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 March 31, 2002

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.)**
9453 Alcosta Boulevard	
San Ramon, California	**94583**
(Address of principal executive offices)	**(Zip Code)**

(925) 828-0934

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 May 1, 2002.

PASW, INC.

INDEX

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PASW, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 237,142	$ 152,148
Accounts receivable, net of allowance of $0 and $0	12,228	43,855
Total current assets	249,370	196,003
Property and equipment less accumulated depreciation and amortization of $51,384 and $50,584	4,980	5,847
Other assets	5,579	5,643
Total assets	$ 259,929	$ 207,493

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2002	December 31, 2001
LIABILITIES AND STOCKHOLDERS'EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 194,769	$ 124,828
Note payable	32,075	32,075
Total current liabilities	$226,844	$156,903
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; 4,997,400 and 4,997,400 shares issued and outstanding	4,998	4,998
Additional paid in capital	6,398,754	6,398,754
Accumulated deficit	(6,378,254)	(6,365,670)
Cumulative adjustment for currency translation	7,587	12,508
Total stockholders' equity	33,085	50,590
	$ 259,929	$ 207,493

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net revenue		
Sales	$ 122,436	$ 117,498
Royalties and other	36,470	30,875
	158,906	148,373
Cost of revenue -		
Purchases and royalty fees	63,235	58,567
Gross profit	95,671	89,806
Expenses:		

Selling, general and administrative	107,455	(5,179)
Research and development	0	0
Depreciation and amortization	800	0
	108,255	(5,179)
Other income (expenses):		
Loss on sale of securities	0	(24,608)
Gain (loss) from continuing operations before income taxes	(12,584)	70,377
Income taxes	0	0
Net income (loss)	$ (12,584)	$ 70,377
Net income (loss) per common share:		
Basic and diluted	$ (0.00)	$ 0.02
Weighted average common stock shares outstanding Basic and diluted	4,997,400	4,640,900

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended	
	March 31, 2002	March 31, 2001
Net income (loss)	$ (12,584)	$ 70,377
Other comprehensive income (loss):		
Net unrealized loss on available securities for sale		(3,993)
Foreign currency translation adjustment	(4,921)	65,707
Comprehensive income (loss)	$ (17,505)	$ 132,091

See accompanying notes to condensed financial statements.

PASW, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	March 31, 2002	March 31, 2001
Cash flows from operating activities:		
Continuing operations		
Net income (loss)	$ (12,584)	$ 70,377
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	800	0
(Increase) decrease in assets:		
Accounts receivable	31,627	140,297
Loss on marketable securities	0	24,608
Prepaid expenses	0	15,434
Other assets	0	442
Write-off of fixed assets		
Increase (decrease) in liabilities:	0	558
Accounts payable and accrued expenses	69,941	(366,769)
Net cash used in operating activities	89,784	(115,053)
Cash flows from investing activities:		
Proceeds of sale or marketable securities	0	147,479
Purchase of marketable securities	0	(136,500)
Net cash from (used) in investing activities	0	10,979
Cash flows from financing activities	0	0
Net cash provided by financing activities	0	0
Effect of exchange rate changes on cash	(4,790)	65,707
Net increase (decrease) in cash	84,994	(38,367)
Cash – Beginning	152,148	254,369
Cash – Ending	$ 237,142	$ 216,002

Supplemental non-cash financing activities: None

See accompanying notes to condensed financial statements.

PASW, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 March 31, 2002, the results of operations for the three ended March 31, 2002 and March 31, 2001, and the cash flows for the three months ended March 31, 2002 and March 31, 2001 are included. Operating results for the three-month ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

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, 2001 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the "SEC") on March 26, 2002.

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 March 31, 2002
Outstanding shares as of January 1, 2002	4,997,400	4,997,400
Options treated as Common Stock	1,142,674	1,142,674
Total weighted average shares outstanding	6,140,074	6,140,074
Net loss		$ (12,584)
Net loss per common share basic and diluted		$ (0.00)

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 26, 2002, 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

PASW, Inc., formerly Pacific Softworks, Inc., incorporated in California in November 1992, has historically developed and licensed Internet and Web related software and software development tools that enable communications, based on a set of rules known as protocols. The Company's products were embedded into systems and developed or manufactured by others. In August 2000, the Company sold all of the assets of its Internet and Web operations. Since that time, the Company's operations, consisting of sales of software and licenses, have been conducted principally through an administrative office in Northern California and a sales office in Japan.

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

Results of Operations

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

	Unaudited Three Months Ended March 31,	
	2002	**2001**
Net revenue	100.00%	100.00%
Cost of revenue	39.79	39.47
Gross profit	60.21	60.53
Selling, general and administrative	67.62	(3.48)
Research and development	0.00	0.00
Depreciation and Amortization	0.51	0.00
Total expenses	68.13	(3,48)
Other income (expense)	0.00	(16.58)
Net income (loss)	(7.92%)	47.43%

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 March 31,	
	2002	**2001**
United States	0%	0%
United Kingdom and Europe	0%	0%
Japan and Asia	100%	100%
Other	0%	0%
Total	0%	0%

Three months ended March 31, 2002 and 2001.

Net revenue

For the three months ended March 31, 2002 revenues increased 7% to $158,906 from 148,373 for the three months ended March 31, 2001. Sales of licenses increased 4% to $122,436 for the three months ended March 31, 2002 and royalty income increased by 18% all due to an increase in 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 March 31, 2002 was $63,235 or 40% of sales compared to $58,567 or 39% of sales for the three months ended March 31, 2001. The 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 $107,455 for the three months ended March 31, 2002 compared to $(5,179) for the three months ended March 31, 2001. The increase in 2002 reflects the continuing expense of a corporate office, which is associated with seeking a reverse merger or other financial transaction for the Company.

Research and development expense

Research and development expense was $0 for the three months ended March 31, 2002 and March 31, 2001as a result of ceasing all development activities in the Company at the end of December 2000.

Depreciation and amortization

Depreciation and amortization was $800 in the three months ended March 31, 2002 and $0 for the three months ended March 31, 2001 reflecting the sale of assets 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 March 31, 2002 the Company had $0 in other income and expenses. The Company had a loss on sale of securities of $24,608 in the three months ended March 31, 2001.

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 March 31, 2002 the Company had no income tax liability.

Liquidity and capital resources

At March 31, 2002 and December 31, 2001 the Company had working capital of $22,526 and $39,100 and cash and cash equivalents of $237,142 and $152,148.

The Company generated $89,784 in cash flow from operating activities in the three months ended March 31, 2002 compared to using $115,053 in the three months ended March 31, 2001. The principal reasons for the decrease in use of cash of $204,833 was the result of an decrease of $108,670 in accounts receivable, a decrease in prepaid and other expenses of $41,042 and an increase of $436,710 in accounts payable. Cash generated or used in operating activities principally reflects the gain or loss from operations and the related changes in working capital components.

There were no investing activities in the three months ended March 31, 2002. Investing activities in the three months ended March 31, 2001 consisted of the purchase of marketable securities of $136,500 and the sale of marketable securities of $147,479.

The Company had no financing activities in the three months ended March 31, 2002 and the three months ended March 31, 2001.

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 years ended December 31, 2001 and 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 losses of $2,613,101 and $1306,954 for the years ending December 31, 2000 and 2001. We also have an accumulated deficit of $ 6,365,670 and a stockholders' equity of $50,590 as of December 31, 2001. We can provide no assurance that we will be profitable in the future and if we do not become profitable our business could be adversely affected.

We 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 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). While we still have market makers for our securities there can be no assurance that we can continue to rely on our current market makers and that the price and trading volume of our securities could not b materially affected.

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 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 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 substantially all of its revenue in the years ended December 31, 2000 and 2001. 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 their 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 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.

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

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

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 1999 the Company was notified that a merchant banker, Golenberg & Co., had asserted rights under a 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: May 3, 2002

PASW, INC.

/s/ WILLIAM E. SLINEY

William E. Sliney

President and Chief Financial Officer

(Duly Authorized Officer and Principal

Financial and Accounting Officer)