

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission file number 333-75137

PASW, INC.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

77-0390628

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

**9453 Alcosta Boulevard
San Ramon, California**

(Address of principal executive offices)

94583-3929

(Zip Code)

Registrant's telephone number, including area code: (925) 828-0934

Securities registered pursuant to Section 12(b) of the Act:

Not applicable.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 Par Value

Title of Each Class

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 No .

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K 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-K or any amendment to this Form 10-K.

The issuer's revenues for the most recent fiscal year were \$ 199,517.

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the average bid and asked prices of the Common Stock on March 18, 2005 was \$139,783.

The number of shares outstanding of the issuer's Common Stock, as of March 18, 2005 was 4,997,400.

The following documents are incorporated by reference into the Parts of this report below indicated:

Not applicable.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

PASW, Inc., ("PASW", the "Company", "we" and "our"), 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 the San Francisco Bay Area of Northern California. 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 over allotment was sold on September 13, 1999.

The Company has historically developed and licensed software that enabled Internet and web based communications. Our software products were embedded into systems and developed or manufactured by others.

The Company refined its strategic focus in the Fourth Quarter 1999 in order to enhance our positioning and flexibility in the rapidly growing market for Internetworking technology and to improve the utilization of our assets and competencies. Key elements of the business strategy involved the segregation of our core technology into separate business units and identifying strategic investment opportunities and/or associations with other operating companies. In conjunction with this strategy at the annual meeting on May 26, 2000 we changed our name to PASW, Inc.

Realizing that general market conditions both in the public and private markets had been deteriorating since late spring 2000 we embarked on an aggressive program to find a suitable merger/acquisition opportunity. On August 31, 2000 the Company and NetSilicon, Inc. ("NSI") entered into an agreement whereby we sold the assets of our Internet and Web software technology to NSI. The purchase price for the assets was 90,000 shares of NSI's common stock. In addition NSI agreed to grant a non-exclusive, royalty-free license for the acquired technology, to PASW and its affiliates, subject to certain limitations.

Alera Systems, Inc.

During 1999 we also established Alera Systems, Inc., formerly iApplianceNet.com ("Alera"), a development stage company and a wholly owned subsidiary. Alera was in the process of developing proprietary technology that would allow potential business customers to greatly improve the management of their distributed remote assets.

In March 2000 we began a private solicitation program and in April a private placement of 140,000 shares of Series A redeemable convertible preferred stock for net proceeds of \$350,000 was completed. On August 17, 2000 an additional 20,000 shares were issued for net proceeds of \$50,000.

Although Alera continued to meet performance objectives for the development and marketing of its products, capital market conditions deteriorated to the point that the additional private funding required for the Alera program could not be completed. Concurrently, the approximately \$2.3 million in NSI stock received from the sale of our Internet and Web software to NetSilicon depreciated by 80% from August 31st to December 31st. This combination of factors materially impacted our ability to continue funding Alera operations and our administrative operations. During December 2000 we closed the administrative office and at the end of December ceased further development operations at Alera.

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. At that time Reg J. Greenslade a director of SES was elected a director of PASW.

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 certain NASDAQ 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.

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.

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. On November 30, 2002 the warrants expired.

Notification of Delisting from NASDAQ.

In April 2001 NASDAQ notified the Company 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. 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 and subsequent to that date the PASW Common Stock (PASW) has been trading on the OTC Bulletin Board Market (OTCBB) as were the Warrants (PASWW) until their expiration on November 30, 2002.

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.

Appointment of new Corporate Secretary

On December 31, 2001 the Company received the resignation of Joseph Lechman as the corporate secretary of the Company. On that date the directors elected William E. Sliney as corporate secretary in addition to his other duties as President and Chief Financial Officer.

Sale of Network Research Corporation – Japan Distribution Business ("NRCJ")

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 substantially all of its revenue in the years ended December 31, 2002 and 2001. In July 2002 Net Silicon ceased producing products used by NRCJ. During the remainder of 2002 the sales of licenses of the subsidiary decreased to a point where operations became unprofitable. On January 31, 2003 the Company sold the operating assets and certain liabilities of the NRCJ distribution business to Network Technology, Inc., a new company formed by the former employees of NRCJ, for 1.0 million Japanese Yen (US \$8,400). NRCJ will continue to receive royalty income from former NRCJ customers. The Company accounted for this transaction as a discontinued operation in 2003.

Related Party Transaction

During 2001, a company controlled by the spouse of the principal shareholder of the Company advanced \$32,075 in the form of a non interest bearing demand note. The note was repaid in September 2004.

Change of Accountants

The Company used the services of Merdinger, Fruchter, Rosen & Co. ("MFRC") as its independent accountant since 1996. In January 2003 the Company was informed by MRFC that it was exiting the business of auditing publicly traded companies. The Company selected Skeehan & Company as its new auditor effective February 27, 2003. The Company's Board of Directors recommended and approved the change in the Company's certifying accountants.

Operating Companies

We operate through a parent company and one wholly owned subsidiary: Alera Systems, Inc ("Alera"). We operate in one business segment and our fiscal year ends December 31.

Employees

As of December 31, 2004 the Company has no active employees. However, one individual who is an officer of the Company receives a management fee for services rendered to maintain administrative operations. We are not represented by a labor union nor are we subject to a collective bargaining agreement. We have never experienced a work stoppage.

ITEM 2. DESCRIPTION OF PROPERTY

PASW conducts its operations from a business office located in San Ramon, California. We believe that these facilities are adequate for our current needs at this time.

ITEM 3. LEGAL PROCEEDINGS

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no matters submitted to a vote of security holders during the quarter ended December 31, 2004.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock and warrants began trading on the NASDAQ Small Cap Market under the symbol "PASW" and "PASWW" on July 29, 1999, respectively. On October 9, 2001 the Company was delisted from the NASDAQ Small Cap and began trading on the OTC Bulletin Board Market. The following table sets forth the high and low bid prices as reported on NASDAQ and the OTC Bulletin Board for the periods indicated below.

Year ending December 31, 2003

		<u>High</u>	<u>Low</u>
03/31/03	Common Stock	0.03	0.01
06/30/03	Common Stock	0.08	0.02
09/30/03	Common Stock	0.15	0.03
12/31/03	Common Stock	0.08	0.05

Year ending December 31, 2004

		<u>High</u>	<u>Low</u>
03/31/04	Common Stock	0.15	0.05
06/30/04	Common Stock	0.09	0.05
09/30/04	Common Stock	0.10	0.05
12/31/04	Common Stock	0.10	0.05

Number of Holders of Common Stock

At December 31, 2004 there were six hundred five stockholders of record of the Company's Common Stock.

Dividends

The Company has never paid cash dividends on its Common Stock. The Company currently intends to retain earnings for use in its business and, therefore, does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Recent Sales of Unregistered Securities

In March 2001 the Board of Directors of the Company approved a resolution changing the terms of the Company's registered public warrants exercise price from \$7.50 to \$1.00 per share and extended the expiration date from July 29, 2001 to November 30, 2001. In September 2001 the Company reduced the exercise price to \$0.25 and extended the expiration date to November 30, 2002. The registered warrants expired on November 30, 2002. Also in September 2001 the Company repriced all outstanding non-public options and warrants to an exercise price of \$0.25, fully vested, with an expiration date of September 17, 2006.

On October 19, 2001 the Company converted 480,000 shares of Convertible Preferred Stock of "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 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our financial statements and the notes thereto and other financial information appearing elsewhere in this Form 10KSB. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of various factors, including those discussed in "Risk Factors" and elsewhere in this document. 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.

Introduction

PASW was incorporated in California in November 1992 as a developer and licensor of Internet and Web related software and software development tools. 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 over allotment was sold on September 13, 1999. We developed and sold software development tools until August 2000. At that time we sold all of our development activities to another company while maintaining a sales office in Japan. In December 2002 we closed the Japanese office but we continue to receive royalty income from a single customer in Japan. Our remaining administrative operations are conducted principally from an office in the San Francisco Bay Area of Northern California.

Results of Continuing 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:

	<u>Year ended December 31,</u>	
	<u>2003</u>	<u>2004</u>
Net revenue	100.00%	100.00%
Selling, general and administrative	67.20	68.24
Total operating expenses	<u>67.20</u>	<u>68.24</u>
Income from operations	32.80	31.76
Other income	<u>1.58</u>	<u>2.09</u>
Income from continuing operations before income taxes	34.38	33.85
Income tax expense	(3.03)	(1.21)
Income from discontinued operations	<u>0.57</u>	<u>0</u>
Net income	31.92	32.64
Other comprehensive unrealized gains and (losses) and foreign currency translation	<u>0.51</u>	<u>(3.78)</u>
Comprehensive gain	<u>32.43%</u>	<u>28.86%</u>

All of the Company's 2003 and 2004 revenues were derived from royalties in Japan.

Results of Operations

Our net revenues from continuing operations decreased 9% to \$199,517 in 2004 from \$219,384 in 2003. All of the revenue consists of royalty income received from Japan. Since all of the revenue was in the form of royalties we had no cost of sales in 2004 and 2003. Selling, general and administrative expense decreased 8% to \$136,148 in 2004 compared to \$147,513 in 2003. The decrease in expense in 2004 represented lower operations of our corporate office in California and a reduction in legal fees incurred in 2003 from the sale of our Japanese subsidiary at the end of 2002. We had no depreciation or amortization in 2004 and 2003 and there were no other income or expense items in 2004 and 2003.

Gain from discontinued operations

In 2003 we had a gain from discontinued operations of \$1,331.

Liquidity and capital resources

At December 31, 2004 and December 31, 2003 we had working capital of \$ 124,442 and \$72,318 and cash of \$190,048 and \$189,053. We generated \$40,607 in cash flow from operating activities for 2004 compared \$80,411 for 2003. The decrease in cash of \$39,804 was the result of a decrease in net profit for the year of \$4,908, a reduction in accounts payable of \$21,397, a decrease in accounts receivable of \$6,300 and prepaid expenses of \$11,579, and a gain on sale of fixed assets of \$(4,380) Cash generated or used in operating activities principally reflect the loss from operations and the related changes in working capital components. We had no investing activities in 2004 compared to proceeds of \$8,622 through the sale of fixed assets in 2003. During 2004 we repaid a note to a related party of \$32,075. There was no financing activity in 2003.

Critical Accounting Policies

The Corporation's accounting policies are described in Note 1 to the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and footnotes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Revenue Recognition

Our only source of revenue comes from a royalty license agreement with a single customer in Japan. We invoice the customer monthly based on units sold and recognize the revenue at the time of billing.

Translation of Foreign Currency

We translate foreign currency financial statements in accordance with SFAS 52, "Foreign Currency Translation." Assets and liabilities are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. Since foreign currency transaction gains and losses are included in determining net income any fluctuations in the value of the Japanese Yen and the US Dollar impact the values of our royalty income and the asset values recorded in the Japanese operation.

Concentration of Credit Risk

We place our cash in what we believe to be credit-worthy financial institutions in the US and Japan. However, cash balances may exceed maximum insured levels in both countries at various times during the year. Furthermore, 100% of our accounts receivable are derived from one customer in Japan.

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 received a Going Concern opinion from our auditors on our financial statements for the years ended December 31, 2004, 2003, 2002, and 2001. Those statements indicate that although we reported positive cash flows from operations in 2004 and 2003, we have incurred significant operating losses to date. Our only operating subsidiary, NRCJ, sold all its revenue producing assets in 2003 and there is no assurance that the remaining royalty income is sufficient to allow us to continue operations.

We reported a gain of \$65,124 in 2004 and \$70,032 in 2003 but sustained losses of (\$37,093) in 2002 and (\$1,306,954) in 2001. We also have an accumulated deficit of (\$6,267,607) and a stockholders' equity of \$129,905 as of December 31, 2004. We can provide no assurance we will be profitable in the future and if we do not become profitable our business could be adversely affected.

We were delisted by the NASDAQ Stock Market on October 9, 2001 and our stock has been trading on the OTC Bulletin Board Market (OTCBB) since that time.

The NASDAQ National/Small Cap Market delisted our stock at the opening of business on October 9, 2001. The securities were removed from NASDAQ and subsequent to that date the PASW Common Stock traded on the OTC Bulletin Board Market (OTCBB) as were the Warrants (PASWW) until their expiration on November 30, 2002. While we still have market makers for our securities there can be no assurance we can continue to rely on our current market makers and that the price and trading volume of our securities could not be materially affected.

Our only operating subsidiary lost its major supplier of product in July 2002.

Our NRCJ subsidiary is a distributor for products supplied by NSI. Revenue from licenses of the suite of Internet and Web products and sales of services accounted for substantially all of its revenue in the years ended December 31, 2002 and 2001. In July 2002 Net Silicon ceased producing products used by NRCJ. During the remainder of 2002 the sales of licenses of the subsidiary decreased to a point where operations became unprofitable. The operations were sold in January 2003. There is no assurance that the remaining royalty income is sufficient to allow the Company to continue operations.

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 activities without any capabilities for expansion. The revenue received from royalties of our NRCJ subsidiary is sufficient to handle only maintenance administrative operations for the Company. While efforts are in process to seek a merger partner or other means of financing there is no assurance that any means can be obtained to permit the Company to resume any form of operations which could expand the business.

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 60% 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.

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.

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. Our warrants expired on November 30, 2000 and we do not know how liquid the market for our stock will remain and if the market becomes illiquid, it may negatively affect your ability to resell your securities.

ITEM 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Company are attached as follows:

Independent Auditor's Report	F-1
PASW, Inc. Financial Statements as of and for the year ended December 31, 2004 and 2003	F-2 through F-13

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company used the services of Merdinger, Fruchter, Rosen & Co. ("*MFRC*") as its independent accountant since 1996. In January 2003 the Company was informed by MRFC that it was exiting the business of auditing publicly traded companies. The Company selected Skeeahan & Co. as its new independent accountant effective February 27, 2003. The Company's Board of Directors recommended and approved the change in the Company's certifying accountants.

PART III

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

EXECUTIVE OFFICERS AND DIRECTORS

<u>Name</u>	<u>Age</u>	<u>Position</u>
Glenn P. Russell	50	Chairman
William E. Sliney	66	President, Chief Financial Officer, Secretary and Director
Wayne T. Grau	56	Director

Glenn P. Russell. Mr. Russell was our chairman from 1992 to October 2000. He was reelected chairman in August 2001. He also served as president and chief executive officer from 1992 to 1999. Before 1992 he had various sales and marketing positions at IBM, Unisys and Network Research Corporation, a predecessor of PASW. Mr. Russell is also an officer and director of Luke Systems International, a distributor of electronic components. Luke Systems International is controlled by Mr. Russell's spouse. Mr. Russell was educated in the United Kingdom.

William E. Sliney. Mr. Sliney has been our president since August 2001. He was chairman from October 2000 to August 2001. Prior to that he was president since December 1999, chief financial officer since April 1999 and was elected secretary in December 2001. He is also a director of Enterra Energy Trust and JED Oil, Inc. Before joining us, Mr. Sliney was the chief financial officer for Legacy Software Inc. from 1995 to 1998. From 1993 to 1994, Mr. Sliney was chief executive officer for Gumps. Mr. Sliney received his masters in business administration from the Anderson School at UCLA.

Wayne T. Grau. Mr. Grau has been a director of PASW since January 1999. He has been the president and chief executive officer of Fielding Electric, Inc. from 1981 to 2000. Mr. Grau is currently a member of the Los Angeles Chapter membership committee of the National Electrical Contractors Association, a trustee for the Joint Apprenticeship Training Committee and a trustee for the Los Angeles Electrical Training Trust.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the year ended December 31, 2004 directors and greater than ten percent beneficial owners listed in the above table complied with the following Section 16(a) filing requirements.

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION AND OTHER MATTERS

The following table sets forth the compensation earned for services rendered to PASW in all capacities for the three most recently completed years by our Chief Executive Officer and our other most highly compensated executive officers whose salary and bonus during the year ended December 31, 2004 exceeded \$100,000.

Summary Compensation Table

<u>Name and principal position</u>	<u>Year ended</u>	<u>Annual compensation</u>		<u>Long-term compensation awards</u>	
		<u>Salary</u>	<u>Bonus</u>	<u>Securities underlying options</u>	<u>All other compensation</u>
Glenn P. Russell ⁽¹⁾ Chairman and Chief Executive Officer	2004	0	-	-	-
	2003	0	-	30,000	-
	2002	0	-	30,000	-
William E. Sliney ⁽²⁾ President, Chief Financial Officer and Secretary	2004	0	-	187,000	30,000
	2003	0	-	187,000	30,000
	2002	0	-	187,000	30,000

(1) Mr. Russell resigned as Chairman in November 2000 and was re-appointed Chairman in August 2001. Mr. Sliney commenced employment in April 1999 and became Chairman in November 2000. He resigned as Chairman in August 2001. His annual salary is \$125,000.

(2) In the year ended December 31, 2000, 300,000 of the options granted to Mr. Sliney in 1999 were canceled and replaced with 75,000 fully vested options at \$2.50 expiring in November 2004. In September 2001 the 87,000 outstanding options were repriced to \$0.25 and additionally he was granted 100,000 fully vested options at \$0.25. All options expire on September 17, 2006. The additional compensation to Mr. Sliney in 2004, 2003 and 2002 is in the form of a management fee after he ceased being an employee of the Company in March 2001.

Option Grants in Last Fiscal Year

There were no options granted to Executive Officers in 2004 or 2003.

Aggregate Option Exercises in Last Fiscal Year

The following table summarizes the value of options held at December 31, 2004 by our Executive Officers. The value of unexercised in-the-money options in the right-hand columns are based on the difference between the fair market value of \$0.01 per share at year-end and the per-share exercise price, multiplied by the number of shares issued upon exercise of the option.

Name	Number of shares acquired	Value	Number of securities underlying unexercised options at year end		Value of unexercised In-the-money options at year end	
	<u>Upon exercise</u>	<u>Realized</u>	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Glenn P. Russell	-	-	30,000	-	\$0	-
William E. Sliney	-	-	187,500	-	\$0	-

REPORT OF THE COMPENSATION COMMITTEE

Appointed in February 1999, the Compensation Committee is charged with the responsibility of reviewing all aspects of the Company's executive compensation programs and administering the Company's stock option plans. The Compensation Committee did not meet during 2004.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2004 for:

- each person who is known to own beneficially more than 5% of our outstanding common stock,
- each of our executive officers and directors and
- all executive officers and directors as a group.

The percentage of beneficial ownership for the following table is based on 4,997,400 shares of common stock outstanding on December 31, 2004.

Unless otherwise indicated below, to our knowledge, all persons and entities listed below have sole voting and investment power over their shares of common stock, except to the extent that individuals share authority with spouses under applicable law.

Shares of common stock not outstanding but deemed beneficially owned because an individual has the right to acquire the shares of common stock within 60 days are treated as outstanding when determining the amount and percentage of common stock owned by that individual and by all directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock shown.

<u>Name and address of beneficial owner</u>	Number of shares beneficially owned	Percentage of shares outstanding
Glenn P. Russell	3,030,000	60.6%
William E. Sliney	187,500	3.7%
Wayne Grau	0	0
All directors and executive officers as a group (3)	3,217,500	64.3%

The address of each officer and director for PASW, Inc. is 9453 Alcosta Boulevard. San Ramon, CA 94583 – 3929.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In February 2001 Luke Systems International loaned the Company \$32,075 which was repaid in September, 2004.

During 2004 an officer of PASW was paid \$30,000 in management fees. During 2004 the Company occupied office space in California provided by an officer at no charge.

PASW believes that the transactions described above were made on terms no less favorable to PASW than could have been obtained from unaffiliated third parties.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

Exhibit No. Description

- 2.1 Combination Agreement among PASW, Inc. Glenn P. Russell and Simmons Energy Services Inc. (4)
- 2.2 Voting Trust and Exchange Rights Agreement among PASW, Inc. [#2] Alberta Ltd., Shareholders and Montreal Trust Company of Canada (4)
- 2.3 Support Agreement among PASW, Inc. and [#2] Alberta Ltd.(4)
- 2.4 Share Capital Provisions to be Included in the Articles of Incorporation of [#2] Alberta Ltd. (4)
- 3.1 Articles of Incorporation of the Registrant, as amended to date (4)
- 3.2 Bylaws of the Registrant (1)
- 4.2 Specimen Warrant (1)
- 4.3 Form of Warrant Agreement (1)
- 4.4 Specimen Common Stock Certificate (1)
- 4.5 Form of Lock Up Agreement (1)
- 4.6 Form of Underwriter's Option for Purchase of Units (1)
- 10.1 Form of Indemnification Agreements (1)
- 10.2 1998 Equity Incentive Program (1)
- 10.3 Security and Loan Agreement, dated September 15, 1998 between Bank of America National Trust and Savings Association and Pacific Softworks (1)
- 10.4 Form of Invention Assignment and Proprietary Information Agreement (1)
- 10.5 Sublease, dated April 7, 1998 between SHR Perceptual Management and Pacific Softworks for the premises at 703 Rancho Conejo Blvd., Newbury Park, California (1)
- 10.6 Consulting Agreement dated March 8, 1996 between Kenneth Woodgrift and Pacific Softworks (1)
- 10.7 Letter from Golenberg & Co, merchant bankers, to Glenn Russell dated June 18, 1998 and Letter from Pacific Softworks to Glenn Golenberg dated January 27, 1999 (1)
- 10.8 Letter of intent regarding investment in FSPNetwork dated October 25, 1999 (2).
- 10.9 Convertible 10% promissory note due from FSPNetwork (3)
- 10.10 Letter of intent regarding investment in RedFlag dated January 13, 2000(3)
- 10.11 NetSilicon sale of assets dated September 8, 2000 (4)
- 10.12 Letter of intent between PASW, Inc. and Simmons Energy Services dated February 9, 2001 (4)
- 21.1 21.1 Subsidiaries of the Registrant*
- 31.1.1 Rule 13a-14(a)/15d-14(a) Certifications—Chief Executive Officer.
- 31.1.2 Rule 13a-14(a)/15d-14(a) Certifications—Chief Financial Officer.
- 32.1.1 Section 1350 Certifications—Chief Executive Officer.
- 32.1.2 Section 1350 Certifications—Chief Financial Officer.
(1) As filed on Form SB2 effective July 29, 1999.
(2) As filed on Form 10-QSB on November 12, 1999.
(3) As filed on Form 10KSB dated March 28, 2000.
(4) As filed on Form 8-K effective March 29, 2001.
(5) As filed on Form 10KSB dated March 29, 2001.
* Filed herewith

(b) Reports on Form 8-K

None

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure information required to be disclosed in Company reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within 90 days prior to the date of this report the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective.

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter and twelve months ending December 31, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PASW, Inc.

(Registrant)

Date: March 29, 2005

By: **William E. Sliney**

President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Glenn P. Russell	Chairman	March 29, 2005
William E. Sliney	President, Chief Financial Officer and Secretary	March 29, 2005
Wayne T. Grau	Director	March 29, 2005

PASW, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
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INDEPENDENT AUDITORS' REPORT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS

PASW, INC. AND SUBSIDIARIES (PASW)

We have audited the accompanying consolidated balance sheet of PASW as of December 31, 2004 and 2003, and related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require we plan and perform the audit to obtain reasonable assurance that 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PASW as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements were prepared assuming PASW will continue as a going concern. As shown in the accompanying financial statements, although PASW had positive cash flows from operations in 2004, it has incurred significant operating losses to date. These factors raise substantial doubt as to PASW's ability to continue as a going concern. Management's plans with respect to those matters are discussed in Note 12 to the financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SKEEHAN & COMPANY

Pasadena, California

March 18, 2005

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PASW, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2004	2003
Current assets		
Cash and cash equivalents	\$190,048	\$189,053
Accounts receivable (Note 6)	26,398	26,470
Total current assets	216,446	215,523
Property and equipment-net (Note 2)		
Other Asset	5,463	-
	<u>\$221,909</u>	<u>\$ 215,523</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued expenses	\$ 92,004	\$ 111,130
Advances payable – related party (Note 6)		32,075
Total current liabilities	92,004	143,205

Stockholders' equity

Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$.001 par value; 50,000,000 shares authorized; 4,997,400 and 4,997,400 shares issued and outstanding	4,998	4,998
Additional paid-in capital	6,398,754	6,398,754
Accumulated deficit	(6,267,607)	(6,332,731)
Cumulative adjustment for foreign currency translation	(6,240)	1,297

Total stockholders' equity	129,905	72,318
	\$221,909	\$ 215,523

The accompanying notes are an integral part of these consolidated financial statements.

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PASW, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended
December 31,

	2004	2003
Revenue		
Royalties and other (Note 6)	\$199,517	\$219,384
Operating expenses		
Selling, general and administrative (Note 6)	136,148	147,513
Total operating expenses	136,148	147,513
Income from operations	63,369	71,871
Other income - Interest income	4,155	3,488
Income from continuing operations before income taxes	67,524	75,359
Provision for taxes (Note 8)	2,400	6,658
Income from continuing operations	65,124	68,701
Discontinued operations (Note 10)		
Income from operations of internet and web software division, including gain on the disposal of \$4,380		1,754
Income tax (Note 8)		423
Net income from discontinued operation		1,331
Net Income	\$65,124	\$70,032
Net income per common share – Basic and diluted		
Continuing operations	\$0.01	\$0.01
Discontinued operations	0.00	0.00
Net income per share	\$0.01	\$0.01
Weighted average common shares Basic and diluted	4,997,400	4,997,400

The accompanying notes are an integral part of these consolidated financial statements.

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**PASW, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
COMPRHENSIVE INCOME**

**For the Years Ended
December 31,**

	2004	2003
COMPREHENSIVE INCOME		
Net income	\$65,124	\$70,032
Foreign currency translation adjustment	(7,537)	1,119
Comprehensive income	<u>\$57,587</u>	<u>\$71,151</u>

PASW, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Common Stock</u>		Additional Paid-in Capital	Accumulated Deficit	Cumulative Foreign Currency Translation Adjustment	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2003	4,997,400	\$4,998	\$6,398,754	\$(6,402,763)	\$178	\$1,167
Foreign currency translation adjustment	-	-	-	-	1,119	1,119
Net income	-	-	-	70,032	-	70,032
Balance at December 31 2003	4,997,400	4,998	6,398,754	(6,332,731)	1,297	72,318
Foreign currency translation adjustment	-	-	-	-	(7,537)	(7,537)
Net income	-	-	-	65,124	-	65,124
Balance at December 31, 2004	4,997,400	\$ 4,998	\$6,398,754	\$(6,267,607)	\$ (6,240)	\$129,905

PASW, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	\$65,124	\$70,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of fixed assets	-	(4,380)
(Increase) decrease in assets:		
Accounts receivable	72	6,372
Other asset	(5,463)	6,116
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(19,126)	2,271
Net cash provided by operating activities	40,607	80,411
Net cash provided by operating activities	40,607	80,411
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of fixed assets	-	8,622
Net cash provided by investing activities	-	8,622
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of related party payable	(32,075)	
Net cash used in financing activities	(32,075)	-
EXCHANGE RATE CHANGES	(7,537)	1,119
NET INCREASE IN CASH	995	90,152
CASH AND CASH EQUIVALENTS – BEGINNING	189,053	98,901
CASH AND CASH EQUIVALENTS – ENDING	\$ 190,048	\$ 189,053
SUPPLEMENTAL CASH FLOW INFORMATION: Cash paid		
during the year for:		
Interest paid	\$ Nil	\$ Nil
Income taxes paid	\$ Nil	\$ Nil

The accompanying notes are an integral part of these consolidated financial statements.

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PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

PASW (the Company) was incorporated in California in November 1992 as a developer and licensor of Internet and Web related software and software development tools. The Company developed and sold software development tools until August 2000. At that time the Company sold all its development activities to another company while maintaining a sales office in Japan. In December 2002 the Company closed the Japanese office but continues to receive royalty income from a single customer in Japan. The remaining administrative operations are conducted principally from an office in the San Francisco Bay Area of Northern California.

Basis of Consolidation

The consolidated financial statements include the accounts of PASW, Inc. ("PSI") and its wholly owned subsidiaries:

- Network Research Corp. Japan, Ltd. ("NRCJ");
- Alera Systems, Inc. ("Alera"), formerly iApplianceNet.com ("iAppliance"), a California Corporation;
- Pacific Acquisition Corporation ("PAC"), a California Corporation; and
- PASW Europe Limited ("Europe"), a United Kingdom Corporation.

All references herein to PSI or the "Company" include the consolidated results of PSI and its subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

Alera, PAC and Europe were inactive in 2004 and 2003.

Use of Estimates

Preparing financial statements in conformity with generally accepted accounting principles requires management to make 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.

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PASW, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

PSI generates all revenue from a royalty license agreement with a single customer in Japan. Generally, income is recognized when earned.

Cash and Cash Equivalents

PSI considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

PSI places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year.

PSI's accounts receivable are derived from one customer.

Accounts Receivable

For financial reporting purposes, PSI uses the allowance method of accounting for doubtful accounts. PSI performs ongoing credit evaluations of its customers and, if required, maintains an allowance for potential credit losses. The allowance is based on an experience factor and review of current accounts receivable. Uncollectible accounts are written off against the allowance accounts when deemed uncollectible. No accounts were deemed uncollectible at December 31, 2004 or 2003.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, primarily on a straight-line basis. The estimated lives used in determining depreciation are five to seven years for furniture, fixtures and computer equipment. Purchased computer software costs are amortized over five years.

Maintenance and repairs are expensed as incurred; additions and betterments are capitalized. Upon retirement or sale, the cost and related accumulated depreciation of the disposed assets are removed and any resulting gain or loss is recorded.

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PASW, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

PSI's financial instruments consist of cash, accounts receivable, accounts payable and short-term debt. The carrying amounts of cash, accounts receivable, accounts payable and short-term debt approximate fair value due to the highly liquid nature of these short-term instruments at December 31, 2004 and 2003. The fair value of the shareholder advances cannot be determined due to the related party nature of the obligation.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Recovery of assets to be held and used is measured by comparing the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment is measured by

the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Translation of Foreign Currency

PSI translates foreign currency financial statements of NRCJ in accordance with SFAS 52, "Foreign Currency Translation." Assets and liabilities are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. Foreign currency transaction gains and losses are included in determining net income.

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PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

PSI uses the intrinsic value method of accounting for stock-based compensation for employees in accordance with Accounting Principles Board Opinion ("APB") No. 25.

Earnings Per Share

SFAS No. 128, "Earnings Per Share" requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payments" (SFAS 123R). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company is required to adopt the new standard in the first interim period beginning after December 15, 2005. The Company has not yet determined the impact, if any, of the adoption of SFAS 123R on its financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of APB Opinion 29 ("SFAS 153"). SFAS 153 requires that exchanges of nonmonetary assets be measured based on the fair values of the assets exchanged, and eliminates the exception to this principle under APB Opinion 29 for exchanges of similar productive assets. The Company is required to adopt the new standard in the first interim period beginning after June 15, 2005. The Company does not expect the adoption of SFAS 153 to have a material effect on its financial statements.

In December 2004, the FASB issued SFAS No. 151, "Inventory Costs," an amendment of ARB No. 43, Chapter 4 ("SFAS 151"). SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The Company is required to adopt the new standard in the fiscal year beginning after June 15, 2005. The Company does not expect the adoption of SFAS 151 to have a material effect on its financial statements.

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PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2004	2003
Furniture, fixtures and equipment	\$ 5,000	\$ 5,000
Computer software	5,000	5,000
	<u>10,000</u>	<u>10,000</u>

Less: accumulated depreciation and amortization	10,000	10,000
Fixed assets – net	\$ -	\$ -

NOTE 3 - CAPITAL STOCK

PSI is authorized to issue 10,000,000 shares of Preferred Stock, par value \$.01. Preferred shares may be issued from time to time in one or more series. The number of shares in each series and the designation of each series to be issued shall be determined from time to time by the board of directors of PSI.

NOTE 4 - STOCK-BASED COMPENSATION

On April 17, 1998, PSI adopted the 1998 Equity Incentive Program (the "Plan"). The Plan provides for granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Non-Statutory Stock Options, (iii) Stock Appreciation Rights, (iv) Stock Bonuses, and (v) Rights to acquire Restricted Stock. Persons eligible to receive Stock Awards are the employees, directors and consultants of the Company and its Affiliates, as defined. Incentive Stock Options may be granted only to employees. Stock awards other than Incentive Stock Options may be granted to all eligible persons.

The maximum term of any options granted is ten years. Vesting requirements may vary, and will be determined by the board of directors. The number of shares reserved for issuance under the Plan is 451,740 shares. At December 31, 2004 the Company had no outstanding options.

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**PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 5 - WARRANTS

On September 18, 2001 PSI issued 560,000 fully vested common stock purchase warrants as compensation for services by professionals and consultants. The warrants have an exercise price of \$0.25 per share and expire September 18, 2006.

In 2001, PSI also canceled its outstanding employee options and other warrants, and on September 18, 2001 issued 642,674 new fully vested warrants, with an exercise price of \$0.25 per share expiring on September 18, 2006.

PSI valued the 1,202,674 warrants issued in 2001 using the Black Sholes option pricing model with the following assumptions: interest rate of 4.5%, life of 5 years, volatility of 145% and expected dividend yield of -0-%. The per warrant fair value is \$0.10 and a total expense of \$124,781 was recorded during 2001.

NOTE 6 - RELATED PARTY TRANSACTIONS

During 2001, a company controlled by the spouse of the principal shareholder of PSI advanced \$32,075 to PSI. The advances bear no interest and are due on demand. The note was repaid in full in September 2004.

One officer of PSI also manages the Company and receives management fees. Management fee expense included in the statement of operations totaled \$30,000 in 2004 and 2003.

PSI occupies facilities in California provided by one of the officers of the Company at no charge.

NOTE 7 - SEGMENT INFORMATION

All of the Company's 2003 and 2003 sales were in Asia and Japan

NOTE 8 - INCOME TAXES

The provision for income taxes consists of the following:

	December 31,	
	2004	2003
Current	\$2,400	\$ 6,658

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**PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 9 – INCOME TAXES (Continued)

The reconciliation of the effective income tax rate to the Federal statutory rate is as follows:

	December 31,	
	2004	2003
Federal income tax rate	35.0%	35.0%
Surtax exemption	(10.0)	(10.0)
Effect of valuation allowance	(25.0)	(25.0)

State taxes	3.6	8.8
Effective income tax rate	3.6%	8.8%

At December 31, 2004, PSI had a net carryforward operating loss of approximately \$4,544,000. It also has a capital loss carryforward of approximately \$2,750,000 at December 31, 2004. A valuation allowance equal to the tax benefit for deferred taxes was established due to the uncertainty of realizing the benefits of the tax carryforward.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components PSI's deferred tax assets (liabilities) are as follows:

	December 31,	
	2004	2003
Non-current deferred tax assets (liabilities):		
Loss carryforwards	\$ 1,136,155	\$1,151,723
Less: valuation allowance	(1,136,155)	(1,151,723)
Net deferred tax assets (liabilities)	\$ -	\$ -

The net operating loss carryforwards begin to expire in 2019.

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PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 9 - EARNINGS PER SHARE

Securities that could potentially dilute basic earnings per share in the future, were not included in the computation of diluted earnings per share because their effect would have been antidilutive, are as follows:

	December 31,	
	2004	2003
Warrants	1,202,674	1,202,674
Total shares	1,202,674	1,202,674

NOTE 10 - DISCONTINUED OPERATIONS

On August 31, 2000, PSI and NETsilicon, Inc. ("*NSI*") entered into an agreement whereby PSI sold the assets of its PSI Softworks Technology subsidiary ("*PSIT*") to NSI. The assets primarily consisted of PSIT's Internet and Web software. The purchase price for the assets was 90,000 shares of NSI's common stock, valued at \$2,328,750 (fair value on date of sale). In addition, NSI granted a non-exclusive, royalty-free license for the acquired technology to PSI and its affiliates, subject to certain limitations. NSI is expected to retain substantially all of PSIT's personnel as part of a newly formed operating group. The operations sold are accounted for as discontinued operations for financial reporting purposes.

NRCJ is a distributor for products supplied by NSI. Revenue from licenses of the suite of Internet and Web products and sales of services accounted for substantially all of its revenue in 2002 and 2001. In July 2002 NSI ceased producing products used by NRCJ. During the remainder of 2002 the sales of licenses of the subsidiary decreased to a point where operations became unprofitable. On January 31, 2003 the Company sold the operating assets and certain liabilities of the NRCJ distribution business to Network Technology, Inc., a new company formed by the former employees of NRCJ, for 1.0 million Japanese Yen (US \$8,622). NRCJ will continue to receive royalty income from former NRCJ customers.

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PASW, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 11 - GOING CONCERN

The accompanying financial statements were prepared in conformity with generally accepted accounting principles, which contemplate continuation of the PSI as a going concern. Although PSI had positive cash flows in 2004, it had net operating losses of \$6,267,607 since inception. PSI's only operating subsidiary NRCJ sold all its revenue producing assets in 2003 and there is no assurance that the remaining royalty income is sufficient to allow the Company to continue operations. These factors raise substantial doubt about PSI's ability to continue as a going concern. In view of the matters described above, PSI is dependent on its ability to raise sufficient capital to fund its working capital requirements until the Company can generate sufficient sales volume to cover its operating expenses. As of December 31, 2004, the Company is actively seeking a reverse merger candidate.

CERTIFICATIONS

PASW, Inc. - Principal Executive Officer

I, Glenn P. Russell, the principal executive officer of PASW, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended December 31, 2004;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986.]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2005

/s/ Glen P. Russell

Glen P. Russell
Chairman, President and Chief
Executive Officer

CERTIFICATIONS

PASW, Inc. - Principal Financial Officer

I, William E. Sliney, the principal executive officer of PASW, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended December 31, 2004;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986.]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2005

/s/ William E. Sliney

William E. Sliney
Chief Financial Officer

Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002

I, Glenn P. Russell, the Chief Executive Officer of PASW, Inc. (the "Company") certify that the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, which this statement accompanies, (the "Form 10-KSB") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in the Form 10-KSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Glenn P. Russell

Glenn P. Russell

Dated: March 29, 2005

Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002

I, William E. Sliney, the Chief Executive Officer of PASW, Inc. (the "Company") certify that the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, which this statement accompanies, (the "Form 10-KSB") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in the Form 10-KSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William E. Sliney

William E. Sliney

Dated: March 29, 2005
