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ACCESSPOINT CORP /NV/  
Form 10KSB/A  
July 22, 2002

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

FORM 10-KSB/A

AMENDMENT NO. 1

TO

(MARK ONE)

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

For the fiscal year ended: December 31, 2001

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

21031 Ventura Boulevard, Suite 200  
Woodland Hills, California

91364

-----  
(Address of Principle Executive Offices)

(Zip Code)

(818) 737-3232

-----  
(Issuer's Telephone Number, Including Area Code)

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

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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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenues for its most recent fiscal year were \$6,344,643.

The aggregate market value of the voting stock held by non-affiliates of the issuer on March 28, 2002, based upon the average bid and asked prices of such stock on that date (\$0.59) was \$4,460,169. The number of issuer's shares of Common Stock outstanding as of December 31, 2001 was 23,375,208.

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

EXPLANATORY NOTE

This Annual Report on Form 10-KSB/A ("Form 10-KSB/A") is being filed as Amendment No. 1 to the Registrant's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 16, 2002 ("Form 10-KSB") for the purpose of amending Items 6 and 7 of Part II of Registrant's Form 10-KSB. We have no further changes to the previously filed Form 10-KSB. All information in this Form 10-KSB/A is as of December 31, 2001, and does not reflect, unless otherwise noted, any subsequent information or events other than the changes mentioned above.

Accesspoint Corporation  
AMENDED Form 10-KSB ANNUAL Report  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001  
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Forward-Looking Statements

PART II

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- Item 7. Financial Statements

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-KSB contains forward-looking statements about the business, financial condition and prospects of our 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, our Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within our Company's control and that may have a direct bearing on operating results include, but are not limited to, the acceptance by customers of our Company's products and services, our Company's ability to develop new products and services cost-effectively, the ability of our 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.

PART II

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 REGISTRATION STATEMENT, AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE THEM.

A. Summary of Financial Data

The following summary financial data should be read together with this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included herein.

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	YEARS ENDED DECEMBER 31	
	2001	
Revenues.....	\$	6,344,643
Cost of sales and services.....		4,045,880
Selling and marketing.....		290,914
General and administrative.....		5,079,324
Profit (loss) from operations .....		(3,071,475)
Other expense, net .....		832,587
Extraordinary expense.....		0
Income taxes paid.....		2,400
Net income (loss).....	\$	(3,906,462)
Net loss per Common Share:		
Basic:.....	\$	(0.20)
Diluted:.....	\$	(0.15)
Weighted average number of Common Shares:		
Basic:.....		19,509,000
Diluted:.....		26,326,000

CONSOLIDATED BALANCE SHEET (2)

	YEARS ENDED DECEMBER 31	
	2001	
Cash.....	\$	78,229
Accounts receivable, net.....		255,873
Other current assets.....		20,173
Fixed assets, net 3.....		401,685
Other assets.....		6,581,025
Total assets.....		7,336,985
Total current liabilities.....		4,632,601
Long term liabilities.....		0
Total liabilities		4,632,601
Common stock.....		23,375
Preferred stock.....		1,056
Additional paid in capital.....		14,418,900
Retained earnings (deficit).....		(11,738,947)
Total shareholders' equity (deficit).....		2,704,384
Total liabilities and stockholders' equity.....	\$	7,336,985

1 For the fiscal years ended 2001 and 2000, other than capital raised pursuant

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to stock sales, we have had no operations and no revenue prior to the merger with the our predecessor, Accesspoint Corporation. However, our predecessor, Accesspoint Corporation has had prior revenue. The merger has been treated as a pooling transaction for accounting purposes.

- 2 For the fiscal years ended 2001 and 2000, other than capital raised pursuant to stock sales, the Company has had no operations and no revenue prior to the merger with the Company's predecessor, Accesspoint Corporation.
- 3 Includes net accumulated depreciation of \$936,497 and \$631,646 in 2001 and 2000, respectively.

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### B...OVERVIEW

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 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 our software products.

We have incurred losses since the inception of our operations. At December 31, 2001, we had an accumulated deficit of \$(11,738,947). In the past, we have relied substantially on private placement offerings of debt and equity to offset our losses and to fund our ongoing operations, research and development programs and business activities. However, as of December 14, 2001, we have entered into a series of agreements with Net Integrated Systems, Ltd. ("NIS"), in conjunction with a Five Million Dollar (\$5,000,000) Secured Revolving Line of Credit. In the opinion of management, this Line of Credit should be sufficient to sustain Accesspoint's operations and activities for the foreseeable future.

### C. RESULTS OF OPERATIONS

Year Ended December 31, 2001 Compared With Year Ended December 31, 2000

Revenues for the year ended December 31, 2001 increased to \$6,344,643 from \$2,261,752 for the year ended December 31, 2000. The increase of \$4,082,891, or 180.52% is due primarily to our increased revenues associated with credit card processing which resulted in an overall increase in sales.

Cost of sales for the year ended December 31, 2001 increased to \$4,045,880 from \$324,744 for the year ended December 31, 2000. The increase of \$3,721,136 or 1145.87% resulted primarily from our increase in cost of sales associated with credit card processing, which resulted in an overall increase in sales.

Selling and marketing expenses for the year ended December 31, 2001 increased to \$290,914 from \$261,715 for the year ended December 31, 2000. This increase of \$29,199, or 11.16% resulted primarily from increased sales efforts for acquisition of credit card processing accounts. Moreover, we have focused on reducing overhead costs, including the reduction in trade show expenses, advertising consulting costs, and printing costs for brochure and promotional materials during the development of our processing and underwriting platform.

General and administrative expenses for the year ended December 31, 2001

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decreased to \$5,079,324 from \$5,848,805 for the year ended December 31, 2000. The decrease of \$769,481, or 13.16% resulted primarily from a decrease of Salaries and Wages and related employee costs and a decrease in professional costs and other efficiencies.

Interest expense, net, for the year ended December 31, 2001 was \$145,059, as compared to \$144,619 for the year ended December 31, 2000. The increase of \$440, or 0.30% in interest expense resulted primarily from the Company's static cost of debt.

Other (Income) Expense, net of Interest expense was \$670,423 for the year ended December 31, 2001 compared to \$899,603, which represented a decrease of \$229,180 or 25.48%. This decrease includes primarily the reduction of bad debt expense and penalties and includes an extraordinary expense for the year ended December 31, 2001 of \$99,500, as compared to \$0 for the year ended December 31, 2000. This increase of \$99,500 was a direct result of payment of a settlement amount under a PSI lawsuit in 2001. PSI vigorously contested the action and concluded that it was in the best interests of PSI to resolve the matter without incurring further attorney's fees. The expense was a one-time charge.

Net losses for the years ended December 31, 2001 and December 31, 2000 were \$(3,906,462) and \$(5,221,248), respectively. The decrease in loss of \$1,314,786 or 25.18% was primarily related to increased revenues and a reduction of development related activities.

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### D. Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2001 were \$78,229, compared to \$31,954 at December 31, 2000, an increase of \$46,275, which represented a growth of 144.82%.

Net Cash used in operations decreased from \$3,405,357 for the year ended December 31, 2000 to \$2,110,447 for the year ended December 31, 2001, or a resulted efficiency in cash of \$1,294,910 or 38.03%. This efficiency was primarily accomplished by increased effectiveness in operations.

Net Cash used in investing activities decreased from \$218,325 as of December 31, 2000 to \$54,606 as of December. This decrease of \$163,719 or 74.99% was primarily due to a reduction of purchases in furniture and equipment.

During the year ended December 31, 2001, the Company generated net cash of \$2,211,328 from financing activities as compared to \$3,601,287 for the year ended December 31, 2000. The decrease of \$1,389,959 resulted from a decrease in private placement fundraising activities.

As of December 31, 2001, we lease office space on a short-term twelve-month sub-lease basis and could be required to move after the expiration of the twelve-month period in June 2002. We may attempt to re-negotiate a longer term lease at its present location. If the Company moves, the major capital expenditures we could incur would be related to relocation of office computers, local area network hardware, office telephony and office equipment and furniture.

We had, at December 31, 2001, negative working capital. We believe that cash generated from operations will not be sufficient to fund our current and anticipated cash requirements. However, management believes that our Five Million Dollar (\$5,000,000) Secured Revolving Line of Credit through Net Integrated Systems should be sufficient to sustain Accesspoint's operations and activities for the foreseeable future. As such, we do not believe that our

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current operational plans for the next twelve months will be curtailed or delayed because of the lack of sufficient financing. While there can be no assurances that we will continue to have access to such additional financing, on terms acceptable to us and at the times required, or at all, we believe that we will have access to sufficient capital for the foreseeable future.

### E. Net Operating Loss

For federal income tax purposes, we have net operating loss carryforwards of approximately \$10,760,000 as of December 31, 2001 and \$7,010,000, as of December 31, 2000. These carryforwards will expire at various dates through the year 2015. The use of such net operating loss carryforwards to be offset against future taxable income, if achieved, may be subject to specified annual limitations (see "Risks of Our Business Limitations on Net Operating Loss Carry Forward").

## ITEM 7. FINANCIAL STATEMENTS

Our audited consolidated financial statements for the periods ended December 31, 2001 and December 31, 2000 are filed herewith.

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### ACCESSPOINT CORPORATION CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

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#### INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Accesspoint Corporation  
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Accesspoint Corporation and its subsidiaries ("the Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note T to the consolidated financial statements, the Company has suffered recurring losses, cash deficiencies, loan and capital lease defaults and current liabilities in excess of current assets. These issues raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

As discussed in Note S to the financial statements, the Company's 2001 deferred financing costs should have been \$6,326,381. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.

April 4, 2002, except for Note S, as to which the date is July 10, 2002.  
Los Angeles, California

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CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2001 AND 2000

ASSETS

	2001
	-----
Current Assets	
Cash and cash equivalents	\$78,229
Accounts receivable, net	255,873
Inventory	6,366
Other receivables	0
Prepaid expenses	13,807
	-----
Total Current Assets	354,275
	-----
Fixed Assets	
Furniture and equipment (net)	401,685
	-----
Total Fixed Assets	401,685
	-----
Other Assets	
Deferred financing costs (net)	6,288,967
Deposits	292,058
	-----
Total Other Assets	6,581,025
	-----
Total Assets	\$7,336,985
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001
	-----
Current Liabilities	
Accounts payable and accrued expenses	\$1,467,688
Accrued payroll taxes and penalties	1,091,080
Accrued loss contingencies	338,233
Deferred compensation	221,477
Customer deposits	99,465
Current portion, capitalized leases	303,158
	-----
Current portion, notes payable	1,111,500
	-----
Total Current Liabilities	4,632,601

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Capital Lease obligations, net of current portion	0
Notes payable, net of current portion	0
	-----
Total Liabilities	4,632,601
	-----
Stockholders' Equity	
Common stock, \$.001 par value, 25,000,000 shares authorized, 23,375,208 and 16,557,560 issued and outstanding, respectively	23,375
Preferred Stock, no par value, 5,000,000 shares authorized, 1,055,600 and 0 issued and outstanding, respectively	1,056
Additional paid in capital	14,418,900
Retained deficit	(11,738,947)
	-----
Total Stockholders' Equity	2,704,384
	-----
Total Liabilities and Stockholders' Equity	\$7,336,985
	=====

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ACCESSPOINT CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	-----
Sales, net	\$6,344,643	
Cost of sales	4,045,880	-----
Gross profit	2,298,763	
Selling expenses	290,914	
General and administrative expenses	5,079,324	-----
Income (loss) from operations	(3,071,475)	-----
Other (Income) Expense		
Interest income	(17,105)	
Forgiveness of debt	(44,006)	
Other miscellaneous	(3,165)	

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Penalties	90,137
Bad debt expense	291,846
Loss on disposal of assets	45,216
Loss contingencies and legal settlements	307,500
Interest expense	162,164
	-----
Total Other (Income) Expense	832,587
	-----
Income (loss) before income taxes	(3,904,062)
Provision for income taxes	2,400
	-----
Net income (loss)	(\$3,906,462)
	=====
	=====
Net loss per share (basic and diluted)	
Basic	(\$0.20)

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Diluted	(\$0.15)
Weighted average number of shares	
Basic	19,509,000
Diluted	26,326,000

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ACCESSPOINT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2001 AND 2000

2001

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CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (loss)	(\$3,906,462)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization	37,414
Depreciation	326,872
Loss on disposal of assets	45,216
Common stock issued for services	426,518
Decrease (Increase) in receivables	(55,249)
Decrease (Increase) in inventory	(4,455)

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Decrease (Increase) in other receivables	16,682
Decrease (Increase) in prepaid expenses	12,622
Decrease (Increase) in deposits	121,738
(Decrease) Increase in accounts payable and accrued expenses	47,351
(Decrease) Increase in accrued payroll taxes	386,109
(Decrease) Increase in accrued loss contingencies	338,233
(Decrease) Increase in deferred compensation	(2,500)
(Decrease) Increase in customer deposits	99,465
(Decrease) Increase in deferred revenue	0
	-----
Total Adjustments	1,796,015
	-----
Net cash used in operations	(2,110,447)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of intangibles	0
Purchase of furniture and equipment	(54,606)
	-----
Net cash used in investing activities	(54,606)
	-----
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CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of notes payable	119,000
Payments on capital leases	(191,536)
Payments on notes payable	0
Sale of stock	2,283,864
	-----
Net cash provided by financing activities	2,211,328
	-----
Net change in cash and cash equivalents	46,275
	-----
Cash and cash equivalents at beginning of year	31,954
	-----
Cash and cash equivalents at end of year	\$78,229
	=====

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ACCESSPOINT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SUPPLEMENTAL INFORMATION

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YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001
Supplemental cash flows disclosures:	
Income tax payments	\$2,400
Interest payments	\$100,338
Non cash investing and financing Addition of equipment on capital leases	\$0
Common stock issued for services	\$426,518
Common stock transfer (see note S)	\$6,326,381

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ACCESSPOINT CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001
Retained (deficits)	
Balance at beginning of year	(\$7,832,485)
Net income (loss)	(3,906,462)
Balance at end of year	(11,738,947)
Common stock, par value \$.001 (thousands of shares)	
Balance at beginning of year	16,558
Common stock issued	6,817
Balance at end of year	23,375
Preferred stock, no par value (thousands of shares)	
Balance at beginning of year	0

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Issuance of preferred stock	1,056
<hr/>	
Balance at end of year	1,056
<hr/>	
Additional paid in capital	
Balance at beginning of year	5,390,011
Issuance of common stock	2,702,508
Transfer of common stock (see note S)	6,326,381
<hr/>	
Balance at end of year	14,418,900
<hr/>	
Total stockholders' equity at end of year	(\$2,704,384)
<hr/>	

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE A - NATURE OF OPERATIONS

Incorporated in the State of Nevada, Accesspoint Corporation ("the Company") is a "C" Corporation as organized under the Internal Revenue Code. As of December 31, 2001, the Company has combined its mature Internet Application Services technology platform with its credit card and check-processing platform to provide bundled payment acceptance, processing and business management services. These programs provide customers with multiple payment acceptance capabilities including credit card and check transaction, a fully operational e-commerce and business management Website, and a central Web based management system for servicing both the brick-and-mortar and web based sides to each business.

The Company focuses on specific markets that historically have been under served by the transaction processing industry. The Company's multi-application e-payment systems allow their growing national sales channel to market a single source solution to merchants and businesses. Clients enjoy the benefits of a versatile, multi-purpose system that provides a broad level of payment acceptance options and value-added business services without having to manage the multiple business relationships normally required for these functions.

The Accesspoint advantage is full transaction processing, settlement and software delivered as a bundled service for the cost of an industry standard transaction fee. Furthermore, as a result of the Company's systems, prospective clients can be approved in a short period, instead of the several-day time frame typically implemented by the Company's competition.

In November 2000, the Company launched its card processing division, managed by its wholly owned subsidiary, Processing Source

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International, Inc. and began earning card processing revenues in addition to its check processing revenues through the underwriting and processing of these electronic payment transactions in its growing merchant base.

The Company has targeted the Independent Sales Organization (ISO) and Independent Agent marketplace as a prime driver and sales channel for its services. The Company's operating systems makes it simple for these sale organizations to electronically submit a client's application, track the progress of that application, monitor merchant service, and even track commissions, all in real time via a private label portal provided by the Company. This program, called ISO Advantage, aims to establish a new standard for service and support in the merchant services industry and appears to present distinct marketplace advantages for those sales organizations who enter the program.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001 AND 2000

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 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, licensure of its software products and providing Internet access and hosting of Internet business services and web sites.

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.

##### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of J.S.J. Capital III, Inc., 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

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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 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.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001 AND 2000

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### 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



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### 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.

### INVENTORY

Inventory is valued at the lower of cost or market. Cost is determined on the weighted average method. As of December 31, 2001 and 2000, inventory consisted only of finished goods.

### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### CONCENTRATION OF CREDIT RISK

Financial instruments, which subject the Company to credit risk, consist primarily of cash equivalents and trade accounts receivable. Concentration of credit risk with respect to trade accounts receivable is generally diversified to the large number of entities comprising the Company's customer base and their geographic dispersion. The Company actively evaluates the creditworthiness of the customers with which it conducts business.

##### ADVERTISING

Advertising costs are expensed in the year incurred.

##### EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Earnings per share are computed using the treasury stock method. The options to purchase common shares are considered to be outstanding for all periods presented but are not calculated as part of the earnings per share.

##### 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 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

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employee must pay to acquire the stock.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There have been no such impairments to date.

### NOTE C - BUSINESS COMBINATIONS

In May 2000, the Company completed the acquisition of Black Sun Graphics, Inc. (a California Corporation), and accordingly, the operating results of the acquired company have been included in the accompanying condensed consolidated financial statements since the date of acquisition. The aggregate purchase price of this acquisition was approximately \$350,000, comprised of 70,000 shares of restricted common stock.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

### NOTE C - BUSINESS COMBINATIONS (CONTINUED)

In April 2000 the Company completed the acquisition by JSJ Capital III, Inc. ( a Nevada Corporation), with Accesspoint as the surviving corporation. The separate existence of JSJ Capital III ceased as of the date of completion of the acquisition. All issued and outstanding shares of JSJ Capital III were converted into the right to receive shares of Accesspoint upon completion of the acquisition. The transaction has been accounted for as a reverse acquisition. The transaction is a merger of a public non-reporting operating company (old Accesspoint) into a non-operating reporting public shell corporation with nominal assets. The owners of Accesspoint obtained operating control of the combined company after the transaction. This transaction has been recorded as a capital transaction, rather than a business combination, equivalent to the issuance of stock by the public non-reporting company for the net monetary assets of the shell corporation, accompanied by a recapitalization. The accounting is identical to that resulting from a reverse acquisition, except that no goodwill or other intangible has been recorded.

The results of operations for the separate companies and the combined amounts presented in the consolidated financial statements are as follows:

	2001	2000
	----	----
Sales		
Accesspoint	\$ 1,172,963	\$ 695,736
PSI	4,934,541	1,217,158
Black Sun Graphics	247,556	590,463

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Eliminations	(141,217)	(241,605)
	-----	-----
Combined	\$ 6,344,643	\$ 2,261,752
	-----	-----
Net Income (loss)		
Accesspoint	\$ (2,747,971)	\$ (4,029,561)
PSI	(1,031,316)	(1,350,608)
Black Sun Graphics	(89,761)	158,921
	-----	-----
Combined	\$ (3,869,048)	\$ (5,221,248)
	-----	-----

NOTE D - CASH

The Company maintains its cash balances at various banks in the United States. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of December 31, 2001 and 2000, there were no uninsured balances held at these banks.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE E - FIXED ASSETS

Fixed assets consist of the following:

	2001	2000
	----	----
Furniture and fixtures	\$ 71,364	\$ 71,364
Office equipment	244,623	243,634
Computer hardware and software	1,022,195	968,578
Leasehold improvements	0	67,236
	-----	-----
	1,338,181	1,350,812
Accumulated depreciation	(936,497)	(631,645)
	-----	-----
Total	\$ 401,685	\$ 719,167

At December 31, 2001 and 2000 included in fixed assets are costs of \$737,996 of assets recorded under capital leases.

For the years ended December 31, 2001 and 2000, included in accumulated depreciation are \$494,030 and \$295,474, recorded on assets under capital leases, respectively.

NOTE F- COMMITMENTS

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

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fixed assets, see Note E regarding related amounts. Future minimum payments under capital leases as of December 31, 2001, are as follows:

2002	\$ 217,773	
2003	73,791	
2004	11,594	
	-----	
	\$ 303,158	
	-----	
Total minimum lease payments		\$ 338,856
Less amount representing interest		(35,698)
		-----
Present value of minimum lease payments		303,158
Less current maturities of capital lease obligations		(303,158)
		-----
Long-term capital lease obligations		\$ 0
		-----

See Litigation and Contingencies Note Q.

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ACCESSPOINT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2001 AND 2000

NOTE F - COMMITMENTS (CONTINUED)

OPERATING LEASES - The Company leases its operating and office facilities and some of its equipment under non-cancelable operating leases. These leases expire at various dates through 2004 and may contain renewal options. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index. Also, the agreements generally require the Company to pay executory costs (real estate taxes, insurance, repairs). Future minimum rental payments under leases that have initial or remaining non-cancelable lease terms in excess of one year are:

2002	\$ 211,500
2003	56,800
2004	21,600
	-----
	\$ 289,900
	-----

Lease expense for the years ended December 31, 2001 and 2000 was \$526,580 and \$404,612, respectively.

See Litigation and Contingencies Note Q.

EMPLOYMENT AGREEMENTS - The Company has entered into certain employment agreements as follows for the retention of key employees:

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On November 12, 2001, the Company entered into an employment agreement for the services of Tom M. Djokovich as Chief Executive Officer at a base salary of two hundred thousand dollars (\$200,000) per annum, increasing by at least ten percent per annum for the duration of the agreement. The agreement also calls for the payment of cash bonuses based on revenue and net income, and the granting of stock options to purchase fifty thousand (50,000) shares of the Company stock per year for the duration of the agreement at an exercise price of the current closing price. The agreement terminates on November 13, 2003. See Subsequent Events Note S.

Dated August 1, 2000 the Company entered into an employment agreement for the services of Alfred Urcuyo as President of PSI at a base salary of two hundred thousand dollars (\$200,000) per annum. The agreement calls for escalations of base salary on attainment of certain gross revenue levels. The agreement also calls for stock incentive options, based on revenue attainment levels, of up to \$100,000 annually based on the then current market value of the stock. The agreement extended through July 31, 2006, but was terminated in January 2002. See Subsequent Events Note S.

The Company has also entered into several employment contracts with employees of PSI at varying salary levels for two-year periods. The agreements call for cash and stock incentive bonuses based on levels of gross revenue attainment. Subsequent to December 31, 2001 the employees terminated all agreements. No payments were required under the agreements.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001 AND 2000

#### NOTE F - COMMITMENTS (CONTINUED)

CONSULTING AGREEMENTS - During the year 2000, the Company entered into a consulting agreement with an individual in an advisory capacity. Compensation for services is 100,000 shares of common stock issued pro-rata over a twelve-month period and 20,000 options for the purchase of common stock at an exercise price of \$5.00 per share. The stock options also vest pro-rata over twelve months. The terms of the agreement also include the payment to the individual of a referral fee for any funding or capital formation transactions from resources referred to the Company by the individual. As of December 31, 2000 the Company had issued 66,664 shares of stock with a value of \$324,466 to this individual. The Company issued no further shares or options to this individual. Subsequent to December 31, 2001 the individual filed a demand for the remaining shares and options. Please see Subsequent Events Note S.

The Company entered into a consulting agreement with an individual in an advisory capacity. Compensation for services is 6,000 shares of common stock issued pro-rata over twelve months and 2,400 stock options for the purchase of common stock at an exercise price of \$3.37 per share. The stock options also vest pro-rata over twelve months. As of December 31, 2000 the Company has issued 1000 shares of stock with a

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value of \$3,700 to this individual. No further stock or options have been issued to this individual and the consulting agreement was terminated during 2001.

The Company has entered into a consulting agreement with another company for their marketing services. The contract stipulates payment of 3,125 shares of stock for each of eight agreed upon projects for a total of 25,000 shares. Payment is to be made at the completion of each project. As of December 31, 2001 3,125 shares have been issued under this agreement with a value of \$4,900. This contract was also terminated in 2001 and no further stock issuance will be required under the agreement.

The Company has entered into a consulting agreement with an individual for services. The agreement stipulates payment of 15,000 shares for services from November 2000 to February 2001. As of December 31, 2001 71,380 shares had been issued under this agreement with a value of \$131,300.

In January 2001, the Company entered into a consulting agreement with another corporation for media relations. This agreement stipulated for the payment of 20,000 shares of common stock per month for the first three months and 16,666 shares of stock per month for an additional six months for payment of services. The corporation was also granted 30,000 stock options for the purchase of common stock at \$1.00 per share for a period of twelve months. As of December 31, 2001, 170,000 shares have been issued with a value of \$261,200.

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ACCESSPOINT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2001 AND 2000

NOTE G - 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, 2001, the Company has 25,000,000 Common Shares authorized and 23,375,200 shares issued and outstanding. The Company had 5,000,000 Preferred Shares authorized and 1,055,600 issued and outstanding.

In addition, the Company had outstanding at December 31, 2001, 1,772,223 warrants convertible into common shares at various prices ranging from \$0.34 to \$7.50, with expirations dates through November 2006.

Exercise Price Range	Amount	Weighted Average Contractual Life	Weighted Average Exercise Price
-----	-----	-----	-----

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\$0.01 - \$0.34	100,000	33 months	\$0.34
\$0.71 - \$0.81	312,223	58 months	\$0.78
\$5.25 - \$6.00	90,000	35 months	\$5.96
\$7.00 - \$7.50	1,270,000	9 months	\$7.50

Reconciliation of stock warrants from December 31, 2000 to December 31, 2001 is as follows:

Balance at December 31, 2000	1,735,000
Warrants exercised	(275,000)
Warrants issued	312,223
	-----
Balance at December 31, 2001	1,772,223
	-----

At December 31, 2001, the Company does not have enough common stock reserved for the possible exercise of options and warrants which could total:

Exercise of common stock warrants	1,772,223
Exercise of employee stock options	3,486,000
	-----
	5,258,223
	-----

The Company intends to increase the authorized number of shares by proxy of its shareholders subsequent to December 31, 2001.

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ACCESSPOINT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2001 AND 2000

NOTE H - EARNINGS PER SHARE

Basic net earnings per share is computed using the weighted average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted net earnings per share. The computations of basic net earnings per share and diluted net earnings per share for 2001 and 2000 are as follows:

	2001	2000
	----	----
Net earnings (loss) from operations	\$ (3,869,048)	\$ (5,221,248)
	-----	-----
Basic weighted average shares	19,509,000	15,695,000
Effect of dilutive securities:		
Common stock options	3,629,000	3,842,000

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Common stock warrants	1,772,000	1,735,000
Convertible debt	360,000	437,000
Convertible preferred stock	1,056,000	0
	-----	-----
Dilutive potential common shares	26,326,000	21,709,000
	-----	-----
Net earnings (loss) per share from continuing operations:		
Basic	(\$0.20)	(\$0.33)
Diluted	(\$0.15)	(\$0.24)

NOTE I - EMPLOYEE STOCK OPTIONS AND BENEFIT PLANS

In March 1999, the 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 for options exercised in shares of the Company's common stock and the granting of incentive stock options. The maximum number of shares of the Company's common stock available for issuance under the Plan is six million (6,000,000) shares. Proceeds received by the 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:

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE I - EMPLOYEE STOCK OPTIONS AND BENEFIT PLANS (CONTINUED)

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at December 31, 1999	5,608,000	\$ 1.20
Granted	118,000	\$ 3.16
Exercised	(9,000)	\$ .43
Canceled	(1,875,000)	\$ 3.00
	-----	-----
Outstanding December 31, 2000	3,842,000	\$ .81
Granted	264,000	\$ .72
Exercised	(1,000)	\$ .43
Cancelled	(476,000)	\$ 2.50
	-----	-----



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Outstanding at December 31, 2001	3,629,000	\$ .59
	-----	-----
Options exercisable at December 31, 2000	3,384,000	\$ .47
	-----	-----
Options exercisable at December 31, 2001	3,486,000	\$ .55
	-----	-----

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Range of Exercise Prices	Weighted Average Number Outstanding (Thousands)	Remaining Years of Contractual Life	Weighted Average Exercise Price
-----	-----	-----	-----
\$0.32-0.37	3,056,000	2.2 years	\$ 0.35
\$0.43-0.88	315,000	2.1 years	\$ 0.35
\$1.050-2.50	91,000	3.8 years	\$ 1.48
\$3.12-5.56	167,000	2.9 years	\$ 4.62
	-----		-----
	3,629,000	2.3 years	\$ 0.57
	-----	-----	-----

Stock Options Exercisable at December 31, 2001:

Range of Exercise Prices	Number of Shares Exercisable	Weighted Average Exercise Price
-----	-----	-----
\$0.32-0.37	3,056,000	\$ .35
\$0.43-0.88	291,000	\$ .35
\$3.12-5.56	139,000	\$ 4.20
	-----	-----
	3,486,000	\$ .50
	-----	-----

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE I - EMPLOYEE STOCK OPTIONS AND BENEFIT PLANS (CONTINUED)

The 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 the Company's financial statements because the exercise price of the Company's employee stock options equals the market price of the

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Company's common stock on the date of grant. If under Financial Accounting Standards Board Statement No. 123 (accounting for Stock Based Compensation) the Company determined compensation costs based on the fair value at the grant date for its stock options, net earnings and earnings per share would have been reduced to the following pro forma amounts:

	2001 ----	2000 ----
Net earnings (loss):		
As reported	\$(3,869,048)	\$(5,221,248)
Pro forma	\$(4,172,954)	\$(5,660,782)
Basic earnings (loss) per share:		
As reported	(\$0.20)	(\$0.33)
Pro forma	(\$0.21)	(\$0.36)
Diluted earnings (loss) per share:		
As reported	(\$0.15)	(\$0.26)
Pro forma	(\$0.16)	(\$0.26)

The weighted average estimated fair value of stock options granted during 2001 and 2000 was \$0.084 and \$0.12 per share, respectively. These amounts were determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the expected life of the option. The assumptions used in the Black-Scholes model were as follows for stock options granted in 2001 and 2000:

	2001 ----	2000 ----
Risk-free interest rate	5.50%	6.20%
Expected volatility of stock	350%	370%
Dividend yield	0.0%	0.0%
Expected life of options	36 months	31 months

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options, and the Company's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE J - DEBT

At December 31, 2001 and 2000, the Company had notes payable outstanding in the aggregate amount of \$1,414,658 and \$1,487,194,

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respectively. Payable as follows:

	2001 -----	2000 -----
Note payable to a trust of a related party, interest at 12% per annum, due on demand	\$ 100,000	\$ 100,000
Notes payable to a partnership, 10% per annum, due December 6, 2002, to a related party	160,000	160,000
Note payable to a corporation, interest at 5% per annum, due on demand	167,500	167,500
Note payable to an individual, interest at 5% per annum, due on demand	115,000	115,000
Various notes payable to a related party, interest rates from 8% to 10% per annum, due in 2002	119,000	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, currently in default, secured by \$250,000 deposit of the Company's	450,000	450,000
Capitalized lease obligations, interest at varying rates, payments through May 2004	303,158	494,694
	-----	-----
	1,414,658	1,487,194
Current portion	1,414,658	1,203,204
	-----	-----
Long-term portion	\$ 0	\$ 283,990
	-----	-----

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE K - SECURITIES AGREEMENT

On October 16, 2000, the Company, in conjunction with a \$450,000 convertible note (see Note I), issued a Callable Common Stock Warrant and a Common Stock Warrant to another corporation.

The Callable Common Stock Warrant's term is from October 16, 2000 to October 16, 2002 for the purchase of up to 1,200,000 shares of common stock at \$7.50 per share. The Company may elect to call this warrant at

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any time for \$.0001 per warrant share, or \$120 for the entire warrant. The Agreement required the Company to register the Warrants.

The Common Stock Warrant's term is from October 16, 2000 to October 16, 2005. This warrant allows the holder to purchase up to 70,000 shares of common stock for 110% of the volume weighted average price per share on the day prior to exercise.

The Company is currently in default under this agreement for repayment of the loan on October 16, 2001. The Company is currently in negotiations with the lender regarding this matter.

### NOTE L - COMPENSATED ABSENCES

Employees can earn annual vacation leave at the rate of five (5) days per year for the first year. Upon completion of the first year of employment, employees can earn annual vacation leave at the rate of ten (10) days per year for years two through seven. Upon completion of the eighth year of employment, employees can earn annual vacation leave at the rate of fifteen (15) days per year. At termination, employees are paid for any accumulated annual vacation leave. As of December 31, 2001 and 2000 the total vacation liability totaled \$73,466 and \$51,441, respectively.

### NOTE M - RELATED PARTY TRANSACTIONS

Throughout the history of the Company, certain members of the Board of Directors, members of the immediate family of management, and general management have made loans to the Company to cover operating expenses or operating deficiencies.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

### NOTE N - INCOME TAXES

Total Federal and State income tax expense for the years ended December 31, 2001 and 2000 amounted to \$2,400 and \$2,400, respectively. These represent the minimum annual tax liability under California tax code. No future benefit for the realization of an operating loss carry-forward, in the form of an asset, has been recognized due to the ongoing nature of the losses and the potential inability for the Company to ever realize their benefit. For the years ended December 31, 2001 and 2000, there is no difference between the federal statutory tax rate and the effective tax rate. At years ended December 31, 2001 and 2000 the Company had available net operating loss carry-forwards of approximately \$10,900,000 and \$7,010,000 respectively, after adjusting for limitation, to be offset against future taxable income. The operating loss carry forwards will expire at various dates through the year 2015.

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### NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, deposits and accounts payable approximate their fair value because of the short maturity of those instruments.

The carrying amounts of the Company's long-term debt and capital lease obligations approximate their fair value because of the short maturity and/or interest rates which are comparable to those currently available to the Company on obligations with similar terms.

### NOTE P - NET INTEGRATED SYSTEMS LTD.

On December 20, 2001 the Company entered into several agreements with Net Integrated Systems Ltd. (NIS) in conjunction with a Five Million Dollar (\$5,000,000) Secured Revolving Line of Credit.

STOCK TRANSFER AGREEMENT - As partial inducement for NIS to enter into the agreement three shareholders agreed to transfer ownership of 4,486,795 shares of common stock collectively owned by them to NIS.

STOCK OPTION AGREEMENT - In addition to the above shares, the same three shareholders granted an option to NIS to purchase an additional 7,131,418 shares of common stock collectively owned by them at \$2 per share until December 14, 2006.

IRREVOCABLE VOTING PROXY - An irrevocable voting proxy was given to NIS from the three shareholders on the 7,131,418 shares collectively owned by them. The shareholders retain the right to vote on certain matters including, but not limited to, liquidation of the Company, bankruptcy, merger, reorganizations and disposition of Company assets. The Proxy extends until the end of all other agreements.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

### NOTE P - NET INTEGRATED SYSTEMS LTD. (CONTINUED)

PLEDGE AGREEMENT - As further collateral for the Revolving Line of Credit certain shareholders agreed to Pledge 7,131,418 shares, collectively owned by them, for the Secured Loan Agreement.

REVOLVING LINE OF CREDIT AND SECURED LOAN AGREEMENT - The Company entered into a Revolving Line of Credit and related Secured Loan Agreement with NIS which calls for the lender to make credit extension advances when requested by the Company and its Board of Directors.

The terms of the Agreement are for credit advances not to exceed the cumulative total principal sum of Five Million Dollars (\$5,000,000) at an interest rate of six percent (6%) per annum on the unpaid balance. The note requires minimum monthly payments of interest only and is due on December 14, 2006. At December 31, 2001 no advances had been

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requested under this Agreement.

All assets of the Company and 7,131,418 shares of common stock of the Company pledged under the above Pledge Agreement secure the Revolving Line of Credit.

MANAGEMENT AGREEMENT - In connection with the above agreements the Company entered into a Management Agreement with NIS to assist in the day-to-day operations of the business. This includes, but is not limited to, hiring and terminating personnel, enter into, modify or terminate agreements and contracts, manage Company finances, compromise debts and obligations, acquire assets and make investments. However, the Board of Directors retain all rights to approve, disapprove and oversee the activities of the Manager.

The terms of the agreement are for a monthly fee of \$10,000, which accrues until paid from current operating profits. The period is for five years, early termination by the manager with ten days written notice for any reason. Termination by the Company for any reason other than cause shall require all accrued and unpaid sums to become due and payable as well as the sum of One Million Dollars (\$1,000,000).

After the effect of the above transactions NIS beneficially owns 11,618,213 shares of common stock, or approximately fifty percent (50%) of the outstanding shares at December 31, 2001.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001 AND 2000

#### NOTE Q - 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. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company. 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, 2001 the Company has accrued for the liability in full on its Balance Sheet. No payments have been made.

IRVINE - In February 2002, the Company vacated office space it had leased under an operating lease agreement in Irvine, California. The lessor subsequently filed a formal demand of payment for the remaining amount of unpaid rent. The Company entered into a settlement agreement with the lessor subsequent to December 31, 2001 in the amount of \$75,000 less a security deposit being held by lessor. The Company has not paid this amount according to the terms of the agreement and is

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currently in default. As of December 31, 2001 the Company has recorded the full amount of the remaining payments due, less the security deposit, due to the default of the above agreement. This amount is approximately \$20,000.

RUTTENBERG - During 2001 a former employee of the Company filed a formal demand for payment of remaining salary under an employment agreement, unreimbursed expenses and legal costs. In November 2001 the Company entered into a settlement agreement, which required a total sum of \$44,500, be paid in \$5,000 monthly installments. The Company is currently in default under this agreement and has appropriately recorded all original amounts demanded under a Stipulation for the Entry of Judgment of \$92,000, less payments that were made, as a liability on the Balance Sheet as of December 31, 2001.

CAPITAL LEASES - As of December 31, 2001, and subsequently, the Company has stopped making payments on all of its capital leases. Thus, under the lease agreements, the Company is in default. This default accelerates all future payments due and gives the lessor the right to obtain the property.

The Company is currently in negotiations with all lessors for revised terms for the remaining life of the leases. As of this date no new terms have been finalized. None of the lessors have filed formal suits or complaints with the court. The Company has appropriately recorded all amounts due for the remaining life of the leases as a current liability on its Balance Sheet at December 31, 2001.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINTUED) DECEMBER 31, 2001 AND 2000

#### NOTE Q - LITIGATION AND CONTINGENCIES (CONTINUED)

ROYCAP - As of December 31, 2001 the Company was in default on its loan agreement with Roycap for repayment of a \$450,000 loan, plus accrued interest, which was due on October 16, 2001. The Company is currently in negotiations with the lender on new loan terms. The Company has shown the \$450,000 loan in its liabilities as well as all accrued interest. In addition, the Company has accrued registration rights fees of \$108,000 related to this matter.

ACCOUNTS PAYABLE - The Company is currently in arrears in payments to its vendors in the normal course of business. Management is currently working on negotiating compromised amounts with all vendors. The Company has recorded as a liability on its Balance Sheet the full value of amounts owed to the vendors. When and if amounts are compromised, a gain on forgiveness of debt will be recognized accordingly.

#### NOTE R - PAYROLL TAXES

The Company is currently in negotiations with the United States Department of the Treasury, Internal Revenue Service (IRS) in regards to unpaid employment taxes. The IRS has made formal demand of amounts

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due and unpaid, including interest and penalties, from the Company, and has appropriately filed tax liens against all assets of the Company. The Company entered into installment agreements with the IRS and made payments as required. The Company has hired independent accountants to assist them in this matter and have filed a request for an "Offer and Compromise" of all amounts owed by the Company. The IRS has recorded the request and halted all payment requirements under the installment agreements and any other collection activity until it has had time to review the matter. As of the date of this report the IRS has not responded to the Company.

The Company has always recorded its liability in full to the IRS, including penalties and interest, on its Balance Sheet. At December 31, 2001 the approximate amounts owed by each Company is as follows:

Accesspoint	\$ 328,000
PSI	674,000
BSG	38,000
	-----
	\$ 1,040,000
	-----

The Company also owes unpaid employment taxes to the California Employment Development Department (EDD). The Company has entered into installment agreements with the EDD and has been making all required payments. The Company has always recorded in full, including penalties and interest, its liability to the EDD as a liability on its Balance Sheet. At December 31, 2001 the remaining amount owed to the EDD is approximately \$51,000.

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001 AND 2000

#### NOTE S - DEFERRED FINANCING COSTS

In accordance with APB 21 and SAB 79 the Company has 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 Ltd. (NIS) as an inducement for NIS to enter into the Revolving Line of Credit Agreement (see note P).

This amount is calculated by multiplying the 4,486,795 shares transferred by \$1.41 per share. The share price represents the closing market value of the Company's stock on December 20, 2001 reduced by a ten percent (10%) discount due to the Rule 144 stock restrictions on these shares.

The entry to record this transaction is to debit the deferred financing cost asset and to credit additional paid in capital. The Company will amortize the deferred financing cost over the life of the line of credit, which is five years. For the year ended December 31, 2001 the Company recorded amortization expense of \$37,414.

#### NOTE T - SUBSEQUENT EVENTS



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BENTLEY - In March 2002, a shareholder, former Officer and former Director of the Company filed a suit against the Company and other various officers, directors and entities. The suit contains eleven (11) Causes of Action including: Breach of Contract, Misappropriation, Unfair Competition, Unfair Business Practices and the imposition of a Constructive Trust.

The Plaintiff is seeking undetermined compensatory damages and special and resulting damages all to be determined at trial. Plaintiff is also seeking a temporary and permanent injunction on various matters.

An Ex Parte hearing was held on March 22, 2002 at which time the Judge did not grant the temporary or permanent injunctions that were being sought and did not put a receiver in place as the plaintiff requested. The parties have a hearing date set for April 18, 2002.

At this time it is not possible to determine the outcome of the case or to quantify possible damages. No amounts have been recorded in the financial statements regarding this matter. The Company does not believe the causes have merit and intends to vigorously defend itself.

DJOKOVICH - In February 2002, Tom Djokovich resigned as Chief Executive Officer of the Company, effective immediately. Mr. Djokovich gave up his employment contract (see Commitments Note F), signed a mutual release and relieved the Company from a payment of \$267,000 in deferred compensation and a related Promissory Note and Security Agreement.

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ACCESSPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2001 AND 2000

NOTE T - SUBSEQUENT EVENTS (CONTINUED)

URCUYO - In January 2002 Alfred Urcuyo resigned as President of PSI, effective immediately. Mr. Urcuyo gave up his employment contract (see Commitments Note F) and released the Company from paying any amounts owed to him for unreimbursed expenses. Mr. Urcuyo signed a Mutual Release.

MULDER - In 2002, a former employee of the Company filed a claim for payment of credit card debt he incurred on behalf of the Company to pay expenses and various loans he states were made to the Company. These items amount to approximately \$65,000. The Company is currently in negotiations with Mr. Mulder but has accrued as a liability on its Balance Sheet at December 31, 2001 the full amount of \$65,000.

PARISH - In 2002 a former Consultant of the Company has filed a claim stating that he is owed 33,336 shares of common stock and 20,000 options to purchase shares of common stock at \$5 per share, for services rendered under a contract (see Commitments Note F). The Company does not believe that this claim is valid under the contract terms and intends to defend itself in this matter. No amounts have been accrued.

VERVE - In 2002, a shareholder of the Company submitted a letter of

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demand to recover their original investment of \$40,000. No amounts have been accrued for this item, as the Company does not intend to return the amount invested.

MERCHANTWAREHOUSE.COM - In 2002, the Company terminated a firm as one of its agents. The firm subsequently filed a formal demand claiming improper termination of agency agreement, but has not specified any damage claim at this time. The Company has not had time to respond to the demand, however, it does not believe that allegations have any merit. It is not possible at this time to determine the outcome of the case or the possible loss due to the unspecified demand. No amounts have been accrued in this matter.

SALE OF FIXED ASSETS - In March 2002 the Company sold various furniture and fixtures from its Irvine facility after closing the office. The majority of Fixed Assets were transferred to other Company facilities, however there were some remaining items that were sold for \$3,000. The loss on the sale is immaterial to the Company as most assets had been depreciated in value.

### NOTE U - GOING CONCERN

The Company has suffered recurring losses, cash deficiencies, loan and capital lease defaults, and current liabilities far in excess of current assets. These issues raise substantial concern about its ability to continue as a going concern.

Management has prepared the following statement in order to address these and other concerns:

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### ACCESSPOINT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

### NOTE U - GOING CONCERN (CONTINUED)

The Company has made substantial investments in the development of infrastructure to support its transaction processing and business automation services. These investments in both fixed assets and strategic banking agreements have provided the Company with expanded revenue generating capabilities.

The investment in these assets during the Company's transition from a third party software and web services provider to a primary provider of financial transaction underwriting, processing and business management services have in large part contributed to the Company's losses and cash deficiencies.

The purpose of these investments was to develop infrastructure necessary to position and prepare the Company and its wholly owned subsidiary, Processing Source International, Inc. (PSI), so that revenues could be generated as a primary processor and underwriter of electronic financial transactions. As a result of these investments, PSI became a member processor, under the sponsorship of Chase Manhattan

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Bank, within the Visa/MasterCard association for the processing of card transactions and the Company received sponsorship through First National Bank of Omaha for the processing of electronic checks and check conversion within the National Automated Clearing House Association (NACHA) network.

Prior to achieving this goal in November 2000, the Company typically generated revenues through the licensing of its business management and transaction processing software technologies and the monthly service fees for hosting these business applications. As of December 31, 2001, the Company generates revenues through the aforementioned services.

In December 2001, the Company entered into a Management Agreement and related Revolving Line of Credit Agreement (See Note P) for up to \$5,000,000. Hence, subsequent to December 31, 2001, the Company has significantly reduced its overhead by closing two office facilities and consolidating administrative and sales efforts. In addition, the Company is currently renegotiating its lease commitments, notes payable and accounts payable to further reduce its current liabilities and improve its cash flow.

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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, in the City of Los Angeles, State of California, on the 18th day of July, 2002.

Dated: July 18, 2002

ACCESSPOINT ORPORATION

By: /s/ Marcia Allen  
-----  
Marcia Allen,  
President and Director

By: /s/ Christine Crocker  
-----  
Christine Crocker,  
Secretary and Director

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
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/s/ Marcia Allen ----- Marcia Allen	President & Director	July 18, 2002

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/s/ Christine Crocker

Secretary & Director

July 18, 2002

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Christine Crocker

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