UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 333-75137

PASW, INC.

(Exact name of registrant as specified in its charter)

California	**77-0390628**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2007 Simsbury Court	
Thousand Oaks, California	**91360**
(Address of principal executive offices)	**(Zip Code)**

(805) 492-6623

Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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____

There were 4,517,400 shares outstanding of the registrant's Common Stock, par value $.001 per share, as of July 19, 2001.

PASW, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PASW, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 227,524	$ 254,369
Accounts receivable, net of allowance of		
$0 and $0	42,911	157,381
Securities available for sale	3,301	198,541
Prepaid expenses	361	30,867
Total current assets	274,097	641,158

Property and equipment less accumulated depreciation and amortization of $43,852 and $43,852	12,085	12,784
Other assets	5,815	6,732
Total assets	$ 291,997	$ 660,674

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2001	December 31, 2000
LIABILITIES AND STOCKHOLDERS'EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 121,485	$ 657,162
Total current liabilities	121,485	657,162
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $.01 per share, 10,000,000 shares authorized; no shares outstanding	0	0
Common stock, par value $.001 per share, 50,000,000 shares authorized; 4,517,400 and 4,517,400 shares issued and outstanding	4,518	4,518
Additional paid in capital	6,265,653	6,265,653
Accumulated deficit	(6,217,827)	(6,241,830)
Cumulative adjustment for currency translation	118,168	(24,829)
Total stockholders' equity	170,512	3,512
	$ 291,997	$ 660,674

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended	
	June 30, 2001	June 30, 2000
		(Restated)
Net revenue	$ 253,304	$ 0
Sales	34,985	116,784
Royalties and other	288,289	116,784
Cost of revenue -		
Purchases and royalty fees	187,583	5,565
Gross profit	100,706	111,219
Expenses:		
Selling, general and administrative	144,855	571,409
Research and development	0	176,433
Depreciation and amortization	0	0
	144,855	747,842
Other income (expenses):	(6,725)	0
Loss on sale of securities	4,500	0
Gain on cancellation of debt	(2,225)	0
Income (loss) from continuing operations	(46,374)	(636,623)
Discontinued operations	0	(358,095)
Net income (loss)	$ (46,374)	$ (994,718)
Net income (loss) per common share:		
basic and diluted		
Continuing operations	$ (0.01)	$ (0.14)
Discontinued operations	$ 0.00	$ (0.07)
Total	$ (0.01)	$ (0.21)
Weighted average common stock shares outstanding Basic and diluted	4,640,900	4,640,900

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Six Months Ended	
	June 30, 2001	June 30, 2000
		(Restated)
Net revenue	$ 370,802	$ 534
Sales	65,860	197,431
Royalties and other	436,662	197,965
Cost of revenue -		
Purchases and royalty fees	246,150	37,910
Gross profit	190,512	160,055
Expenses:		
Selling, general and administrative	139,676	1,176,455
Research and development	0	381,587
Depreciation and amortization	0	3,973
	139,676	1,562,015
Other income (expenses):	(31,333)	0
Loss on sale of securities	4,500	0
Gain on cancellation of debt	(26,833)	0
Income (loss) from continuing operations	24,003	(1,401,960)
Discontinued operations	0	(446,291)
Net income (loss)	$ 24,003	$ (1,848,251)
Net income (loss) per common share:		
basic and diluted		
Continuing operations	$ 0.01	$ (0.30)

Discontinued operations	$ 0.00	$ (0.10)
Total	$ 0.01	$ (0.40)
Weighted average common stock shares outstanding Basic and diluted	4,640,900	4,606,345

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended	
	June 30, 2001	June 30, 2000
		(Restated)
Net income (loss)	$ (46,374)	$ (994,718)
Other comprehensive income (loss):		
Net unrealized loss on available securities for sale	(575)	0
Foreign currency translation adjustment	81,858	(105,545)
Comprehensive income (loss)	$ 34,909	$(1,100,263)

PASW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Six Months Ended

	June 30, 2001	June 30, 2000
		(Restated)
Net income (loss)	$ 24,003	$(1,848,251)
Other comprehensive income (loss):		
Net unrealized loss on available securities for sale	(4,568)	0
Foreign currency translation adjustment	147,565	(105,545)
Comprehensive gain (loss)	$ 167,000	$(1,953,796)

See accompanying notes to condensed financial statements.

PASW, INC.

STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30, 2001	June 30, 2000
Cash flows from operating activities:		(Restated)
Continuing operations		
Net income (loss)	$ 24,003	$ (1,401,960)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	0	47,710
(Increase) decrease in assets:		
Accounts receivable	114,470	73,450
Loss on marketable securities	31,333	0
Prepaid expenses	30,506	22,065

Other assets	917	(5,845)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(535,677)	(79,788)
Deferred revenue	0	(6,708)
Net cash used in operating activities	(334,448)	(1,351,076)
Loss from discontinued operations	0	(446,291)
Cash flows from investing activities:		
Acquisition of fixed assets	0	(124,739)
Disposition of assets, net	699	0
Proceeds of sale or marketable securities	300,407	0
Purchase of marketable securities	(136,500)	0
Net cash used in investing activities	164,606	(124,739)
Cash flows from financing activities:		
Sale of subsidiary stock	0	350,000
Exercise of warrants	0	548,624
Net cash provided by financing activities	0	898,624
Effect of exchange rate changes on cash	142,997	78,930
Net increase (decrease) in cash	(26,845)	(944,552)
Cash – Beginning	254,369	1,661,708
Cash – Ending	$ 227,524	$ 717,156

Supplemental non-cash financing activities: None

See accompanying notes to condensed financial statements.

PASW, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) Basis of presentation

The accompanying unaudited consolidated financial statements of PASW, INC. ("PASW", or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the Company's financial position at June 30, 2001, the results of operations for the three months and six months ended June 30, 2001 and June 30, 2000, and the cash flows for the six months ended June 30, 2001 and June 30, 2000 are included. Operating results for the three-month and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The information contained in this Form 10-QSB should be read in conjunction with audited financial statements and related notes for the year ended December 31, 2000 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the "SEC") on March 28, 2001, Form 10KSBA Number 1 filed on April 27, 2001 and the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on July 29, 1999 (File 333-75137).

(2) Earnings per share

The Company adopted SFAS No. 128, "Earnings Per Share", during 1998. SFAS No. 128 requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts, such as stock options, to issue common stock were exercised or converted into common stock. All prior period weighted average and per share information has been restated in accordance with SFAS No. 128.

COMPUTATION OF WEIGHTED AVERAGE

COMMON SHARES OUTSTANDING

	Total Number of Shares	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
Outstanding shares as of January 1, 2001	4,517,400	4,517,400	4,517,400
Options treated as Common Stock	123,500	123,500	123,500
Total weighted average shares outstanding	4,640,900	4,640,900	4,640,900
Net gain (loss)		$ (46,374)	$ 24,003
Net loss per common share basic and diluted		$ (0.01)	$ 0.01

(3) Proposed Simmons Energy Services Inc. ("SES")Merger

In February 2001, PASW entered into a letter of intent to acquire the operations of Simmons Energy Services Inc. ("SES"), a privately held Alberta (Canada) company. Under the terms of the proposed transaction, PASW will issue shares of its common stock, Series B preferred stock and Series C convertible preferred stock to acquire SES in a transaction to be accounted for as a reverse acquisition. In a reverse acquisition, SES is considered to be the acquirer of PASW and all historic financial statements are restated to reflect only the operations of SES.

In February 2001, The Russell Trust, the majority stockholder of PASW (one of the trustees of which is Glenn P. Russell, the former chairman of PASW), entered into a letter of intent to sell 2,500,000 of its 3,000,000 shares of PASW to 912502 Alberta Ltd., a company controlled by Walter Dawson, a director, officer and shareholder of SES. The Russell Trust has agreed to vote its shares, representing approximately 61% of the voting common stock of PASW, in favor of the proposed reverse acquisition. On April 30, 2001 this agreement was amended whereby the Russell Trust will sell 1,500,000 shares of stock for the sum of $1.00 and will retain the balance of its shares. It will continue to vote its remaining shares in favor of the proposed reverse acquisition.

A definitive combination agreement between PASW and SES was executed in March 2001. A term of the agreement calls for PASW to initiate a private placement offering of 5,000,000 units (the "Units") at $4.00 per unit for an aggregate offering price of $20,000,000. Each unit consists of one share of Series A convertible preferred stock (the "Series A Shares") and one-half of one warrant (the "Warrants"). Each whole Warrant allows the purchase of one share of post 1:4 reverse split common stock of PASW at $5.00 per share for a period of 12 months from the close of the offering. The Warrants are subject to redemption at $0.05 per warrant if the closing bid price of PASW common stock equals or exceeds $7.00 per share for 15 consecutive trading days. The Series A Shares are non-voting and will automatically convert into an equal number of post one-for-four reverse split common shares of PASW upon the effectiveness of a registration statement filed with the Securities and Exchange Commission to register the common shares underlying the Series A Shares and Warrants**.** The definitive combination agreement between PASW and SES calls for:

> the issuance of 10,687,502 shares of PASW common stock (post-reverse split) for the shares of SES valued at $38,047,507, to the shareholders of SES. Of these shares, 2,251,705 will be issued at the closing of the reverse acquisition, and 8,435,797 shares will be reserved for issuance upon the exchange of an equal number of shares issued by a wholly owned Canadian subsidiary of PASW and that are exchangeable on a one-for-one basis into common shares of PASW.
>
> the issuance of one share of Series B special voting preferred stock ("Series B Shares"). The Series B Shares will possess a number of votes equal to the number of outstanding exchangeable shares not owned by PASW or its affiliates and may be exercised for the election of directors and on all other matters submitted to a vote of PASW's shareholders. In conjunction with the Series B Shares, the exchangeable shares have the economic and voting rights equivalent to those of PASW common stock, and
>
> the issuance of 1,017,276 shares of Series C convertible preferred stock ("Series C Shares") for the purchase of certain loans to SES totaling $3,621,500, later amended to up to $5,200,000, from SES shareholders.

The reverse acquisition will close simultaneous with the closing of the private placement. If the private placement closes before PASW shareholders have approved the common stock to be issued in this transaction:

> shares of non-voting Series C preferred stock will be issued to the shareholders of SES in lieu of shares of common stock, to be automatically converted to common stock on the effective date of the one for four reverse stock split following shareholder approval,
>
> 8,435,797 shares will be issued by a wholly owned Canadian subsidiary of PASW. These shares will not be exchangeable into shares of PASW common stock until shareholder approval is received and the one for four reverse stock split is effective,
>
> Series B shares will not be issued until shareholder approval is received, and
>
> The Series C Shares will not be convertible into shares of PASW common stock until shareholder approval is received and the one for four reverse stock split is effective

Following the completion of the reverse acquisition and the reverse split (and assuming the sale of the maximum 5,000,000 Units offered in the private placement), there will be 17,934,128 common shares outstanding, assuming conversion of all preferred and exchangeable shares and no exercise of warrants, of which the PASW shareholders existing prior to the reverse acquisition will own 6.9%.

At the PASW annual meeting of shareholders currently expected to be held in August 2001, the PASW shareholders will be voting to:

Approve the conversion of preferred shares issued to SES in the reverse acquisition to shares of common stock,

Approve the creation and issuance of Series B special voting preferred to be issued to SES in conjunction with the reverse acquisition,

Reverse split outstanding common stock on a one-for-four basis,

Change the name of PASW, Inc. to Simmons Energy Services Inc. or such other name requested by SES,

Elect three additional directors submitted by SES,

Appoint PriceWaterhouseCoopers, the current auditors for SES, as the auditors for PASW for the year ending December 31, 2001, and

Change the legal domicile of PASW from California to Nevada.

PASW has not filed a registration statement with the Securities and Exchange Commission pursuant to the Securities Act of 1933 with respect to securities of PASW or its subsidiaries issuable in connection with the reverse acquisition and accordingly, any PASW common shares issued in connection with the reverse acquisition will be "restricted" for the purposes of the Securities Act until a registration statement is effective. PASW may file a registration statement with the Securities and Exchange Commission respecting the resale of the 11,704,778 shares of common stock issuable pursuant to the reverse acquisition at a future date.

(4) Repricing of Registered Warrants

In March 2001 the Board of Directors announced the repricing of the Company's registered warrants (NASDAQ:PASWW). The exercise price of the warrants was reduced from $7.50 to $4.00 per share. In June 2001 the Board of Directors amended the terms to extend the exercise date to November 30, 2001 and to reduce the price to $1.00 on a pre-reverse split basis ($4.00 per share on a post-reverse split basis.).

(5) NASDAQ Non-Compliance

In April 2001 the Company was notified by NASDAQ that at December 31, 2000 it was not in compliance with the Net Tangible Asset requirements of NASDAQ Market Place Rule 4310 (c)(2)(B) in that PASW failed to have a minimum of $2 million in net tangible assets. At the same time PASW was notified that in light of the "going concern" opinion from our auditors we may not be able sustain compliance with the continued listing requirements of the NASDAQ Stock Market. In May 2001 the Company was notified that is not in compliance with the minimum bid price requirements of NASDAQ Market Place Rule 4310(c)(8)(B) in that the closing bid price of the Company's common stock did not meet or exceed $1.00 over 30 consecutive trading days. The Company was given until August 22, 2001 to achieve compliance. At June 30, 2001 the Company was not in compliance with any of the rules and, although notification has not been received from NASDAQ, the Company believes it is not in compliance with Market Place Rule 4310(c)(7) in that it has not maintained a minimum market value of public float of $1,000,000 over 30 consecutive trading days.

(6) Subsequent event

On July 18, 2001 the Company was verbally notified by Simmons Energy Services Inc that the efforts by SES to secure the $20 million private placement were not progressing and that it appeared to SES that current market conditions could delay or curtail any future efforts to complete the private placement in time to cure the NADSAQ deficiencies in a timely manner. SES concluded that it therefore appeared that the Company could face delisting and notified the Company of its intent to terminate the combination agreement. On July 23, 2001 the Company received formal notification from SES of its intent to terminate the agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS.

Cautionary Note Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this report (including without limitation, statements indicating that the Company "expects," "estimates," anticipates," or "believes" and all other statements concerning future financial results, product offerings, proposed acquisitions or combinations or other events that have not yet occurred) are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended.

Forward-looking statements involve known and unknown factors, risks and uncertainties, which may cause the Company's actual results in future periods to differ materially from forecasted results. Those factors, risks and uncertainties include, but are not limited to; the consummation of possible acquisitions or combinations; and the Company's ability to integrate acquired or combined operations with its existing business and otherwise manage growth; and the Company's ability to generate or obtain additional capital resources to fund its operations and growth.

Additional information on these and other risk factors are included in the "Factors That May Affect Future Results" section in the Company's Annual Report on Form 10-KSB filed with the SEC on March 28, 2001, Form 10KSBA Number 1 filed on April 27, 2001 and the risks discussed in PASW's other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgement, belief and expectations only as of the date hereof. PASW undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

General

The Company was incorporated in California in November 1992 as a developer and licensor of Internet and Web related software and software development tools. Our operations are conducted principally from an office in Southern California and we have a sales office in Japan. The Company completed an initial public offering of 950,000 units consisting of one share of common stock and one warrant on July 29, 1999. An additional 142,500 units representing the underwriter's overallotment was sold on September 13, 1999.

The Company has historically developed and licensed software which enabled Internet and web based communications. Our software products were embedded into systems and "information appliances" developed or manufactured by others. Information appliances are internet-connected versions of every day products such as telephones, fax machines, personal digital assistants and other digitally based devices. We developed a proprietary Internet browser for use within independent, "non Windows" information appliances. The browser may be effectively placed in use without an operating system and does not require substantial amounts of memory. We began marketing the initial version of this browser during the first quarter of 2000.

The Company operates in one business segment. The Company's fiscal year ends on December 31.

Results of Operations

The following table sets forth, for the periods indicated, the percentage relationship to net revenue of certain items in the consolidated statements of operations and comprehensive income

	Unaudited	Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net revenue	100.00%	100.00%	100.00%	100.00%
Cost of revenue	65.07	4.77	56.37	19.15
Gross profit	34.93	95.23	43.63	80.85
Selling, general and administrative	50.25	489.28	31.99	594.28
Research and development	0.00	151.08	0.00	192.76
Depreciation and Amortization	0.00	0.00	0.00	2.00
Total expenses	50.25	640.36	31.99	789.04
Other income (expense)	(0.76)	0.00	(6.14)	0.00
Net gain (loss) from operations	(16.08)	(545.13)	5.50	(708.19)
Discontinued operations	0.00	(306.62)	0.00	(225.44)
Net gain (loss)	(16.08%)	(851.75%)	5.50%	(933.63%)

The following table sets forth, for the periods indicated, the percentage of net revenue by principal geographic area to total revenue:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2001	2000	2001	2000
United States	0%	0%	0%	58%
United Kingdom and Europe	0%	0%	0%	22%
Japan and Asia	100%	100%	100%	19%
Other	0%	0%	0%	1%
Total	100%	100%	100%	100%

Three months ended June 30, 2001 and 2000.

Net revenue

For the three months ended June 30, 2001 revenues increased 246% to $288,289 from $116,784 for the three months ended June 30, 2000. Sales of licenses decreased 73% for the three months ended June 30, 2001 due the cessation of all revenue producing activities in the Company except sales activity in Japan which accounted for 100% of license and royalty sales.

Cost of revenue

The cost of revenue for the three months ended June 30, 2001 was $187,583 or 65% of sales compared to $5,565 or 5% of sales for the three months ended June 30, 2000. The increase in cost of sales reflects the impact of distribution fees under a contract negotiated by our Japanese subsidiary in August 2000.

Selling, general and administrative

Selling, general and administrative expense was $144,855 for the three months ended June 30, 2001 compared to $571,409 for the three months ended June 30, 2000. The decrease reflects the closure of all operations in the Company in anticipation of the reverse acquisition with Simmons Energy Services Inc.

Research and development expense

Research and development expense was $0 for the three months ended June 30, 2001 compared to $176,433 for the three months ended June 30, 2000 as a result of ceasing all development activities in the Company at the end of December 2000.

Depreciation and amortization

Depreciation and amortization was $0 in the three months ended June 30, 2001 and the three months ended June 30, 2000 reflecting the sale of asset to another company in August 2000 and the write down of the Company's remaining operating assets at the end of December 2000.

Other income and expenses

During the three months ended June 30, 2001 the Company had a net loss of $2,225 consisting of losses from the sale of securities of $6,725 and a gain of $4,500 from the cancellation of debt. The Company had no income or expenses of this nature in the three months ended June 30, 2000.

Provision for taxes

Commencing in 1995 the Company elected to be treated as a subchapter S corporation. Through 1998 all federal tax liabilities were recognized at the individual stockholder level. In February 1999 the Company terminated the S election and became subject to taxation at the corporate level. Had the Company been subject to taxation as a C corporation in 1998, it would have received a pro forma tax benefit of $1,099. For the three months ended June 30, 2001 the Company had no income tax liability.

Six months ended June 30, 2001 and 2000.

Net revenue

For the six months ended June 30, 2001 revenues increased 215% to $426,662 from $197,965 for the six months ended June 30, 2000. Sales for the six months ended June 30, 2001 increased and royalty income decreased due to the change in the distribution agreement in Japan which accounted for 100% of license and royalty sales.

Cost of revenue

The cost of revenue for the six months ended June 30, 2001 was $246,150 or 56% of sales compared to $37,910 or 19% of sales for the six months ended June 30, 2000. The increase in cost of sales reflects the impact of distribution fees under a contract negotiated by our Japanese subsidiary in August 2000.

Selling, general and administrative

Selling, general and administrative expense was $139,676 for the six months ended June 30, 2001 compared to $1,176,455 for the six months ended June 30, 2000. The decrease reflects the closure of all operations in the Company in anticipation of the reverse acquisition with Simmons Energy Services Inc.

Research and development expense

Research and development expense was $0 for the six months ended June 30, 2001 compared to $381,587 for the six months ended June 30, 2000 as a result of ceasing all development activities in the Company at the end of December 2000.

Depreciation and amortization

Depreciation and amortization was $0 in the six months ended June 30, 2001 compared to $3,973 for the six months ended June 30, 2000 reflecting the sale of assets to another company and the write down of the Company's remaining operating assets at the end of December 2000.

Other income and expenses

During the six months ended June 30, 2001 the Company had a net loss of $26,833 consisting of losses from the sale of securities of $31,333 and the cancellation of debt of $4,500. The Company had no income or expenses of this nature in the six months ended June 30, 2000.

Provision for taxes

Commencing in 1995 the Company elected to be treated as a subchapter S corporation. Through 1998 all federal tax liabilities were recognized at the individual stockholder level. In February 1999 the Company terminated the S election and became subject to taxation at the corporate level. Had the Company been subject to taxation as a C corporation in 1998, it would have received a pro forma tax benefit of $1,099. For the six months ended June 30, 2001 the Company had no income tax liability.

Liquidity and capital resources

At June 30, 2001 and December 31, 2000 the Company had working capital of $152,612 and ($16,004) and cash and cash equivalents of $227,524 and $254,369.

The Company used $334,448 in cash flow from operating activities in the six months ended June 30, 2001 compared to using $1,351,076 in the six months ended June 30, 2000. The decrease in use of cash of $1,016,628 was the result of an decrease of $41,020 in accounts receivable, a loss of $31,333 in the sale of marketable securities a decrease of $8,441 in prepaid expenses, a decrease of $6,762 in other assets, a decrease of $455,889 in accounts payable and a decrease of 6,708 in deferred revenue.

Investing activities in the six months ended June 30, 2001 consisted of the disposition of fixed assets of $699, the sale of certain marketable securities for $300,407 and the purchase of other securities for $136,500. In the six months ended June 30, 2000 the Company purchased $124,739 in fixed assets.

The Company had no financing activities for the six months ended June 30, 2001 In the six months ended June 30, 2000 the Company provided $548,624 from financing activities through the exercise of warrants and $350,000 through the sale of stock in a subsidiary.

Factors That May Affect Future Results

This report, including Management’s Discussion and Analysis or Plan of Operation, contains forward looking statements and other prospective information relating to future events. These forward-looking statements and other information are subject to certain risks and uncertainties that could cause results to differ materially from historical or anticipated results, including the following:

We have received a Going Concern opinion from our auditors on our financial statements for the year ended December 31, 2000. Those statements indicate that we have reported losses for our last two years and if we do

not become profitable our business could be adversely affected.

We reported net income of $24,003 for the six months ended June 30, 2001 however we have incurred losses of $2,613,101 for the year ended December 31, 2000 and $2,464,067 for the year ended December 31, 1999. We also have an accumulated deficit of $ 6,217,827 and stockholders equity of $170,512 as of June 30, 2001. We can provide no assurance that we will be profitable in the future and if we do not become profitable our business could be adversely affected.

We have been notified by the NASDAQ Stock Market that we are deficient in two of its Market Place Rules specifically concerning the minimum net tangible assets required and that we have received a "going concern" opinion on our financial statements for the year ended December 31, 2000. In May 2001 we were notified that we are not in compliance with Market Place Rule 4310(c)(8)(B) in that we have not maintained a minimum closing bid price of $1.00 or more than 30 consecutive trading days. If these deficiencies are not cured we face delisting from the NASDAQ Small Cap Market.

In April 2001 the Company was notified by NASDAQ that at December 31, 2000 it was not in compliance with the Net Tangible Asset requirements of NASDAQ Market Place Rule 4310 (c)(2)(B) in that PASW failed to have a minimum of $2 million in net tangible assets. At the same time PASW was notified that in light of the "going concern" opinion from our auditors we may not be able sustain compliance with the continued listing requirements of the NASDAQ Stock Market. In May 2001 the Company was notified that is not in compliance with the minimum bid price requirements of NASDAQ Market Place Rule 4310(c)(8)(B) in that the closing bid price of the Company's common stock did not meet or exceed $1.00 over 30 consecutive trading days. The Company was given until August 22, 2001 to achieve compliance. At June 30, 2001 the Company was not in compliance with any of the rules and, although notification has not been received from NASDAQ, the Company believes it is not in compliance with Market Place Rule 4310(c)(7) in that it has not maintained a minimum market value of public float of $1,000,000 over 30 consecutive trading days.

We have entered into an agreement for a reverse acquisition with Simmons Energy Services however there is no assurance that the transaction can be completed.

A definitive combination agreement between PASW and Simmons Energy Services ("SES") was executed in March 2001, with final closing subject to approval at the PASW annual meeting of shareholders expected to be held in August 2001. In addition to approving the reverse acquisition at the PASW annual meeting of shareholders, the PASW shareholders will be voting to:

Reverse split outstanding common stock on a 1 for 4 basis,

Change the name of PASW, Inc. to Simmons Energy Services Inc. or such other name requested by SES,

Elect three additional directors submitted by SES,

Appoint PriceWaterhouseCoopers, the current auditors for SES, as the auditors for PASW for the year ending December 31, 2001,

Spin-off inactive businesses and assets currently owned by PASW to the pre-acquisition shareholders of PASW common stock

Approve certain amendments to PASW’s option plan, and

Change the domicile of PASW from California to Nevada.

The reverse acquisition agreement is subject to the completion of due diligence by both parties and stipulates that if PASW loses its listing on the NASDAQ Small Cap Market SES has the option of canceling the agreement. There is no assurance that this transaction can be completed in time to forego delisting or if the transaction can be completed at all.

On July 18, 2001 we were notified by Simmons Energy Services Inc. that it was considering termination of the combination agreement since private funding could not be obtained in sufficient time to forestall a potential delisting by NASDAQ.

The combination agreement states that if PASW looses its NASDAQ listing then SES may terminate the agreement. SES believes that market conditions have deteriorated to the point that completion of the $20 million private placement contained in the combination agreement may not be possible. Failure to complete some or all of the private placement coupled with the failure of SES to invest up to $5,200,000 through the issue of the Series C Shares as provided in the agreement will place the Company's NASDAQ listing at significant risk with delisting the probable result.

We have limited resources available to continue operations unless a successful transaction is completed with a merger partner or that additional funding can be obtained from outside sources.

At the present time we have limited resources available to continue operations other than maintaining day-to-day operations without any capabilities for expansion. The revenue received from our NRCJ subsidiary is sufficient to handle only maintenance administrative operations for the Company. In the current market it is doubtful that funding can be obtained for resumption of operations of our Alera subsidiary therefore we run the risk of not being able to pursue activities that would ultimately benefit the long range strategies of the new Company created by the reverse takeover of our Company by SES.

Because our operating subsidiary depends on a small number of large orders, the loss or deferral of orders may have a negative impact on revenue.

NRCJ is our only operating subsidiary and as such provides the majority of the funds required to operate the Company. Although none of its customers has accounted for 10% or more of total revenue in any fiscal year, a significant portion of software license revenue in each quarter is derived from a small number of relatively large orders. While we believe that the loss of any particular customer is not likely to have a material adverse effect on our business, our operating results could be materially adversely affected if our operating subsidiaries were unable to complete one or more substantial license sales in any future period.

Any decrease in the market acceptance of our operating subsidiary's Internet and web products or lack of acceptance of new products would decrease our revenue.

Our future results depend heavily on continued market acceptance of our operating subsidiary's products in existing and new markets. Our NRCJ subsidiary is a distributor for products supplied by Net Silicon, Inc. Revenue from licenses of the suite of Internet and Web products and sales of services accounted for all its revenue in the six months ended June 30, 2001 and the years ended December 31, 2000 and 1999. There is no assurance that Net Silicon will continue to fund the research required to keep our subsidiary supplied with state of the art products, that Net Silicon will continue the Distribution Agreement with NRCJ beyond its current termination date or that our subsidiary will have sufficient funds to properly advertise and market its product lines as an independent distributor. Any of these factors could have a material effect on our continued operations and financial results.

Because our ownership is concentrated, our officers and directors and independently our majority stockholder will be able to control all matters requiring stockholder approval including delaying or preventing a change in our corporate control or taking other actions of which individual shareholders may disapprove.

Our officers, directors and independently the majority stockholder beneficially own approximately 73% of our outstanding common stock. These parties will be able to exercise control over all matters requiring stockholder approval and other investors will have minimal influence over the election of directors or other stockholder actions. As a result, our officers, directors and independently the majority stockholder could approve or cause the Company to take actions of which you disapprove or that are contrary to your interests. While the majority stockholder has indicated his approval of the transaction between the company and SES his ability to exercise control over all matters requiring stockholder approval could prevent or significantly delay another company from acquiring or merging with us at prices and terms that you might find to be attractive.

Issuance of our authorized preferred stock could discourage a change in control, could reduce the market price of our common stock and could result in the holders of preferred stock being granted voting rights that are

superior to those of the holders of common stock.

The Company is authorized to issue preferred stock without obtaining the consent or approval of stockholders. The issuance of preferred stock could have the effect of delaying, deferring, or preventing a change in control. Management also has the right to grant superior voting rights to the holders of preferred stock. Any issuance of preferred stock could materially and adversely affect the market price of the common stock and the voting rights of the holders of common stock. The issuance of preferred stock may also result in the loss of the voting control of holders of common stock to the holders of preferred stock.

You may experience dilution if we are compelled to litigate or arbitrate claims that have been asserted by Golenberg & Co. for the right to purchase 10% of the Company.

In April 1999 we were notified that a merchant banker, Golenberg & Co., has asserted rights under a June 1998 letter agreement to purchase 10% of our then outstanding common stock for $400,000. In June 1999 counsel for Golenberg & Co. reiterated this demand and advised us that these claims were being evaluated for possible legal action. Investors could be significantly diluted if Golenberg & Co. successfully brings a lawsuit against us.

Trading in our common stock and warrants may be limited and could negatively affect the ability to sell your securities.

A public market for our common stock and our warrants has only existed since July 29, 1999, the date of our initial public offering. We do not know how liquid the market for our stock and warrants will remain and if the market becomes illiquid, it may negatively affect your ability to resell your securities.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 1999 the Company was notified that a merchant banker, Golenberg & Co., had asserted rights under a June 1998 letter agreement to purchase 10% of the then outstanding common stock of the Company for $400,000. In June 1999 counsel for Golenberg & Co. reiterated this demand and advised the Company that these claims were being evaluated for possible legal action. To date no action has been taken by Golenberg & Co.

The Company is not currently involved in any litigation that is expected to have a material adverse effect on the Company's business or financial position. There can be no assurance, however, that third parties will not assert infringement or other claims against the Company in the future which, regardless of the outcome, could have an adverse impact on the Company as a result of defense costs, diversion of management resources and other factors.

ITEM 2. CHANGES IN SECURITIES.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

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

Not Applicable

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibits

1.0 Notification of Termination of Combination Agreement

Reports on Form 8-K - None

SIGNATURES

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

Date: July 25, 2001 PASW, INC.

/s/ WILLIAM E. SLINEY

William E. Sliney

President and Chief Financial Officer

(Duly Authorized Officer and Principal

Financial and Accounting Officer)

<u>Simmons Energy Services Inc.</u>

July 23, 2001

PASW, Inc. Via e-mail and fax:
(805) 492-6623

2007 Simsby Court, Suite 108

Thousand Oaks, California

Attention: Bill Sliney

President

Dear Bill:

RE: COMBINATION AGREEMENT DATED MARCH 28, 2001

(THE "COMBINATION AGREEMENT") AMONG

PASW, INC. ("PASW"), GLENN P. RUSSELL AND

<u>SIMMONS ENERGY SERVICES INC. ("SES")</u>

This is to confirm our telephone conversation on Wednesday, July 18, 2001. Despite our respective reasonable best efforts, it has become clear that a number of the conditions precedent to SES' obligation to complete the merger contemplated under the Combination Agreement will not be fulfilled within the time originally contemplated by the parties. Without limiting the foregoing, the current and anticipated near term material weakness of the capital markets precludes raising equity to fulfill the Private Placement condition. In addition, the NASDAQ deficiencies at least one of which has an August 22, 2001 deadline for remedy leads SES to the conclusion that PASW will not be able to maintain its listing status on terms satisfactory to SES, if at all.

Accordingly, SES wishes to advise PASW that due to the foregoing SES will not be proceeding with the Amalgamation or other transactions under the Combination Agreement. As the conditions precedent to SES' obligations will not be met within the time period originally contemplated, SES hereby notifies PASW that the Combination Agreement is terminated for failure to meet these conditions.

We believe this outcome is best communicated in a joint press release and enclose a draft for your consideration. If PASW does not issue a press release acceptable to SES by July 25, SES will be issuing its own release.

As mentioned in our telephone call, SES continues to plan to become a public company when market conditions are more favourable. While SES cannot at this time provide any commitment to PASW, in the event that PASW continued to be interested in a merger with SES and had been restructured along the lines of our discussions, SES would be prepared to revisit how the companies could advance their mutual interests and objectives. We obviously regret that our mutual plans could not be completed as we had hoped.

We hope you and PASW are successful in your plans to revitalize that company. We look forward to hearing from you as regards the press release.

Yours truly,

SIMMONS ENERGY SERVICES INC.

Peter Farkas

Executive Vice President

PF/mm