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 September 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 4,997,400 shares outstanding of the registrant's Common Stock, par value $.001 per share, as of November 5, 2001.

PASW, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PASW, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 205,861**	**$ 254,369**
Accounts receivable, net of allowance of $0 and $0	**14,426**	**157,381**
Securities available for sale		**198,541**
Prepaid expenses	**0**	**30,867**
Total current assets	**220,287**	**641,158**
Property and equipment less accumulated depreciation and amortization of $43,852 and $43,852	**13,762**	**12,784**
Other assets	**6,442**	**6,732**
Total assets	**$ 240,491**	**$ 660,674**

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2001	December 31, 2000
LIABILITIES AND STOCKHOLDERS'EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 79,659**	**$ 657,162**
	[illegible]	[illegible]

Note payable	32,075	0
Total current liabilities	111,734	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	(6,206,871	(6,241,830)
Cumulative adjustment for currency translation	65,457	(24,829)
Total stockholders' equity	128,757	3,512
	$ 240,491	$ 660,674

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2001	September 30, 2000
Net revenue:		
Sales	$ 21,919	$ 205,482
Royalties and other	40,883	187,129
	62,802	392,611
Cost of revenue -		
Purchases and royalty fees	30,646	9,253
Gross profit	32,156	383,358
Expenses:		
Selling, general and administrative	38,357	431,083
Research and development	0	192,424
Depreciation and amortization	0	19,008
	38,357	642,515
Other income (expenses):		
Loss on sale of securities	(84)	0
Gain on cancellation of debt	17,241	0
	17,157	0
Income (loss) from continuing operations	10,956	(259,157)
Discontinued operations:		
Gain on sale of assets	0	(897,104)
Gain from discontinued operations	0	2,548,436
	0	1,651,332
Net income	$ 10,956	$1,392,175
Net income (loss) per common share:		

basic and diluted		
Continuing operations	$ (0.00)	$ (0.06)
Discontinued operations	$ 0.00	$ 0.36
Total	$ (0.00)	$ 0.30
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)

	Nine Months Ended	
	September 30, 2001	September 30, 2000
Net revenue:		
Sales	$ 392,721	$ 206,016
Royalties and other	106,743	384,560
	499,464	590,576
Cost of revenue -		
Purchases and royalty fees	276,796	47,163
Gross profit	222,668	543,413
Expenses:		
Selling, general and administrative	178,033	1,607,538
Research and development	0	574,011
Depreciation and amortization	0	22,981
	178,033	2,204,530
Other income (expenses):		
Loss on sale of securities	(31,417)	0
Gain on cancellation of debt	21,741	0
	(9,676)	0
Income (loss) from continuing operations	34,959	(1,661,117)
Discontinued operations:		
Loss from operations	0	(1,343,395)
Gain on sales of assets	0	2,548,436
	0	1,205,041
Net income (loss)	$ 34,959	$ (456,076)
Net income (loss) per common share:		
basic and diluted		
Continuing operations	$ 0.01	$ (0.36)
Discontinued operations	$ 0.00	$ 0. 26
Total	$ 0.01	$ (0.10)
Weighted average common stock shares outstanding Basic and diluted	4,640,900	4,617,900

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended	
	September 30, 2001	September 30, 2000
Net income (loss)	$ 10,956	$1,392,175
Other comprehensive income (loss):		
Net unrealized loss on available securities for sale	(4,568)	(704,139)
Foreign currency translation adjustment	57,278	109,454
Comprehensive income (loss)	$ 63,666	$ 797,490

PASW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Nine Months Ended	
	September 30, 2001	September 30, 2000
Net income (loss)	$ 34,959	$(456,076)
Other comprehensive income (loss):		
Net unrealized loss on available securities for sale		(704,139)
Foreign currency translation adjustment	90,287	213,962
Comprehensive gain (loss)	$ 125,246	$ (946,253)

See accompanying notes to condensed financial statements.

PASW, INC.

STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	September 30, 2001	September 30, 2000
Cash flows from operating activities:		

Continuing operations		
Net income (loss)	**$ 34,959**	**$ (1,661,117)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**0**	**22,981**
(Increase) decrease in assets:		
Accounts receivable	**142,955**	**41,246**
Loss on marketable securities	**(31,417)**	**0**
Prepaid expenses	**30,867**	**75,753**
Other assets	**290**	**(60,772)**
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**(545,428)**	**(80,605)**
Accrued compensation expense	**0**	**377,500**
Net cash used in operating activities	**(367,774)**	**(1,285,014)**
Loss from discontinued operations	**0**	**(1,300,300)**
Total cash used in operating activities	**(367,774)**	**(2,585,314)**
Cash flows from investing activities:		
Acquisition of fixed assets	**(1,677)**	**(71,174)**
Disposition of assets, net	**699**	**0**
Proceeds of sale or marketable securities	**366,458**	**0**
Purchase of marketable securities	**(136,500)**	**0**
Net cash from (used) in investing activities	**228,980**	**(71,174)**
Cash flows from financing activities:		
Sale of subsidiary stock		**400,000**
Proceeds from borrowings		**200,000**
Exercise of warrants	**0**	**569,250**
Net cash provided by financing activities	**0**	**1,169,250**
Effect of exchange rate changes on cash	**90,286**	**188,384**
Net increase (decrease) in cash	**(48,508)**	**(1,298,854)**
Cash – Beginning	**254,369**	**1,661,708**
Cash – Ending	**$ 205,861**	**$ 362,854**

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 September 30, 2001, the results of operations for the three months and nine months ended September 30, 2001 and September 30, 2000, and the cash flows for the nine months ended September 30, 2001 and September 30, 2000 are included. Operating results for the three-month and nine month periods ended September 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 September 30, 2001	Nine Months Ended September 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		**$ 10,956**	**$ 34,959**
Net loss per common share basic and diluted		**$ 0.00**	**$ 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 would 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. A definitive combination agreement between PASW and SES was executed in March 2001. A term of the agreement called for PASW to initiate a private placement offering of 5,000,000 units at $4.00 per unit for an aggregate offering price of $20,000,000.

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.

(4) Appointment of New Director and Chairman

On August 21, 2001 the Board of Directors received the resignation of Reg J. Greenslade as a member of the board of directors. Mr. Greenslade submitted his resignation subsequent to termination of negotiations with Simmons Energy Services Inc citing the need to concentrate his efforts on other business activities. The board nominated Glenn P. Russell to replace Mr. Greenslade and to assume the position of Chairman. Concurrent with Mr. Russell's election as Chairman William E. Sliney resigned his position as Chairman but continues his positions as President and Chief Financial Officer.

(5) 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 September 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 In September 2001 the Board of Directors further amended the terms to reduce the price to twenty five ($0.25) cents per share and extend the exercise date to November 30, 2002.

(6) Notification of Delisting from NASDAQ.

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 September 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.

(7) Subsequest Event - Notification of Delisting from NASDAQ.

On October 1, 2001 the Company received notification from The NASDAQ Stock Market, Inc. that it was not in compliance with the Net Tangible Assets or Net Equity requirements for continued listing as set forth in Market Place Rule 4310(c)(2)(B) as modified by SR-NASD-01-14 and that its securities will be delisted from The NASDAQ National/Small Cap Market at the opening of business on October 9, 2001. The securities were removed form NASDAQ and subsequent to that date the PASW Common Stock (PASW) and Warrants (PASWW) have been trading on the OTC Bulletin Board Market (OTCBB).

(8) Subsequent Event - Conversion of Preferred Stock in Subsidiary to PASW Common Stock

On October 19, 2001 the Company converted 480,000 shares of Convertible Preferred Stock of its Alera Systems Inc. ("Alera"), a wholly owned subsidiary, to shares of the Company's Common Stock. The preferred stock was issued in April and July 2000 as part of a private placement to provide funding for the Alera technology development activities. Each share of preferred is convertible into one share of Alera at $2.50 per share at any time within two years from closing date of the private placement or, if Alera did not become a public company or be sold to an outside party within this two year period, the holders of the preferred stock would be entitled to exchange their preferred shares into shares of PASW common stock at Eighty-five percent (85%) of its then current market price subject to a collar limit of One Dollar ($1.00) per share and a maximum of Fifteen Dollars ($15.00) per share. Operations of Alera were terminated in December 2000 and subsequently all preferred shareholders elected to convert in 2001 at One Dollar per share. The conversion increase's the outstanding common shares of PASW from 4,517,400 to 4,997,400.

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 of net revenue by principal geographic area to total revenue:

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
United States	**0%**	**51%**	**0%**	**50%**
United Kingdom and Europe	**0%**	**2%**	**100%**	**6%**
Japan and Asia	**100%**	**47%**	**0%**	**42%**
Other	**0%**	**0%**	**0%**	**2%**
Total	**100%**	**100%**	**100%**	**100%**

Three months ended September 30, 2001 and 2000.

Net revenue

For the three months ended September 30, 2001 revenues decreased 84% to $62,802 from $392,611 for the three months ended September 30, 2000. Sales of licenses decreased 89% for the three months ended September 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 September 30, 2001 was $30,646 or 48% of sales compared to $9,253 or 2.3% of sales for the three months ended September 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 $38,357 for the three months ended September 30, 2001 compared to $431,083 for the three months ended September 30, 2000. The decrease in 2001 reflects the closure of all operations except those associated with seeking a reverse merger or other financial transactions for the Company.

Research and development expense

Research and development expense was $0 for the three months ended September 30, 2001 compared to $192,424 for the three months ended September 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 September 30, 2001 compared to $19,008 for the three months ended September 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 September 30, 2001 the Company had a net gain of $17,157 consisting of losses from the sale of securities of $84 and a gain of $17,241 from the cancellation of debt. The Company had no income or expenses of this nature in the three months ended September 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 September 30, 2001 the Company had no income tax liability.

Nine months ended September 30, 2001 and 2000.

Net revenue

For the nine months ended September 30, 2001 revenues decreased 15.4% to $499,464 from $590,576 for the nine months ended September 30, 2000. Sales for the nine months ended September 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 nine months ended September 30, 2001 was $276,796 or 55.4% of sales compared to $47,163 or 8% of sales for the nine months ended September 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 $178,033 for the nine months ended September 30, 2001 compared to $1,607,538 for the nine months ended September 30, 2000. The decrease reflects the closure of all operations in the Company except those expenses associated with seeking a reverse merger or other financial transactions for the Company.

Research and development expense

Research and development expense was $0 for the nine months ended September 30, 2001 compared to $574,011 for the nine months ended September 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 nine months ended September 30, 2001 compared to $22,981 for the nine months ended September 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 nine months ended September 30, 2001 the Company had a net loss of $9,676 consisting of losses from the sale of securities of $31,417 and the cancellation of debt of $21,741. The Company had no income or expenses of this nature in the nine months ended September 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 nine months ended September 30, 2001 the Company had no income tax liability.

Liquidity and capital resources

At September 30, 2001 and December 31, 2000 the Company had working capital of $108,553 and ($16,004) and cash and cash equivalents of $205,861 and $254,369.

The Company used $367,774 in cash flow from operating activities in the nine months ended September 30, 2001 compared to using $1,285,014 in the nine months ended September 30, 2000. The decrease in use of cash of $917,240 was the result of an decrease of $101,709 in accounts receivable, a loss of $31,417 in the sale of marketable securities a decrease of $44,886 in prepaid expenses, a decrease of $61,062 in other assets, a decrease of $464,823 in accounts payable and a decrease of 377,500 in deferred compensation expense. Total cash used in by the Company in all operations decreased by $2,217,540 reflecting a decrease in the loss from discontinued operations of $1,300,300.

Investing activities in the nine months ended September 30, 2001 consisted of the acquisition of assets of $1,677, the disposition of fixed assets of $699, the sale of certain marketable securities for $366,458 and the purchase of other securities for $136,500. In the nine months ended September 30, 2000 the Company purchased $71,174 in fixed assets.

The Company had no financing activities for the nine months ended September 30, 2001 In the nine months ended September 30, 2000 the Company provided $569,250 from financing activities through the exercise of warrants, proceeds from borrowings of $200,000 and $400,000 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 $34,959 for the nine months ended September 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 $ 6,206,871 and stockholders equity of $128,757 as of September 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.

On October 1, 2001 the Company received notification from The NASDAQ Stock Market, Inc. that it was not in compliance with the Net Tangible Assets or Net Equity requirements for continued listing as set forth in Market Place Rule 4310(c)(2)(B) as modified by SR-NASD-01-14 and that its securities will be delisted from The NASDAQ National/Small Cap Market at the opening of business on October 9, 2001. The securities were removed from NASDAQ on October 9, 2001 and subsequent to that date the PASW Common Stock (PASW) and Warrants (PASWW) have been trading on the OTC Bulletin Board Market (OTCBB).

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 Company .

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 nine months ended September 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 September 1998 letter agreement to purchase 10% of our then outstanding common stock for $400,000. In September 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 September 1998 letter agreement to purchase 10% of the then outstanding common stock of the Company for $400,000. In September 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 - None

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: November 12, 2001

PASW, INC.

/s/ WILLIAM E. SLINEY

William E. Sliney

President and Chief Financial Officer

(Duly Authorized Officer and Principal

Financial and Accounting Officer)