



Dear Fellow Stockholders:

In medieval times, blacksmiths would heat metal until it was workable, hammer it in the forge until it reached the shape they wanted, and repeat the process time and time again until the metal was as good as they could make it. After all of this effort, the final step before sharpening was hardening and toughening, so it could take a fine cutting edge and survive battle. The process commonly used involved heating the sword to the extreme then drawing it from the forge and plunging it into icy cold water. The sword would either shatter into a thousand pieces or come out stronger and better than before.

AXS-One is that sword. We survived the toughest year in a decade for the Software Industry. We survived the terrorist attacks of September 11th. We did not shatter; rather we came out of 2001 stronger, tougher, and more competitive than when we entered. We quickly learned how to make money when large projects dried up. We adapted our e-Cellerator™ products to meet the new requirements of our customers, providing them with solutions that meet today's problems today, and at affordable prices. And... in addition to doing the things that were required to survive the year, we continued to be focused on our long-term objectives. Here are some of our accomplishments since the last time I wrote to you.

- The decline in our stock price has been arrested. During the first quarter of 2002 we have maintained a support level of approximately \$1.00 and have an increase of 256% from December 31, 2001 to March 28, 2002.
- We adjusted our organization and expense levels to the realities of the 2001 economy and in the last two quarters of 2001 and the first quarter of 2002:
 - Produced a combined \$1.835 million net profit, or approximately \$0.08 per share
 - Generated combined EBITDA of \$3.4 million.
- We launched two joint ventures in South Africa:
 - AXS-One African Solutions, which has already won a major government contract and a contract with one of the leading banks in South Africa.
 - Hospitality Warehouse, which is rapidly becoming a major market site for the hotel and hospitality industry in Southern Africa.
- We have maintained Sales and Marketing expenditures at a level that will permit us to compete for new business when the economy improves.
- We completed the re-architecting of our infrastructure to Web Services and have a world-class product line that can compete with anyone, anywhere in the world.
- We have maintained client satisfaction and retention levels and our existing clients continue to invest in our products.
- Our efforts to communicate our message and value proposition to Industry Analysts and Trade Groups are paying off and we are getting excellent reviews.

In summary, like the sword of medieval times, we are sharp, tough and ready to fight and win. There are still obstacles to overcome, but your management team remains committed to building a successful business, producing real sustainable stockholder value for you. That's our job and we will do it. No excuses. More information follows in the attachment to this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "John Rade".

John Rade
CEO and President
AXS-One Inc.

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Attachment to President's Letter

I would like to detail for you the significance of our investments in Web Service architecture, and talk about why our AXS-One Collaboration FrameWorks™ solutions can be a significant driver for new business going forward.

I would also like to give you a flavor of how your company is producing measurable, significant value to our clients. A good way to do this is to describe how this year's Clients of the Year are using our products.

I mentioned industry recognition. Some examples follow.

Finally, I would like to close with a few words about the future of the company.

Web Services

We've spent the past two years re-architecting our products' infrastructure to web services based architecture. Why? Simple, web services allow applications to communicate with each other without the need to rely on expensive and time consuming programming of interfaces or creating a monolithic, totally integrated environment that is difficult to build, difficult to install and impossible to maintain. In the past, companies were so afraid of interfacing issues that they bought off on an ERP system consciously accepting inferior functionality as a trade off to not having to integrate.

Web services, and especially the workflow-enabled application web services, gives companies the best of both worlds inside their own companies and across the value chain of their clients, suppliers and business partners. Companies can now focus on business process and requirements rather than technology.

Our web services architecture is state of the art. We are using it now to build systems. Process management has been our differentiator for some time now. The rest of the world caught up with the concept just in time to see client server architecture fade and the paradigm shift again. In our direction!! Being a technology leader is no accident; nor is our receiving the Transform magazine award for Web Services at AIIM 2002. It is the result of continuing investment in our business and a keen awareness of the needs of our clients.

The AXS-One Collaboration FrameWorks solutions take full advantage of web services where appropriate to provide significant business value quickly to our clients. Unlike other solutions that permit or facilitate collaboration across a company's value chain, AXS-One Collaboration FrameWorks solutions are implemented on a rapid response basis, use existing systems and information and provide high visibility, high ROI solutions in days and weeks versus months and years. This means that our customers can provide additional services to their clients and increase satisfaction and, hopefully, revenue. They can establish better relationships with their vendors and business partners, resulting in better prices or more business or reduced operating costs or all of the above.

Presenting Clients of the Year 2002

I would like to tell you about how some of our clients are using our products. I have chosen to highlight the companies who this year received a Client of the Year Award (COTY). COTYs, our answer to the Oscars, are awarded to clients who have exhibited true partnership with AXS-One. COTYs are not necessarily awarded to the clients who spend the most with us although all of the nominees provide good revenue. These are clients who adopt new technology and ways of doing business, true innovators. They help us with reference calls and case studies, speak on our behalf to journalists; in other words all the things a good partner does.

In alphabetical order:

Brittany Ferries and Truckline

Brittany Ferries is one of Europe's largest carriers of people and freight between the UK and France. They became an early adopter of what is now AXS-One Collaboration FrameWorks solutions for statement presentment, reconciliation and payment. In the past twelve months, they have participated in a product launch and conducted numerous press interviews, which have resulted in literally hundreds of

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column inches of free publicity for AXS-One. They have acted as our reference and gone even further, introducing us to other companies in their industry. A case study of the Brittany Ferries implementation was submitted to AIIM and received the AIIM 2002, Best Practices Award for Content Management. Additionally, Brittany's implementation was nominated by Computing Magazine in the UK for implementation of the year. Oh, and by the way, the system went in smoothly, deadlines were met and the system is fulfilling all performance and ROI expectations!!

CCH Australia

CCH is a world leader in the provision of regulatory information and taxation advice to their clients. In recent years, they have diversified into electronic content delivery, training, and other value added services. They are a long time client dating back to 1991 and use our financial management products extensively throughout Asia, Australia and New Zealand. Recently, they have adopted AXS-One's e-Cellerator™ approach by introducing web-based procurement, expense and payments management and workflow. From Japan in the north to New Zealand in the south, CCH runs their hemispheric business on AXS-One systems. We are now co-developing a new system with their COMSTRATA division that will provide property managers with a sophisticated management tool via the Internet. The system is scheduled to go live this year and will provide a new source of revenue for us.

Hospitality Warehouse (Pty) Limited

Our South African management team had a dream they shared with RCI South Africa, now owned by Cendant. There had to be a better way for resorts to buy things necessary to operate their properties. There had to be a way to aggregate the buying power of several hundred properties and create a win-win for all parties involved. In spite of the fact that procurement portals were failing to live up to expectations, we believed that a combination of AXS-One's technology and Best Practices combined with RCI's knowledge of the industry could be a winner. So, Hospitality Warehouse (HW) was born as a joint venture of the two companies. HW recently bought the procurement business of a major hotel chain and more growth is planned, both in terms of hotels and resorts as well in the services provided. When fully implemented, HW will be the "one-stop" shop for virtually everything that needs to be bought by a resort property. HW is a case study in how to implement a full service procurement hub using the ASP model. We commend HW, and especially RCI, for the vision, foresight, and courage to break this new ground with us.

Pfizer, Inc.

Pfizer, one of the largest pharmaceutical companies in the world, has been our client since the mid 90's and our software powers their back offices in major operations around the world. That alone would probably be reason enough to award them a COTY, but that is not why they are getting it. Pfizer is receiving the COTY for innovation and best practice adoption. They were an early adopter of what is now our Best Practice for Expense and Payments Management. Currently, they have over 3,500 employees on the system powered by our AXS Process Manager (Workflow). They operate one of the largest shared service payments facilities in the world powered by our Accounts Payable and Expense Cycle Management (ECM). When rapid, lower cost of deployment became a problem to be solved, they became one of the first to adopt AXS Desk™ and the Intranet to rollout more users across the company. While many companies speak of becoming a paperless office, Pfizer has realized this paperless office philosophy with their Accounts Payable department through AXS Process Manager and ECM.

Stephens Group, Inc.

Our relationship with Stephens goes back to 1996 when we provided their Brokerage Division a complete suite of financial management applications as part of a consortium of regional brokerage companies. From that beginning, based on what we now call our Foundation products, our relationship with Stephens has gone from strength to strength as they have set the bar higher and higher in terms of running a world class organization and as we have responded to the challenge with new technology and systems. On top of the Foundation products we are layering our Best Practice System for Budgeting, and now full life cycle Web Based Procurement. They are introducing Executive Approval via E-mail and the web. They are an early adopter of our exciting new Web-based information management and distribution

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technology, AXSPoint™ Exchange, and are using it to provide value-added services to their high net worth clients and to their major holding companies.

Industry Recognition

Here are some of the awards and recognition we received this year:

- Bloor Research commended us for our innovative approach to self-service
- Aberdeen Group identified our Tivity™ Division as a leader in the delivery of Professional Services Automation solutions to the industry
- We received AIIM's Best Practices Award 2002 for Content Management
- We received Transform Magazine's Best of AIIM 2002 Award for our Web Services Architecture
- One of our AXS-One Collaboration FrameWorks™ solution clients, Brittany Ferries, has been nominated for a prestigious Computing award in the UK.

A Glimpse of the Future

I am not going to second guess the experts, my competitors or anyone else about what the future may bring. Nor will I try to estimate how much the Software Industry is going to grow. However, I will talk about what I do know.

I know that this company has been in business for twenty-three years. During that time, we have re-invented ourselves three times. I know that in that period, about 25 percent of the Global 2000 have invested in our products and continue to do so. I believe that our solutions that allow companies to effectively and efficiently manage their value chains represent the right products, at the right time, in the right markets.

I know that these world-class products can compete with anyone, any time, anywhere! And, it's not just me saying so, it's the industry analysts and critics.

If there is business around, we will compete to get our fair share. We will seek and identify new markets, and look for opportunities to leverage our assets and profitably grow the company. We have retained the staff and the skill sets to accomplish this. This company is not in maintenance mode waiting for something to happen. We make things happen.

Finally, I know that, irrespective of the fad of the moment—economic boom or economic bust—the Fundamentals of Business remain unchanged. Successful businesses are built on sustainable growth coupled with sustainable profits. That is our philosophy and that is what I believe will build stockholder value in the long term.

The above are the things I know and believe. And the above are the things I assure you we try to do every day.

This letter, including the attachment, contains forward-looking statements. Such statements are only predictions and actual events or results may differ materially. All forward-looking statements involve risks and uncertainties, including, without limitation, the risks detailed in the company's documents and reports filed from time to time with the Securities and Exchange Commission.

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