SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005**

or

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

COMMISSION FILE NUMBER: 0-11933

AXCESS INTERNATIONAL INC.

(Exact name of small business issuer as specified in its charter)

Delaware	**85-0294536**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3208 Commander Drive
Carrollton, Texas 75006
(972) 407-6080
(Address, including telephone number and area code, of principal executive offices)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ☐

Number of shares of common stock outstanding on May 13, 2005: 26,594,850

Transitional Small Business Disclosure Format: Yes ☐ No ☒

AXCESS INTERNATIONAL INC.
INDEX

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

AXCESS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,236,620	$ 461,101
Accounts receivable - trade, net of allowance for doubtful accounts of $8,859 in 2005 and 2004	48,553	79,965
Inventory, net	174,651	144,714
Prepaid expenses and other	122,643	97,164
Total current assets	1,582,467	782,944
Property, plant and equipment, net	41,213	49,395
Intellectual property, net	—	133
Deferred debt issuance costs	464,648	506,889
Other assets	2,674	3,906
Total assets	$ 2,091,002	$ 1,343,267
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 346,693	$ 490,100
Accrued liabilities	849,032	789,589
Notes payable:		
Convertible notes payable (includes $80,000 and $66,667 with related party in 2005 and 2004, respectively)	613,333	483,333
Discounts on convertible debt	(258,605)	(289,482)
Dividends payable	396,909	316,062
Total current liabilities	1,947,362	1,789,602
Notes payable to stockholders	3,766,973	3,932,092
Convertible notes payable (includes $13,333 with related party in 2004)	—	236,667
Discount on convertible debt	—	(34,084)
Total liabilities	5,714,335	5,924,277
Commitments and contingencies		
Stockholders' deficit:		
Convertible preferred stock, 7,000,000 shares authorized, $0.01 par value, 2,415,000 shares issued and outstanding in 2005 and 2004.	24,150	24,150
Common stock, $.01 par value, 50,000,000 shares authorized in 2005 and 2004; 26,594,850 shares issued and outstanding in 2005 and 24,720,939 shares issued and outstanding in 2004	265,949	247,209
Shares of common stock to be issued, 5,333 shares in 2005	53	—
Additional paid-in capital	151,661,762	149,898,600
Accumulated deficit	(155,575,247)	(154,750,969)
Total stockholders' deficit	(3,623,333)	(4,581,010)
Total liabilities and stockholders' deficit	$ 2,091,002	$ 1,343,267

See accompanying notes to unaudited financial statements.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Sales	$ 241,158	$ 206,678
Cost of sales	124,348	98,886
Gross profit	116,810	107,792
Expenses:		
Research and development	184,181	185,359
General and administrative	355,463	404,215
Selling and marketing	255,097	174,583
Depreciation and amortization	9,073	93,632
Operating expenses	803,814	857,789
Loss from operations	(687,004)	(749,997)
Other income (expense):		
Interest expense, net	(165,138)	(322,723)
Gain in vendor settlements	108,710	88,243
Other	—	6,509
Other expense, net	(56,428)	(227,971)
Net loss	(743,432)	(977,968)
Preferred stock dividend requirements:		
Recurring	(80,847)	(65,520)
Warrant inducement	(2,060,397)	—
Preferred stock dividend requirements	(2,141,244)	(65,520)
Net loss applicable to common stock	$ (2,884,676)	$ (1,043,488)
Basic and diluted net loss per share	$ (0.11)	$ (0.05)
Weighted average shares of common stock outstanding	25,728,563	21,594,791

See accompanying notes to unaudited financial statements.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Cash flows from operating activities:		
Net loss	$ (743,432)	$ (977,968)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	9,073	93,632
Amortization of financing discount and issuance costs	107,202	251,195
Gain on vendor settlements	(108,710)	(88,243)
Changes in operating assets and liabilities:		
Accounts receivable	31,412	(9,784)
Inventory	(29,937)	(19,561)
Prepaid expenses and other	(25,479)	48,579
Other assets	1,232	—
Accounts payable and accrued expenses	33,844	(60,984)
Net cash used by operating activities	(724,795)	(763,134)
Cash flow from investing activities:		
Capital expenditures	(758)	(7,054)
Net cash used by investing activities	(758)	(7,054)
Cash flow from financing activities:		
Net proceeds from issuance of common stock from warrants	1,651,471	—
Net proceeds from issuance of common stock from employee options	14,720	—
Principal payments on financing agreements	(165,119)	—
Net cash provided by financing activities	1,501,072	—
Net change in cash and cash equivalents	775,519	(770,188)
Cash and cash equivalents, beginning of period	461,101	2,163,977
Cash and cash equivalents, end of period	$ 1,236,620	1,393,789
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Conversions of notes payable into common stock	$ 106,666	206,667
Conversions of accrued interest into common stock	9,098	70,086
Conversions of preferred stock into common stock	—	536,623
Conversion of accrued dividends into common stock	—	109,417
Preferred stock dividends accrued	80,847	65,520

See accompanying notes to unaudited financial statements.

AXCESS INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Company provides advanced security and asset management systems, which locate, identify, track, monitor and protect assets. The main applications of the Company's systems are security video through closed circuit television (called CCTV), personnel and vehicle access control, and automatic asset tracking and protection. The Company provides solutions in the recently identified homeland security markets such as air and ground transportation, water treatment facilities, oil and gas, power plants, as well as in the markets for data centers, retail / convenience stores, education, healthcare, and corporate offices. AXCESS utilizes two patented and integrated technologies: network-based radio frequency identification (RFID) and tagging and streaming video. Both application and browser-based software options deliver critical real-time information tailored to each end user via the enterprise network or Internet, also providing custom alerts in the form of streaming video, e-mail, or messages delivered to wireless devices.

The Company's business plan for 2005 is predicated principally upon the successful marketing of its RFID products. During the first quarter of 2005, operating activities utilized approximately $0.7 million of cash. During 2005 the Company raised a net of $1.7 million, for additional working capital through the exercise of warrants with a warrant inducement.

The future results of operations and financial condition of the Company will be impacted by the following factors, among others: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents, technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company's products, and the ability of the Company to meet its stated business goals.

If the Company's losses or lack of operating capital continue, the Company will have to obtain funds to meet its cash requirements through business alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or the Company may be required to curtail its operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to the Company or disadvantageous to existing stockholders. In addition, no assurance may be given that the Company will be successful in raising additional funds or entering into business alliances.

(b) Company Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has received working capital in various forms from Amphion Ventures, L. P. and affiliates of Amphion Ventures, L. P. including Amphion Partners, Amphion Investments LLC, Antiope Partners, VennWorks LLC (formerly incuVest LLC), Amphion Capital Management, Amphion Capital Partners, Richard Morgan, Anna Morgan, Robert Bertoldi, and NVW, LLC (collectively, the “Amphion Group”). As of March 31, 2005, the Amphion Group owns approximately 65% of the outstanding voting stock of the Company.

(c) Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method. Inventory was comprised of the following at March 31, 2005 and December 31, 2004:

	March 31, 2004	December 31, 2004
Raw materials	$ 56,732	$ 56,701
Work-in-process	109	109
Finished goods	117,810	87,904
	$ 174,651	$ 144,714

(d) Stock Options

The Company accounts for its stock-based compensation plan under Accounting Principles Board ("ABP") Opinion No. 25, Accounting for Stock Issued to Employees. The pro forma information below is based on provisions of Statement of Financial Accounting Standard ("FAS") No. 123, Accounting for Stock-Based Compensation, as amended by FAS 148, Accounting for Stock-Based Compensation—Transition and Disclosure, issued in December 2002.

The Company does not have a history of paying cash dividends and none have been assumed in estimating the fair value of its options.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

	Three Months Ended March 31,	
	2005	2004
Pro forma impact of fair value method (FAS 148)		
Reported net loss attributed to common stock	$ (2,884,676)	$ (1,043,488)
Less: fair value of employee stock compensation	(200,564)	(80,424)
Pro forma net loss attributed to common stock	(3,085,240)	(1,123,912)
Loss per common share		
Basic and diluted net loss per share – as reported	$ (0.11)	$ (0.05)
Basic and diluted net loss per share – pro forma	$ (0.12)	$ (0.05)
Weighted average Black-Scholes fair value assumptions		
Risk free interest rate	4.25%	4.25%
Expected life	3 years	2 years
Expected volatility	164%	175%
Expected dividend yield	0.0%	0.0%

(e) Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 123R (SFAS 123R), a revision of SFAS No. 123 (SFAS 123), *"Accounting for Stock-Based Compensation."* This statement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation expense will be recognized over the period during which an employee is required to provide service in exchange for the award. Public entities that file as small business issuers will be required to apply SFAS 123R in the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123R will require us to record compensation expense for the unvested fair value of our equity instruments given to our employees. We are in the process of evaluating the impact of the adoption of SFAS 123R on our financial position and results of operations. However, the adoption of SFAS 123R will have no effect on our cash flows, but will have an adverse impact on our results of operations.

(2) Contingencies

Axcess is engaged in a number of lawsuits with approximately seven vendors who claim they are owed amounts from $500 to $45,000, which aggregates in total $99,336. We are currently defending or seeking to settle each of the vendor's claims. At March 31, 2005, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

(3) Preferred Stock

The Company has authorized 7,000,000 shares of convertible preferred stock, of which shares designated in five series have been issued. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	2003B Series	Series 2004
Number of shares authorized	2,750,000	625,000
Stated value	$ 0.01	$ 0.01
Number of shares issued and outstanding:		
December 31, 2004	1,790,000	625,000
March 31, 2005	1,790,000	625,000
Conversion ratio (or conversion price) of preferred shares into common	1 to 1 into voting common stock	1 to 1 into voting common stock
Liquidation preference	None	None
Dividend rights	7% per annum, cumulative	7% per annum, cumulative

(a) Series 2003B Preferred Stock

The Company completed a $3,132,500 exempt Preferred Stock Offering during the fourth quarter of 2003. The Preferred Stock is designated as 2003B Preferred and each $70,000 unit consisted of 40,000 shares of Preferred Stock bearing a 7% dividend, approximately 2,000 shares of common stock and 40,000 warrants to purchase the Company's common stock exercisable for two years at $2.75 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over $3.75. During the three months ended March 31, 2004 there were $54,669 of dividends accrued for Series 2003B Preferred Stock. Dividends payable were $301,978 and $247,309 for Series 2003B Preferred stock at March 31, 2005 and December 31, 2004, respectively. As of March 31, 2005 and December 31, 2004, the Company had 1,790,000 shares of Series 2003B Preferred shares outstanding.

In connection with the issuance of the 2003B Preferred Stock, the Company recorded preferred stock dividend requirements of $1,782,831 that will be reflected as preferred stock dividends as the underlying preferred stock converts to common stock. As of March 31, 2005 that amount is reflected in accumulated deficit on the balance sheet.

(b) Series 2004 Preferred Stock

During the second quarter of 2004 the Company raised a net of $1,200,000 of additional working capital through a Preferred Stock Offering. The Preferred Stock is designated as 2004 Preferred and consisted of 625,000 shares of Preferred Stock bearing a 7% dividend and 357,142 warrants to purchase the Company's common stock exercisable for two years at $3.20 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over $4.00. During the three months ended March 31, 2004 there were $26,178 of dividends accrued for Series 2004 Preferred Stock. Dividends payable were $94,931 and $68,753 for Series 2004 Preferred stock at March 31, 2005 and December 31, 2004, respectively. As of March 31, 2005 and December 31, 2004, the Company had 625,000 shares of Series 2004 Preferred shares outstanding.

In connection with the issuance of the 2004 Preferred Stock, the Company recorded preferred stock dividend requirements of $1,002,540 that will be reflected as preferred stock dividends as the underlying preferred stock converts to common stock. As of March 31, 2005 that amount is reflected in accumulated deficit on the balance sheet.

(4) Convertible Notes Payable

On July 30, 2002, the Company entered into a bridge financing agreement with ten accredited investors for the sale and issuance of 10 "units" to the investors for an aggregate purchase price of $1,000,000. Each unit consists of a convertible promissory note in the amount of $100,000 and 25,000 shares of the Company's common stock. Each investor has agreed to not sell more than one-third of the common stock comprising the units during any calendar month. The convertible promissory notes comprising the units bear interest at an annual rate of 7% and mature on July 30, 2005. On each of July 30, 2003, July 30, 2004 and July 30, 2005, the investors have the option to convert one-third of the principal amount of the notes into common stock of the Company. The conversion price of the notes is initially 65% of the average closing price of a share of the Company's common stock for the 20 trading days preceding the given anniversary date of the notes. The maximum conversion price shall be $4.00 per share and the minimum conversion price shall be $1.00 per share. The conversion price will be subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in the Company's shares of common stock. The Company without premium or penalty may prepay the notes in whole or in part.

During the three months ended March 31, 2005, one holder elected to convert $33,333 of his note plus $4,004 of accrued interest into 37,791 shares of Axcess common stock, which were issued during the first quarter of 2005.

On January 17, 2003, Axcess entered into a bridge financing agreement with ten accredited investors for the sale and issuance of 3.05 "units" to the investors for an aggregate purchase price of $305,000. Each unit consists of a convertible promissory note in the amount of $100,000 and 50,000 shares of our common stock. By agreement, each investor may not sell more than one-third of the common stock comprising the units during any calendar month. The convertible promissory notes comprising the units bear interest at an annual rate of 7% and mature on January 31, 2006. On each of January 31, 2004, January 31, 2005 and January 31, 2006, the investors have the option to convert one-third of the principal amount of the notes into common stock of Axcess. The conversion price of the notes is initially 65% of the average closing price of a share of our common stock for the twenty (20) trading days preceding the given anniversary date of the notes. The maximum conversion price shall be $2.00 per share and the minimum conversion price shall be $0.50 per share. The conversion price will be subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in our shares of common stock. The notes may be prepaid in whole or in part by us without premium or penalty.

During the three months ended March 31, 2005, two holders elected to convert $73,333 of their notes plus $5,094 of accrued interest into 79,380 shares of Axcess common stock, which were issued during the first quarter of 2005.

(5) Significant Customers

During the three months ended March 31, 2005 the Company had one customer that accounted for 13% of the overall revenue, three customers accounted for 78% of the digital video product sales and one customer accounted for 14% of the RFID product sales. During the three months ended March 31, 2004 the Company had two customers that accounted for 40% of the overall revenue, two customers accounted for 45% of the digital video product sales and three customers accounted for 57% of the RFID product sales.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Forward-Looking Statements

This quarterly report on Form 10-QSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as, "may," "expect," "could," "plan," "seek," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology.

These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those referred to in the forward-looking statements and are made pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are made based on management's current expectations or beliefs as well as assumptions made by, and information currently available to, management.

A variety of factors could cause actual results to differ materially from those anticipated in the Company's forward-looking statements, including the following factors: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents, technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company's product, and the ability of the Company to meet its stated business goals. For a detailed discussion of these and other cautionary statements and factors that could cause actual results to differ from the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, especially "Item 1. Description of Business" (including the "Risk Factors" section of Item 1) and "Item 6. Management's Discussion and Analysis or Plan of Operation" of the Company's 2004 Annual Report on Form 10-KSB.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company does not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Recent Developments: Going Concern and Liquidity Problems

Our auditors have included an explanatory paragraph in their audit opinion with respect to our consolidated financial statements at December 31, 2004. The paragraph states that our recurring losses from operations and resulting continued dependence on access to external financing raise substantial doubts about our ability to continue as a going concern. Furthermore, the factors leading to and the existence of the explanatory paragraph may adversely affect our relationship with customers and suppliers and have an adverse effect on our ability to obtain financing.

We do not have sufficient working capital to sustain our operations. We have been unable to generate sufficient revenues to sustain our operations. We will have to obtain funds to meet our cash requirements through business alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or we may be required to curtail our operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to us or disadvantageous to existing stockholders. In addition, no assurance may be given that we will be successful in raising additional funds or entering into business alliances.

Liquidity and Capital Resources

Since inception, we have utilized the proceeds from a number of public and private sales of our equity securities, the exercise of options, convertible debt, short-term bridge loans from stockholders and more recently, preferred equity offerings and exercise of warrants, to meet our working capital requirements. At March 31, 2005, we had working capital deficit of $364,895.

Our operations generated losses in 2004 and continue to generate losses in 2005. Our cash increased $775,519 during the three months ended March 31, 2005 with operating activities using $724,795 of cash. We funded operations primarily through cash on hand from borrowings and equity offerings over the last two years. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2005 is predicated principally upon the successful marketing of our RFID products. We anticipate that our existing working capital resources and revenues from operations will not be adequate to satisfy our funding requirements throughout 2005.

Our working capital requirements will depend upon many factors, including the extent and timing of our product sales, our operating results, the status of competitive products, and actual expenditures and revenues compared to our business plan. We are currently experiencing declining liquidity, losses from operations and negative cash flows, which makes it difficult for us to meet our current cash requirements, including payments to vendors, and may jeopardize our ability to continue as a going concern. We intend to address our liquidity problems by controlling costs, seeking additional funding (through capital raising transactions and business alliances) and maintaining focus on revenues and collections.

If our losses continue, we will have to obtain funds to meet our cash requirements through business alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or we may be required to curtail our operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to us or disadvantageous to existing stockholders. In addition, no assurance may be given that we will be successful in raising additional funds or entering into business alliances.

Warrants Exercised

During the first quarter of 2005 we raised a net of $1,651,471 of additional working capital through the exercise of warrants. In order to induce the warrant holders to exercise their warrants early we offered and additional warrant for each warrant exercised by January 28, 2005. We issued 1,702,840 of additional warrants. The new warrants have an exercise price of $1.50 and they expire on January 31, 2010.

In connection with the exercise of the warrants, a preferred stock dividend of $2,060,397 is reflected on the accompanying statements of operations for the for the fair value of the inducement warrants given the exercising warrant holders.

Sales and Marketing Initiatives

In the past our sales volume has not been sufficient to sustain our operations. During 2004 we were able, through the recent financing, to initiate a new marketing emphasis, which is intended by us to build sales, primarily of our RFID products. During 2005, we are optimistic about our ability to grow the business. We continue to see broad-based awareness and acceptance of RFID as whole world-wide. Our three accomplishments during 2004 which should assist in growing revenue during 2005 are:

1. We were able to secure a number of important reference accounts in 2004;
2. We grew the integrator channel;
3. We began our thrust into Supply Chain tagging.

While there can be no assurance that our efforts will be successful, we believe that these accomplishments will assist us in our goal of becoming profitable.

Results of Operations

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Sales and Gross Profit. Sales for the three months ended March 31, 2005 were $241,158 and for the three months ended March 31, 2004 were $206,678. Cost of sales for the three months ended March 31, 2005 were $124,348 and for the three months ended March 31, 2004 were $98,886. The gross profit for the three months ended March 31, 2005 was $116,810 and $107,792 for the three months ended March 31, 2004. The increase in sales was a result of the increased sales and marketing activity initiated during 2004. The margin improvement is driven by a shift in the product mix and continued improvement in margins based on the shift to contract manufacturers.

Radio frequency identification (RFID) product sales were $221,494 for the three months ended March 31, 2005 and $174,307 for the three months ended March 31, 2004. Cost of sales was $116,863 for the three months ended March 31, 2005 and $85,497 for the three months ended March 31, 2004. As a result, gross profits from RFID products were $104,631 for the three months ended March 31, 2005 and $88,810 for the three months ended March 31, 2004. Sales are continuing to increase based on the increased exposure in the marketplace. The margin continues to be stable in this range.

Digital video product sales were $19,664 for the three months ended March 31, 2005 and $32,371 for the three months ended March 31, 2004. Cost of sales was $7,485 for the three months ended March 31, 2005 and $13,387 for the three months ended March 31, 2004. As a result, gross profits from digital video products were $12,179 for the three months ended March 31, 2005 and $18,984 for the three months ended March 31, 2004. The decrease in sales is a result of our shift in focus from digital video to RFID during 2004. The margin improvement is a result of the product mix shift.

Operating Expenses. Operating expenses were $803,814 for the three months ended March 31, 2005 and $857,789 for the three months ended March 31, 2004. This decrease was due to lower depreciation and amortization expense, a reduction in insurance expense offset by higher selling and marketing expense.

Research and development expenses were $184,181 for the three months ended March 31, 2005 and $185,359 for the three months ended March 31, 2004. The slight decrease is a result of lower testing and proto type development offset by the an increase in training and taxes.

Corporate general and administrative expenses were $355,463 for the three months ended March 31, 2005 and $404,215 for the three months ended March 31, 2004. The decrease is a result of decreased directors and officer's insurance, reduction of professional services expenses and reduction in telephone expenses. However, we had an increase in our investor relations expenses.

Selling and marketing expenses were $225,097 for the three months ended March 31, 2005 and $174,583 for the three months ended March 31, 2004. The increase is a result of increased headcount relating to the two senior sales and marketing personnel hired during 2004.

Depreciation and amortization expenses were $9,073 for the three months ended March 31, 2005 and $93,632 for the three months ended March 31, 2004. The decrease is related to lower depreciation expense as a result of the age of the equipment and the reduction of the amortization expense associated with the intellectual property which has now been fully amortized.

Other expenses, net. Other expenses, net, were $56,428 for the three months ended March 31, 2005 and $227,971 for the three months ended March 31, 2004. Interest expense was $157,585 lower during the three months ended March 31, 2005, compared to the three months ended March 31, 2004, reflecting lower debt balance and lower interest rates. We also recognized $108,710 during the first quarter of 2005 relating to the expiration of the statue of limitations relating to accounts payables compared to $88,243 during the first quarter of 2004 where we were able to settle some accounts payable issues relating to prior periods at a discount from the accrued amounts. We expect to recognize a total of $306,525 during 2005 relating to the amount of expiring accounts payable claims.

Net Loss. Net loss was $743,432 for the three months ended March 31, 2005, compared to a net loss of $977,968 for the three months ended March 31, 2004. The decrease is mainly relating to lower interest expense, a reduction in depreciation and amortization offset by the increased marketing activity.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $2,141,244 for the three months ended March 31, 2005 and $65,520 for the three months ended March 31, 2003. $2,060,397 of the increase related to the warrant inducement we offered to warrant holders to exercise their warrants early in January 2005. The remaining increase was relating to the 2004 Preferred equity issued during the second quarter of 2004 and the conversion of the Series I and Series J preferred shares converted during the first quarter of 2004.

Other

Inflation. Inflation has not had, and is not expected to have, a material impact on the operations and financial condition of the Company.

Item 3. Controls and Procedures

Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our Chief Executive. Based upon that evaluation, our Chief Executive and Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under 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 include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Axcess is engaged in a number of lawsuits with approximately seven vendors who claim they are owed amounts from $500 to $45,000, which aggregates in total $99,336. We are currently defending or seeking to settle each of the vendor's claims. At March 31, 2005, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

Item 2. Changes in Securities.

During the three months ended March 31, 2005, the Company issued unregistered securities in connection with the transactions described below. The issuance of stock was exempt from the registration requirements of the Securities Act, as amended by virtue of Section 4(2) thereof, as transactions not involving a public offering and an appropriate restrictive legend was affixed to the stock certificates.

Convertible Note

During the three months ended March 31, 2005 one holder of the July 2002 Convertible debt elected to convert $33,333 of their $66,667 note plus $4,004 of accrued interest into 37,791 of unregistered common stock. We reissued the notes for $33,334.

During the three months ended March 31, 2005 two of the holders of the January 2003 Convertible debt elected to convert $73,334 of their $113,333 note plus $5,093 of accrued interest into 79,380 of unregistered common stock. We reissued the notes for $39,999.

Common Stock

During the three months ended March 31, 2005 we had four employees exercise 36,800 stock options.

Warrants Exercised

During the first quarter of 2005 we raised a net of $1,651,471 of additional working capital through the exercise of warrants. In order to induce the warrant holders to exercise their warrants early we offered and additional warrant for each warrant exercised by January 28, 2005. We issued 1,702,840 of common shares and an equal number of additional warrants. The new warrants have an exercise price of $1.50 and they expire on January 31, 2010.

Warrants Exercised

During the three months ended March 31, 2005 we had one entity exercise 17,100 warrants.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit No.	Description
31.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *

---

* Filed herewith

(b) Reports on Form 8-K:

Date	Description
February 2, 2005	8-K disclosing a press release that announced operating announcing results for its fourth quarter and year ended December 31, 2004.
February 2, 2005	8-K disclosing commitment for additional working capital through an warrant inducement.

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.

AXCESS INTERNATIONAL INC.,
Registrant

/s/ ALLAN GRIEBENOW
Allan Griebenow Director, President and
Chief Executive Officer (Principal Executive Officer)

/s/ ALLAN L. FRANK
Allan L. Frank
Chief Financial Officer and Secretary
(Principal Accounting and Financial Officer)

May 13, 2005

Exhibit 31.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allan Griebenow, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Axcess International, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-14 and 15d-14) for the registrant and we have:
    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidating subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report was prepared;
    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"); and
    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2005

/s/ ALLAN GRIEBENOW

Allan Griebenow, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allan Frank, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Axcess International, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidating subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report was prepared;
   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2005

/s/ ALLAN L. FRANK

Allan L. Frank, Vice President, Chief Financial Officer and Secretary
(Principal Accounting and Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AXCESS International Inc. (the "***Company***") on Form 10-QSB for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Allan Griebenow, President, Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/S/ ALLAN GRIEBENOW
Allan Griebenow
President, Chief Executive Officer and Principal Executive Officer

Dated: May 13, 2005

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AXCESS Inc. (the "***Company***") on Form 10-QSB for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Allan L. Frank, Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/S/ ALLAN L. FRANK
Allan L. Frank
Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer

Dated: May 13, 2005