at December 31, 2002 | 1,776,445 | \$.35 |

Stock options exercisable at December 31, 2003:

| Range of Exercise Prices | Number of Shares Exercisable | Weighted Average Exercise Price |
|--------------------------------|------------------------------------|---------------------------------------|
| \$0.32-0.37 | 1,776,445 | \$.35 |

Our Company has elected to follow APB Opinion No. 25 (Accounting for Stock Issued to Employees) in accounting for its employee stock options. Accordingly, no compensation expense is recognized in our Company's financial statements because the exercise price of our Company's employee stock options equals or exceeds the market price of our Company's common stock on the date of grant. If under Financial Accounting Standards Board Statement No. 123 (accounting for Stock Based Compensation) our Company determined compensation costs based on the fair value at the grant date for its stock options, net earnings and earnings per share would not have been reduced to any pro forma amounts.

31

ITEM 8. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURES

As previously reported in our 10-KSB for the year ended December 31, 2002 on April 4, 2003, in an email addressed to the controller of our Company, Lichter, Weil & Associates, independent auditors to the registrant, resigned.

The Audit Committee of the Board of Directors approved the change of the accountant and on April 25, 2003, the registrant engaged the firm of Mendoza Berger & Company, LLP, Certified Public Accountants, as the principal accountant to audit the registrant's financial statements. The Audit Committee of the Board of Directors approved the engagement of this firm as principal accountant and they have audited the financial statements for the two years ended December 31, 2003 and 2002 included in this current 10-KSB report.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

A. DIRECTORS AND EXECUTIVE OFFICERS

The following table and text sets forth the names and ages of all directors and executive officers of our Company and the key management personnel as of December 31, 2003. The Board of Directors of our Company is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders, until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Executive officers serve at the discretion of the Board of Directors, and are appointed to serve until the first Board of Directors meeting following the annual meeting of stockholders. Except as otherwise noted, there are no family relationships among directors and executive officers. Also provided is a brief description of the business

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

experience of each director and executive officer and the key management personnel during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the Federal securities laws.

DIRECTORS & EXECUTIVE OFFICERS

| NAME | AGE | POSITION |
|-------------------|-----|------------------------------------|
| ---- | --- | ----- |
| Eugene Valentine | 54 | Chairman of the Board of Directors |
| William B. Barber | 59 | CEO, President, Director |
| Joseph Byers | 78 | Director |
| Michael Savage | 84 | Director |

Mr. Eugene C. Valentine, Chairman of the Board, Member of the Audit Committee, Member of the Compensation Committee. Mr. Valentine joined the Board in October 2002. Mr. Valentine is the founder and CEO of the Financial West Group, based in Los Angeles. Mr. Valentine founded the Financial West Investment Group, Inc. in 1985. A firm with over 300 registered sales representatives in 52 offices throughout the United States. Mr. Valentine's experiences included serving for four years as Vice President of Marketing for Christopher Weil & Co., a NASD registered broker/dealer, and he was director of Real Estate Acquisitions for Windfarms, Ltd., an alternative energy subsidiary of Chevron USA. He also served as a stockholder and officer of Horizon Realty, a real estate brokerage firm located in San Francisco, following six years as a naval officer. He is a NASD registered securities principal, received a BS degree from Bethany College, and attended the University of Vienna, Austria. Mr. Valentine, through the Financial West Group is a shareholder of Accesspoint. Mr. Valentine is also the chairman of the Audit Committee. As an active participant in the securities industry, we have determined that Mr. Valentine is a financial expert and is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

32

Mr. Michael Savage joined the Board in January 2003. Mr. Savage has been the founder of more than 15 successful companies, including Capital Reserve Corporation of Los Angeles. He has extensive business experience in equipment leasing, technology and the development of new marketplaces. Mr. Savage is expected to focus his energies on the development of our affinity cards. Mr. Savage is not a shareholder of Accesspoint.

Mr. Joe Byers, Member of the Audit Committee, Member of the Compensation Committee. Mr. Byers joined the Board in January 2002. Mr. Byers has more than 40 years experience in the banking business and was most recently Senior Vice President of First National Bank based in Los Angeles. Mr. Byers focuses his time and attention on developing additional processing platforms and financial relationships for us. Mr. Byers is not a shareholder of Accesspoint.

Mr. William Barber, President and Chief Executive Officer. Mr. Barber has been a Director since October 2002. Mr. Barber has been actively involved with the development of a number of start-up ventures. He has experience in a wide variety of fields of business and is an active investor in a number of e-commerce companies. Mr. Barber served in the United States Marine Corps as a gunnery sergeant for 23 years, retiring from active service in 1991. Mr. Barber is a shareholder of Accesspoint.

B. COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of Accesspoint. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of Section 16(a) forms they file.

To our knowledge, based solely on review of the copies of such reports furnished to us, we believe that, during the year ended December 31, 2002, all of our officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information regarding compensation earned for our Company's fiscal year ended December 31, 2003, by our Chief Executive Officer and other covered persons:

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Other (\$) | Restricted Stock Award(s) (\$) |
|-----------------------------|------|-------------|------------|------------|--------------------------------|
| William B. Barber | 2003 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| CEO & President | 2002 | \$4,000 | \$ 0 | \$ 0 | \$ 0 |

A. INDIVIDUAL EXECUTIVE COMPENSATION

There were no options granted to the Named Executive Officers during the year 2003.

There were no options exercised by the Named Executive Officers during 2003:

There were no awards made to the Named Executive Officers by us of stock options under any Long-Term Incentive Plan during the year 2003.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of December 31, 2003 with respect to (i) the beneficial ownership of our Common Stock by each beneficial owner of more than 5% of the outstanding shares of our Common Stock of our Company, each director, each executive officer and all executive officers and directors as a group, (ii) the number of shares of Common Stock owned by each such person and group and (iii) the percent of our Common Stock so owned. Share ownership is based upon 24,163,995 shares of common stock issued and outstanding on December 31, 2003.

| Name of Beneficial Owner | Address | Shares held | Percentage |
|--------------------------|---------|-------------|------------|
|--------------------------|---------|-------------|------------|

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

| | | | |
|---|--|-----------|-----|
| Tom Djokovich | 23332 Vista Carillo Laguna Niguel, Ca 92677 | 3,608,257 | 19% |
| Access Holdings LP (2) | 26482 Valpariso, Mission Viejo, Ca. 92677 | 1,905,037 | 10% |
| William Barber, CEO and Director | (1) | 56,085 | * |
| Eugene Valentine, Director | (1) | - | |
| Joseph Byers, Director | (1) | - | |
| Michael Savage | (1) | - | |
| All Directors and Executive officers as a group (4 persons) | | 56,085 | |

* less than 1%

1. The address 3030 S Valley View Blvd., Ste 190 Las Vegas, NV 89102

2 Benefiting James W. Bentley and Mary Ann Bentley and family.

A. OUTSTANDING OPTIONS AND WARRANTS

As of December 31, 2003, we had granted a total of 3,629,000 options under our 1999 Plan, of which 2,578,106 are outstanding as of December 31, 2003. Of the options outstanding, 1,776,445 qualified options were issued to employees to purchase shares of our Common Stock under our 1999 Plan. In addition to the options granted to employees, we had issued 792,286 qualified options, 9,375 non-qualified options and 482,223 warrants to consultants and non-employee Directors.

B. COMPENSATION OF DIRECTORS

We pay no compensation to our Directors. Only William R. Barber is a Director and also an officer. With the exception of Mr. Barber, we lease all our employees from MBS, which pays the employees for services.

34

C. DESCRIPTION OF SECURITIES

Our authorized capital stock as of December 31, 2003 consists of 30,000,000 shares divided into 25,000,000 shares of Common Stock, par value \$0.001 per share and 5,000,000 shares of Preferred Stock, par value \$0.001 per share. There were 24,163,995 Common Shares issued and outstanding as of December 31, 2003. There were 1,055,600 shares of Preferred Stock issued and outstanding as of December 31, 2003.

Common Stock has equal voting rights and, when validly issued and outstanding are entitled to one vote per share in all matters to be voted upon by shareholders. The shares of Common Stock have no preemptive, subscription, conversion or redemption rights and may be issued only as fully-paid and non-assessable shares. Cumulative voting in the election of directors is not

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

permitted, which means that the holders of a majority of the issued and outstanding shares of Common Stock represented at any meeting at which a quorum is present will be able to elect the entire Board of Directors if they so choose and, in such event, the holders of the remaining shares of Common Stock will not be able to elect any directors. In the event of liquidation of our Company, each shareholder is entitled to receive a proportionate share of our assets available for distribution to shareholders after the payment of liabilities and after distribution in full of preferential amounts, if any. All shares of our Common Stock issued and outstanding are fully-paid and nonassessable. Holders of the Common Stock are entitled to share pro rata in dividends and distributions with respect to the Common Stock, as may be declared by the Board of Directors out of funds legally available therefore.

D. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Except for acts or omissions which involve intentional misconduct, fraud or known violation of law or for the payment of dividends in violation of Nevada Revised Statutes, there shall be no personal liability for our directors or officers to Accesspoint or its stockholders for damages for breach of fiduciary duty as a director or officer. We may indemnify any person for expenses incurred, including attorneys fees, in connection with their good faith acts if they reasonably believe such acts are in and not opposed to the best interests of us and for acts for which the person had no reason to believe his or her conduct was unlawful. We may indemnify the officers and directors for expenses incurred in defending a civil or criminal action, suit or proceeding as they are incurred in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of the director or officer to repay the amount of such expenses if it is ultimately determined by a court of competent jurisdiction in which the action or suit is brought that such person is not fairly and reasonably entitled to indemnification for such expenses which the court deems proper.

a) Statutes Regarding Indemnification of Directors, Officers, Employees and Agents

So far as permitted by the Nevada Business Corporation Act, we may indemnify our directors and officers against expenses and liabilities they incur to defend, settle or satisfy any civil or criminal action brought against them on account of their being or having been Company directors or officers unless, in any such action, they are adjudged to have acted with gross negligence or to have engaged in willful misconduct.

Section 78.751(1) of the Nevada Revised Statutes ("NRS") authorizes a Nevada corporation to indemnify any director, officer, employee, or corporate agent "who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation" due to his or her corporate role. Section 78.751(1) extends this protection "against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful."

Section 78.751(2) of the NRS also authorizes indemnification of the

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

reasonable defense or settlement expenses of a corporate director, officer, employee or agent who is sued, or is threatened with a suit, by or in the right of the corporation. The party must have been acting in good faith and with the reasonable belief that his or her actions were not opposed to the corporation's best interests. Unless the court rules that the party is reasonably entitled to indemnification, the party seeking indemnification must not have been found liable to the corporation.

To the extent that a corporate director, officer, employee, or agent is successful on the merits or otherwise in defending any action or proceeding referred to in Section 78.751(1) or 78.751(2), Section 78.751(3) of the NRS requires that he or she be indemnified "against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense."

Section 78.751(4) of the NRS limits indemnification under Section 78.751(1) and 78.751(2) to situations in which either (i) the stockholders; (ii) the majority of a disinterested quorum of directors; or (iii) independent legal counsel determine that indemnification is proper under the circumstances.

Pursuant to Section 78.175(5) of the NRS, the corporation may advance an officer's or director's expenses incurred in defending any action or proceeding upon receipt of an undertaking. Section 78.751(6)(a) provides that the rights to indemnification and advancement of expenses shall not be deemed exclusive of any other rights under any bylaw, agreement, stockholder vote or vote of disinterested directors. Section 78.751(6)(b) extends the rights to indemnification and advancement of expenses to former directors, officers, employees and agents, as well as their heirs, executors, and administrators.

Regardless of whether a director, officer, employee or agent has the right to indemnity, Section 78.752 allows the corporation to purchase and maintain insurance on his or her behalf against liability resulting from his or her corporate role.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to officers, directors or persons controlling Accesspoint pursuant to the foregoing, we have been informed that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

E. ARTICLES OF INCORPORATION

Article Twelve of the Articles of Incorporation provides that "No director or officer of the Corporation shall be personally liable to the Corporation or any of its stockholders for damages for breach of fiduciary duty as a director or officer involving any act or omission of any such director or officer; provided however, that the foregoing provision shall not eliminate or limit the liability of a director or officer (I) for acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or (ii) the payment of dividends in violation of Section 78.300 of the Nevada Revised Statutes. Any repeal or modification of this Article by the stockholders of the Corporation shall be prospective only and shall not adversely affect any limitation on the personal liability of a director or officer of the Corporation for acts of omissions prior to such repeal or modification."

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

We have entered into a number of relationships that fit the definition provided by Statement of Financial Accounting Standards No. 57, "Related Party Disclosures". An entity that can control or significantly influence the management or operating policies of another entity to the extent one of the entities may be prevented from pursuing its own interests.

Mr. William R. Barber, President and Chief Executive Officer and Director, was appointed as an officer and director in November 2002. The transactions described below occurred both before and after Mr. Barber commenced to serve as an officer and director.

Mr. Barber is the principal owner of Ameropa, Inc. ("Ameropa"), a Bahamas corporation. Ameropa owned two Bermuda corporations, Internet Online Services, Inc. ("IOS") and Network Integrated Systems, Ltd. ("NIS"). Mr. Barber and two colleagues agreed to provide funding to Accesspoint. Although IOS and Ameropa advanced funds from time to time, Mr. Barber and his colleagues decided to consolidate the funding agreements in NIS. Accordingly we entered into a written Secured Loan Agreement and associated Revolving Line of Credit Secured Promissory Note (together "Line of Credit") with NIS on December 14, 2001. Concurrently, on December 14, 2001, we also entered into a written Management Agreement with NIS. Under the Line of Credit NIS agreed to advance to us from time to time as we requested advances not to exceed \$5,000,000. All outstanding balances would bear interest at six percent (6%) per annum. NIS has the right to call the loan at any time. The Line of Credit is secured by a blanket security interest in all of our assets. Under the Line of Credit, we have granted to NIS certain powers of attorney for the protection and perfection of NIS's security interest in the collateral. Notwithstanding the rights that we granted to NIS, NIS may demand payment from us and have access to our collateral only after NIS has exhausted other sources of repayment. In connection with the Line of Credit, three of our shareholders, Tom M. Djokovich, Access Holdings Limited Partnership, and Alfred Urcuyo (together "Option Shareholders"), granted to NIS an option to purchase a total of 7,131,688 shares of our common stock at \$2.00 per share. If NIS elects to exercise its option, then the Option Shareholders have the right whether to contribute the option proceeds to us for repayment of the Line of Credit. If the Option Shareholders elect to contribute the proceeds to us, then NIS may not have recourse to our assets as a source of repayment. However, if we do not receive such option proceeds, then NIS may proceed against the collateral. Further, after 18 months, the Option Shareholders have the right to "call" the options. If NIS exercises the options, then the Option Shareholders are obligated to contribute the proceeds to us for repayment of the Line of Credit. If NIS refuses to exercise the options, then the options expire and NIS would have recourse to our assets for repayment of the Line of Credit.

37

We also entered into a Management Agreement, dated December 14, 2001, with NIS. We appointed NIS as our general manager, with the duty and authority (subject to the approval of our board of directors) to manage the day-to-day operations of the business, including our financial affairs. Under this Management Agreement, we are obligated to pay NIS \$10,000 per month, but this "fee shall accrue and only be payable to the extent the Company shall have current operating profits reasonably sufficient to pay such fee." In addition, if we terminate the Management Agreement without cause, then we are obligated to pay NIS all amounts then owing, plus the sum of \$1.0 million. However, we also have the right to terminate the Management Agreement for cause. The term "cause" includes the "filing of a voluntary or involuntary application for or appointment of a receiver" for NIS. Mr. Barber owns 50% of Net Integrated Systems ("NIS") and serves as one of its three directors.

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

NIS appointed Ameropa as its agent to manage the relationship between NIS and us under the terms of the Line of Credit. In February 2002, Ameropa began to provide cash management services to us by sweeping our operating accounts on a daily basis and funding the same accounts as items were presented for payment. Through October 2002 we dealt exclusively with Ameropa for the funding of the Line of Credit. During the year ended December 31, 2002 there were more than 300 such transactions, none of a material size, between Ameropa and our various operating accounts. As of December 31, 2003 and 2002 we were indebted to NIS under the Line of Credit in the amount of \$1,379,277 and 1,260,789, respectively. We have made no payments on this balance. During the period in which Ameropa managed the relationship between NIS and us, Mr. Barber did not have an operational role with us and he was not an officer or a member of the Board of Directors.

In October 2002, Mr. Barber, as a Director of NIS and 50% owner, placed NIS into receivership in Bermuda. Thereupon, we terminated the Management Agreement with NIS. NIS is currently in receivership in Bermuda and we have not received any indication from the receiver on behalf of NIS, of an intention to assert a claim against us. However we cannot guarantee that a claim will not be asserted in the future. On February 4, 2003, the Supreme Court of Bermuda entered an Order that NIS "be wound up". On the same day, the Supreme Court of Bermuda entered an Order consenting to the withdrawal by the other two directors of NIS of a challenge to the appointment of a receiver for NIS.

In October 2002, we entered into a Master Support Services Agreement ("Services Agreement") with Merchants Billing Services, Inc. ("MBS"). The Agreement calls for MBS to provide underwriting, administrative support, customer support and technical support services as well as a source of financing, liquidity and cash management services to us. MBS is a Nevada corporation majority owned by Mr. Barber. On November 1, 2002 MBS assumed responsibility for the payment of all of our employees as well as the assumption of their related accrued vacation and sick time. On November 1, 2002 MBS established a series of control accounts for the receipt and management of our cash. These control accounts are designated "For the Benefit Of" and are segregated from the operating accounts of MBS. Authority to move and withdraw funds from these accounts resides exclusively with us.

38

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

The following Exhibits are incorporated herein by reference or are filed with this report as indicated below.

| Exhibit No. | Description |
|-------------|--|
| ----- | ----- |
| 21.0 | *List of Subsidiaries |
| 22.0 | *MBS Master Support Services Agreement |
| 23.0 | *MBS Revolving Line of Credit |
| 24.0 | *MSB Secured Loan Agreement |
| 25.0 | *Assignment and Agreement of Sublease |
| 26.0 | *Sublease |
| 27.0 | *Settlement and Mutual Release Agreement |

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

31 CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT

32 CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT

* Previously filed with the Commission

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the fourth quarter ended December 31, 2003.

39

ITEM 14. CONTROLS AND PROCEDURES

The Company has disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended) to ensure that material information contained in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely and accurate basis. The Company's principal executive officer and principal financial officer have reviewed and evaluated the Company's disclosure controls and procedures within 90 days prior to the filing date of this report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective at ensuring that material information is recorded, processed, summarized and reported on a timely and accurate basis in the Company's filings with the Securities and Exchange Commission. Since such evaluation there have not been any significant changes in the Company's internal controls, or in other factors that could significantly affect these controls.

ITEM 15. PRINCIPAL FEES AND SERVICES.

Set forth below are fees paid to the Company's independent accountants for the past two years for the professional services performed for the Company.

Audit Fees: During 2003 and 2002 the Company accrued or paid Mendoza Berger & Company LLP a total of \$22,000 and \$40,360 for professional services rendered in connection with performance of our independent audits for the years ending December 31, 2003 and 2002, respectively.

All Other Fees: During 2003 and 2002 the Company paid Mendoza Berger & Company LLP a total of \$32,923 for professional services rendered in connection with the reviews of the March 31, 2003, June 30, 2003 and September 30, 2003, Forms 10-QSB.

Tax Fees: The Company paid Mendoza Berger & Co. LLP \$1,800 and \$4,750 for tax related services for the years ended December 31, 2003 and 2002, respectively

40

Edgar Filing: ACCESSPOINT CORP /NV/ - Form 10KSB

SIGNATURES

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

Dated: March 23, 2004

ACCESSPOINT CORPORATION

By /S/ WILLIAM R. BARBER

William R. Barber,
Chief Executive Officer, President
And Chief Financial Officer

41

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

| Signature | Title | Date |
|--|------------------------------------|----------------|
| ----- /S/ GENE VALENTINE ----- Gene Valentine | Chairman of the Board of Directors | March 23, 2004 |
| ----- /S/ JOE BYERS ----- Joe Byers | Director | March 23, 2004 |
| ----- /S/ MIKE SAVAGE ----- Mike Savage | Director | March 23, 2004 |
| ----- /S/ WILLIAM R. BARBER ----- William R. Barber | Director | March 23, 2004 |

42