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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **March 31, 2009**

or

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER: 0-11933

**AXCESS INTERNATIONAL INC.**

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

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**85-0294536**

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

**16650 Westgrove Drive, Suite 600  
Addison, Texas 75001  
(972) 407-6080**

(Address, including telephone number and area code, of principal executive offices)

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 proceeding 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated file" and "Smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock outstanding on May 10, 2009: 31,222,016

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**PART 1. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**AXCESS INTERNATIONAL INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 163,879	\$ 51,392
Accounts receivable - trade, net of allowance for doubtful accounts of \$30,320 and \$27,424 for 2009 and 2008, respectively.	97,449	92,844
Inventory, net	81,906	142,782
Prepaid expenses and other	373,580	43,100
Total current assets	716,814	330,118
Property, plant and equipment, net	16,894	18,969
Deferred debt issuance costs	17,187	18,750
Other assets	50,474	53,062
Total assets	<u>\$ 801,369</u>	<u>\$ 420,899</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable (includes \$15,446 and \$18,645 with related party in 2009 and 2008, respectively)	\$ 980,799	\$ 905,354
Accrued liabilities	388,364	502,566
Accrued interest	1,165,171	1,112,862
Deferred revenue	946,771	22,222
Notes payable (includes \$1,038,273 with a related party in 2009 and 2008)	1,200,273	1,200,273
Dividends payable	325,947	280,394
Total current liabilities	5,007,325	4,023,671
Notes payable (includes \$393,787 with a related party in 2009 and 2008), net of discount of \$9,476 and \$13,092 in 2009 and 2008, respectively	2,686,870	2,683,254
Total liabilities	7,694,195	6,706,925
Commitments and contingencies		
Stockholders' deficit:		
Convertible preferred stock, 10,000,000 shares authorized in 2009 and 2008. Without liquidation preferences; \$0.01 par value, 6,115,211 and 6,125,211 shares issued and outstanding in 2009 and 2008, respectively	61,152	61,252
Common stock, \$0.01 par value, 70,000,000 shares authorized in 2009 and 2008; 31,222,016 shares issued and outstanding in 2009 and 31,204,931 shares issued and outstanding in 2008.	312,220	312,050
Additional paid-in capital	165,842,396	165,641,922
Accumulated deficit	(173,108,594 )	(172,301,250 )
Total stockholders' deficit	(6,892,826 )	(6,286,026 )
Total liabilities and stockholders' deficit	<u>\$ 801,369</u>	<u>\$ 420,899</u>

See accompanying notes to unaudited consolidated financial statements.

**AXCESS INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATION**  
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Sales	\$ 1,082,682	\$ 176,486
Cost of sales	<u>745,974</u>	<u>105,727</u>
Gross profit	336,708	70,759
Expenses:		
Research and development	309,359	871,590
General and administrative	324,453	387,435
Selling and marketing	394,559	326,050
Depreciation and amortization	<u>4,664</u>	<u>4,292</u>
Operating expenses	<u>1,033,035</u>	<u>1,589,367</u>
Loss from operations	(696,327 )	(1,518,608 )
Other income (expense):		
Interest expense, net	(107,361 )	(116,494 )
Gain on vendor settlements	<u>43,810</u>	<u>71</u>
Other expense, net	<u>(63,551 )</u>	<u>(116,423 )</u>
Net loss	(759,878 )	(1,635,031 )
Preferred stock dividend requirements	(47,466 )	(76,955 )
Net loss applicable to common stock	<u>\$ (807,344 )</u>	<u>\$ (1,711,986 )</u>
Basic and diluted net loss per share	<u>\$ (0.03 )</u>	<u>\$ (0.06 )</u>
Weighted average shares of common stock outstanding	<u>31,211,006</u>	<u>29,388,883</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net loss	\$ (759,878 )	\$ (1,635,031 )
Adjustments to reconcile net loss to net cash provided by (used in) by operating activities:		
Depreciation and amortization	4,664	4,292
Amortization of financing discount and issuance costs, net	5,179	(16,025 )
Gain on vendor settlements and statutory write-off of payables	43,810	71
Warrants issued for services	—	(15,791 )
Stock based compensation expense	148,758	223,617
Changes in operating assets and liabilities:		
Accounts receivable	(4,605 )	168,234
Inventory	60,876	11,590
Prepaid expenses and other	(330,480 )	14,083
Other assets	—	563
Accounts payable and accrued expenses	944,163	709,803
Net cash provided by (used in) operating activities	<u>112,487</u>	<u>(534,594 )</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures	—	(2,095 )
Net cash used in investing activities	—	(2,095 )
<b>Cash flow from financing activities:</b>		
Principal payments on financing agreements	(160,000 )	—
Borrowings on financing agreements	160,000	478,000
Net cash provided by financing activities	—	478,000
Net change in cash and cash equivalents	112,487	(58,689 )
Cash and cash equivalents, beginning of period	51,392	59,089
Cash and cash equivalents, end of period	<u>\$ 163,879</u>	<u>\$ 400</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Warrants issued as a debt discount	\$ 49,874	\$ 91,892
Accrued preferred stock dividends	47,466	76,955
Conversion of preferred shares into common stock	100	1,100
Conversion of accrued dividends into common stock	1,913	—

See accompanying notes to unaudited consolidated financial statements.

**AXCESS INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(1) Summary of Significant Accounting Policies**

**(a) Description of Business and Going Concern**

The Company is a leading provider of patented Radio Frequency Identification ("RFID") and Real Time Location Systems ("RTLS") solutions that locate, track, monitor, count and protect people, assets, and vehicles, thereby improving productivity, security and access to real-time intelligence. The Company's multiuse, single-system solutions include active, dual and semi-active RFID tags, activators and readers that support automatic monitoring and tracking applications, such as electronic asset protection and asset management, and automatic personnel and vehicle access control. Axcress' web-based software provides a suite of management tools that include reporting, display, decision and control functions that enable productivity, security and local positioning.

The Company's business plan for 2009 is predicated principally upon the successful marketing of its RFID products. During the first three months of 2009, operating activities generated approximately \$112 thousand of cash. However, the Company anticipates that its existing working capital resources and revenues from operations will not be adequate to satisfy its funding requirements for all of 2009. We are currently experiencing declining liquidity, losses from operations and negative cash flows, which make 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. Management is attempting to obtain equity financing for use in the Company's operations. In addition, management is trying to expand the Company's sales and obtain profitable operations.

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**

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 LLC, VennWorks LLC (formerly incuVest LLC), Amphion Capital Management LLC, Amphion Innovations plc, Amphion Innovations US Inc. and NVW, LLC (collectively, the "Amphion Group"). The Amphion Group owns approximately 60% of the outstanding voting common stock of the Company.

**(c) Basis of presentation**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. As discussed below, the Company makes significant assumptions in recording its allowance for doubtful accounts, inventory valuation, impairment of long-lived assets, warranty costs, the valuation allowance for deferred tax assets, the value of components of equity and debt instruments and stock based compensation expense. Actual results could differ from those estimates, and the differences may be significant.

The accompanying unaudited financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2008 and for the year then ended included in our annual report on Form 10-K for the fiscal year ended December 31, 2008.

**(d) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. As discussed below, the Company makes significant assumptions in recording its allowance for doubtful accounts, inventory valuation, and impairment of long-lived assets, warranty costs, the valuation allowance for deferred tax assets and the value of the components of equity and debt instruments. Actual results could differ from those estimates, and the differences may be significant.

**(e) 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, 2009 and December 31, 2008:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Raw materials	\$ 20,613	\$ 24,275
Work-in-process	89	104
Finished goods	61,204	118,403
	<u>\$ 81,906</u>	<u>\$ 142,782</u>

The components of cost of sales are summarized as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Product cost	\$ 741,217	\$ 105,618
Warranty expense	4,757	109
Inventory impairment	—	—
Total	<u>\$ 745,974</u>	<u>\$ 105,727</u>

**(f) Stock-Based Compensation**

The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, “*Share-Based Payment*” (“SFAS 123R”), using the modified prospective transition method. Stock based compensation expense under SFAS 123R for the first three months of 2009 and 2008 was \$148,758 and \$223,617, respectively which was recorded in operating expenses. This expense increased net loss per share by \$0.005 and \$0.008 for 2009 and 2008, respectively. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The Black-Scholes option-pricing model was used to estimate the option fair value. The option pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, risk-free interest rate and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over the most recent periods at the time of the grants equal to the expected option term. The expected option term was calculated using the “simplified” method permitted by SAB 107. There were no issuances during the three months ended March 31, 2009 or 2008.

The following table illustrates the effect on operating expenses:

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Research and development expense	\$ 51,147	\$ 75,324
General and administrative expense	70,525	110,729
Selling and marketing expense	27,086	37,564
Total	<u>\$ 148,758</u>	<u>\$ 223,617</u>

**(g) Stock Options and Warrants**

Under the Company's 2005 Equity Incentive Plan, the Company may grant up to 5,000,000 shares of common stock to its employees. The exercise price of each option is not less than the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Options are generally granted each year and have various vesting requirements. Options granted typically vest over a four-year period. During the three months ended March 31, 2009 the Company made no grants under the stock option plan.

With the shareholders approval of the 2005 Equity Incentive Plan, the Company will not issue anymore options under the Company's 2001 Equity Incentive Plan or the Directors Compensation Plan. As of March 31, 2009 the Company had 317,831 options outstanding from the 1991 Equity Plan, 125,000 from the Directors plan, 1,519,961 from the 2001 Equity plan and 965,000 issued as inducements to hire. In total the Company had 2,927,792 employee options outstanding from plans other than the 2005 Equity Incentive Plan.

The following table summarizes employee stock options outstanding and changes during the three months ended March 31, 2009:

	<b>Outstanding Options</b>			
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding at December 31, 2008	5,392,973	\$ 1.87		
Options granted	—	—		
Options exercised	—	—		
Options forfeited	(459,181)	1.60		
Options outstanding at March 31, 2009	<u>4,933,792</u>	1.90	5.14	\$ 62,700
Options exercisable at March 31, 2009	<u>3,736,292</u>	1.91	6.79	\$ 62,700
Options available for grants as of March 31, 2009	<u>2,994,000</u>			

The options outstanding at March 31, 2009 have exercise prices as indicated in the table below:

<b>Option Price</b>	<b>Number of Options</b>	<b>Weighted Average Remaining Life</b>	<b>Intrinsic Value of Vested Unexercised Options</b>
\$0.00 - \$1.00	720,000	4.58	\$ 62,700
\$1.01 - \$2.00	3,120,961	6.65	
\$2.01 - \$3.00	675,375	1.11	
\$3.01 - \$4.00	165,900	1.78	
\$4.01 - \$5.00	20,000	2.17	
\$5.01 - \$6.25	231,556	0.98	
Total	<u>4,933,792</u>	5.14	<u>\$ 62,700</u>

The Company has issued warrants to purchase common stock in connection with issuance of notes payable to stockholders and preferred stock. The following table summarizes warrants outstanding at March 31, 2009:

	WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Warrants outstanding at beginning of year	9,952,956	\$ 1.64
Warrants issued	293,827	0.27
Warrants exercised	—	—
Warrants expired unexercised	—	—
Warrants outstanding at end of year	10,246,783	1.60

The warrants outstanding at March 31, 2009 have exercise prices as indicated in the table below.

Strike Price	Number of Warrants	Weighted Average Remaining Life
\$0.00 - \$1.00	523,821	4.99
\$1.01 - \$2.00	9,722,962	3.25
Total	10,246,783	3.34

During the three months ended March 31, 2009 the Company issued an additional 293,827 warrants in conjunction with various debt offerings. The warrant price ranged from \$0.22 to \$0.51 and they expire between January 15, 2014 and March 31, 2014.

#### (h) Revenue Recognition

The Company's revenue transactions consist predominately of sales of products to customers. The Company follows the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104 *Revenue Recognition* and Emerging Issues Task Force ("EITF") Issue 00-21 *Revenue Arrangements with Multiple Deliverables*. Specifically, the Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of loss have passed to the customer, generally upon shipment, the price is fixed or determinable and collect ability is reasonably assured. For those arrangements with multiple elements, or in related arrangements with the same customer, the arrangement is divided into separate units of accounting if certain criteria are met, including whether the delivered item has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. In cases where there is objective and reliable evidence of the fair value of the undelivered item in an arrangement but no such evidence for the delivered item, the residual method is used to allocate the arrangement consideration. For units of accounting which include more than one deliverable, the Company generally recognizes all revenue and cost of revenue for the unit of accounting over the period in which the last undelivered item is delivered.

At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with sales, recorded as a component of cost of revenues. The Company's customers and distributors generally do not have return rights.

We defer revenue for sales where we have not completed the earnings process in accordance with the applicable revenue recognition guidance. These deferred amounts are reflected as liabilities in our consolidated financial statements as deferred revenue. Deferred revenue was \$946,771 as of March 31, 2009 and \$22,222 as of December 31, 2008.

#### (2) Contingencies

From time to time we may be named in claims arising in the ordinary course of business. Currently, no material legal proceedings, government actions, administrative actions, investigations or claims are pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business and financial condition.

However, Axxess is engaged in a number of lawsuits with approximately four vendors and one customer who claim they are owed amounts from \$500 to \$45,000, which aggregates in total \$90,676. We are currently defending or seeking to settle each of the vendor's and customer claims. At March 31, 2009, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

On March 31, 2008, Axxess entered into an agreement with the developer of our next generation RFID product, the Dot, whereby Axxess has agreed to pay a minimum commercialization fee of one million dollars over the next six years. The amount is still contingent on the supplier completing the testing and certifying the product is within all of the original specifications. The testing is ongoing but the product has not passed all of the preliminary testing and we are still evaluating the impact on the product. As of March 31, 2009 Axxess has not signed off on the completion of the product and Innovison has issued a letter of termination for failure to pay. We currently have accrued \$392,808 for services that have been completed; however, we have not accrued the remainder for services that have not been completed.

### (3) Preferred Stock

The Company has authorized 10,000,000 shares of convertible preferred stock, of which shares designated in three series are currently outstanding. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	Series 2003B	Series 2004	Series 2005	Series 2006	Series 2006B	Series 2006C	Series 2007	Series 2008	Series 2008B
Number of shares authorized	2,750,000	625,000	2,750,000	1,200,000	750,000	200	205	120	80
Stated value	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Number of shares issued and outstanding									
Dec. 31, 2008	1,575,000	—	2,649,726	1,200,000	700,000	100	185	120	80
March. 31, 2009	1,565,000	—	2,649,726	1,200,000	700,000	100	185	120	80
Conversion ratio (or conversion price) of preferred shares into common	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 10,000 into voting common stock	1 to 10,000 into voting common stock	1 to 10,000 into voting common stock
Liquidation preference	None	None	None	None	None	None	None	None	None
Dividend rights	7% per annum, cumulative	7% per annum, cumulative	None	None	None	None	None	None	None

#### (a) Series 2003B Preferred Stock

The Company completed a \$3,132,500 exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors 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 2009, there were \$47,466 of dividends expensed for Series 2003B Preferred Stock. Dividends payable for the Series 2003B preferred stock were \$325,947 and \$280,394 at March 31, 2009 and December 31, 2008, respectively. During 2009, we had one holder of the Series 2003B convert their 10,000 shares to common stock, resulting in 1,565,000 and 1,575,000 shares of Series 2003B Preferred shares outstanding at March 31, 2009 and December 31, 2008, respectively.

#### (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 an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. 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 2008 we had one holder of the Series 2004 convert their 625,000 shares and dividends accrued to common stock leaving no shares and no dividends payable of series 2004 preferred shares outstanding as of December 31, 2008.

*(c) Series 2005 Preferred Stock*

On December 30, 2005, the Company raised \$813,021 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2005 Preferred and consists of 956,495 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to one basis at \$0.85. In addition, the Company issued 956,495 warrants to purchase the Company's common stock exercisable for five years at \$1.50 per share. Each warrant will be callable by the Company if and when the Company's common stock share price exceeds \$3.00 per share for at least twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

On March 14, 2006, the Company raised an additional \$1,489,245 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2005 Preferred and consists of 1,752,055 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to one basis at \$0.85. In addition, the Company issued 1,752,055 warrants to purchase the Company's common stock exercisable for five years at \$1.50 per share. Each warrant will be callable by the Company if and when the Company's common stock share price exceeds \$3.00 per share for at least twenty (20) consecutive trading days. The Company will use the proceeds for general working capital.

As of March 31, 2009 and December 31, 2008, the Company had 2,649,726 shares of Series 2005 Preferred shares outstanding, respectively.

*(d) Series 2006 Preferred Stock*

On May 31, 2006, the Company raised \$1,200,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006 Preferred and consists of 1,200,000 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to one basis at \$1.00. In addition, the Company issued 600,000 warrants to purchase the Company's common stock exercisable for five years at \$2.00 per share. Each warrant will be callable by the Company if and when the Company's common stock share price exceeds \$5.00 per share for at least twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

As of March 31, 2009 and December 31, 2008, the Company had 1,200,000 shares of Series 2006 Preferred shares outstanding.

*(e) Series 2006B Preferred Stock*

On December 1, 2006, the Company raised \$750,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006B Preferred and consists of 750,000 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to one basis at \$1.00. In addition, the Company issued 750,000 warrants to purchase the Company's common stock exercisable for five years at \$2.00 per share. The Company will use the proceeds for general working capital.

\$150,000 of the 2006B Preferred Equity Offering was from Amphion Innovations plc, an affiliate of the Amphion Group, our majority shareholder and \$300,000 was from Richard C.E. Morgan our chairman and an affiliate of the Amphion Group.

As of March 31, 2009 and December 31, 2008, the Company had 700,000 shares of Series 2006B Preferred shares outstanding.

*(f) Series 2006C Preferred Stock*

On January 29, 2007, the Company raised \$2,000,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006C Preferred and consists of 200

shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one (1) basis at \$1.00. In addition, the Company issued 1,000,000 warrants to purchase the Company's common stock exercisable for five years at \$2.00 per share. The Company will use the proceeds for general working capital.

As of March 31, 2009 and December 31, 2008, the Company had 100 shares of Series 2006C Preferred shares outstanding.

*(g) Series 2007 Preferred Stock*

During the third quarter of 2007, the Company raised \$2,050,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2007 Preferred and consists of 205 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to ten thousand basis at \$1.00. In addition, the Company issued 1,025,000 warrants to purchase the Company's common stock exercisable for five years at \$2.00 per share. The Company used the proceeds from the sale of the 2007 Preferred stock for general working capital.

\$250,000 of the 2007 Preferred Equity Offering was from Richard C.E. Morgan our chairman and an affiliate of the Amphion Group.

As of March 31, 2009 and December 31, 2008, the Company had 185 shares of Series 2007 Preferred shares outstanding.

*(h) Series 2008 Preferred Stock*

On April 25, 2008, the Company raised \$1,200,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors, which have previously invested in Axxess. The Preferred Stock is designated as 2008 Preferred and consists of 120 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a 1 to 10,000 basis. In addition, the Company issued 1,200,000 warrants to purchase the Company's common stock exercisable for five years at \$1.50 per share.

The Company also recorded an additional preferred stock dividend of \$558,686 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2008 Preferred Stock Equity.

As of March 31, 2009 and December 31, 2008 the Company had 120 shares of Series 2008 Preferred shares outstanding.

*(i) Series 2008B Preferred Stock*

Beginning on September 30, 2008 the Company authorized the raising of \$600,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2008B Preferred and consists of 80 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one basis. In addition, the Company issued 400,000 warrants to purchase the Company's common stock exercisable for five years at \$1.50 per share. Each warrant will be callable by the Company if and when the Company's common stock share price exceeds \$3.00 per share for at least twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

The Company also recorded an additional preferred stock dividend of \$187,501 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2008B Preferred Stock Equity.

As of March 31, 2009 and December 31, 2008 the Company had 80 shares of Series 2008B Preferred shares outstanding.

**(4) Notes Payable**

**PV Proceeds Holdings, Inc.**

On July 28, 1999, the Company acquired substantially all of the assets of PV Proceeds Holdings, Inc. (formerly "Prism Video"), a privately held corporation, and agreed to pay \$4,000,000 to PV Proceeds Holdings, Inc. on December 31, 2002. The balance of the indebtedness under the PV Proceeds Holdings, Inc. note issued was due in full by the Company on December 31, 2002 and was in default during 2003 until extended by PV Proceeds Holdings, Inc. The note payable had an original face amount of \$4,000,000 and was collateralized by the Company's note receivable from Amphion Ventures, LP ("Amphion Ventures"). Pursuant to the Asset Purchase Agreement

between Axxess and PV Proceeds Holdings, Inc., Axxess assigned PV Proceeds Holdings, Inc. all payments of principal to be made by Amphion Ventures under the note receivable until the balance of the note receivable was paid in full or the balance due under the note payable to PV Proceeds Holdings, Inc. was paid in full, whichever occurred first. In addition, the shares of common stock, which PV Proceeds Holdings, Inc. may acquire upon conversion of preferred stock or by exercise of the warrant, were subject to a three-year lockup from the date of the closing, which could be reduced to two years upon the occurrence of certain events. The warrant was exercisable on or before July 28, 2004.

Axxess reached an Agreement to Amend Purchase Note and Payment Term with PV Proceeds Holdings, Inc. PV Proceeds consented to a five-year extension of the note with an interest rate of 5% per annum from January 1, 2003 payable in full at maturity of December 31, 2007. As further consideration for entering into the agreement Axxess granted to PV Proceeds Holdings, Inc. a warrant to purchase up to 500,000 shares of common stock of Axxess. The warrants had an exercise price of \$2.00 per share and expired on the earlier of February 14, 2008 or forty-five days after the principal and all accrued interest are paid. Axxess has also agreed to reduce the principal amount due first for 10% of equity proceeds and second 20% of proceeds from options exercised. Axxess also recorded deferred debt issuance costs of \$689,932 for the value of the warrants, which were amortized over the life of the loan. The deferred debt issuance costs were fully amortized as of December 31, 2007.

Axxess reached an Agreement with PV Proceeds Holdings, Inc. to extend the maturity of the note from December 31, 2007 to December 31, 2011. Axxess agreed to pay a \$25,000 extension fee and to increase the interest rate from 5.0% to 5.5%. Axxess has also agreed to reduce the principal amount due by 10% of any equity proceeds and 20% of all proceeds from options and warrants exercised and as a result owe \$162,000 at March 31, 2009 and December 31, 2008. As of March 31, 2009 and December 31, 2008 no payment has been issued in connection with the Series 2008 or 2008B Preferred Equity offerings.

### **Amphion Investment LLC**

Axxess entered into a 6.75% demand note with Amphion Investments, LLC, dated January 25, 2002. The borrowings are unsecured. The note was due December 31, 2007, Axxess reached an Agreement with Amphion Investments LLC to extend the maturity of the note to December 31, 2011. Axxess agreed to increase the interest rate from 5.0% to 5.5%. As of December 31, 2008 the outstanding amount is \$393,787.

### **Convertible Note**

On December 17, 2007 and through February 4, 2009, Axxess has entered into multiple convertible notes with Amphion Innovations plc. If within a specific time period Axxess completes an offering of any of its securities, and the aggregate proceeds to Axxess are at least \$1,000,000 ("Transaction") then Amphion would have had the option to convert these notes on the same terms as the completed offering. If the loans are not repaid or converted prior to their maturity date then Axxess shall issue to Amphion a warrant to purchase Axxess Common Shares at the closing price on the given date equivalent to ten percent (10%) of the outstanding amount (i.e. amount outstanding divided by closing stock price times 10%). If the amount is not repaid or converted prior to the next thirty days then Axxess will issue another warrant equal to an additional 10% and that will continue every thirty (30) days until Axxess has issued five warrants. These notes have been accounted for in accordance with EITF 00-19 (Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in a Company's Own Stock), EITF 05-2 (The Meaning of Conventional Convertible Debt Instrument in 00-19), EITF 98-5 (Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio) and EITF 00-27 (Application of Issue No. 98-5 to Certain Convertible Instruments). As of March 31, 2009 the outstanding principal balance on all of the outstanding notes is \$1,038,273 and the Company has issued 850,060 (293,827 during the 3 months ended March 31, 2009) warrants with strike prices that range from \$0.22 to \$0.51 with a weighted average of \$0.27 during the three months ended March 31, 2009. The notes and balances as of March 31, 2009 are:

Date of Note	Balance as of		Due Date	Interest Rate
	March 31, 2009			
December 17, 2007	\$	50,000	January 15, 2008	5.0%
January 14, 2008		150,000	February 15, 2008	5.0%
February 20, 2008		150,000	March 31, 2008	5.0%
February 28, 2008		60,000	March 31, 2008	5.0%
March 14, 2008		63,000	April 15, 2008	5.0%
March 25, 2008		55,000	April 30, 2008	5.0%
April 1, 2008		85,273	May 1, 2008	5.0%
April 7, 2008		22,000	May 15, 2008	5.0%
April 15, 2008		110,000	May 31, 2008	5.0%
July 30, 2008		50,000	August 31, 2008	5.0%
October 23, 2008		100,000	November 30, 2008	5.0%
November 26, 2008		31,000	December 31, 2008	5.0%
December 15, 2008		62,000	January 31, 2009	5.0%
December 30, 2008		50,000	January 31, 2009	5.0%
Total	\$	<u>1,038,273</u>		

As previously discussed, for all notes executed and detailed above, Amphion Innovations has the option to convert the notes payable under the same terms as a completed preferred offering occurring within a specified time period. At March 31, 2009, there were no notes that were still eligible to be converted.

The exercise price of the warrants range from \$0.22 to \$1.42 and expire five years from date of issuance. The Company estimates the fair market value of the warrant using Black-Scholes Valuation Model. Key assumptions used to estimate the fair market value of the warrants include the exercise price (ranging from \$0.22 to \$1.42), the expected term (five years), the expected volatility of the Company's stock over the warrants expected term (ranging from 67% to 78%) and risk free interest rate (ranging from 2.11% to 4.27%).

#### (5) Significant Customers

During the three months ended March 31, 2009, the Company had one customer that accounted for 74% of revenue. During the three months ended March 31, 2008 the Company had one customer that accounted for 17% of revenue.

#### (6) Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141, *Business Combinations*, requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This Statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this Statement. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of the provisions of SFAS 141(R) did not have a material effect on the Company's financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The adoption did not have a material effect on the Company's financial statements.

In March 2008, the FASB issued SFAS No.161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.133", which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No.133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on

our financial position, financial performance, and cash flows. SFAS No.161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of the provisions of SFAS 161 did not have a material effect on the Company's financial statements.

In May 2008, the Financial Accounting Standards Board ("FASB") approved FASB Staff Position ("FSP") APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants." Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and the equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods, with equity component being valued based on the difference between such non-convertible debt borrowing rate and the actual cash interest rate on such convertible debt. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and must be applied retrospectively to all periods presented. The adoption did not have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The adoption of the provisions of SFAS 162 did not have a material effect on the Company's financial statements.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Forward-Looking Statements**

This quarterly report on Form 10-Q 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 of Plan of Operation" of the Company's 2008 Annual Report on Form 10-K.

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**

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.

Our auditors have included an explanatory paragraph in their audit opinion with respect to our consolidated financial statements at December 31, 2008. 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.

## **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, and short-term bridge loans from stockholders to meet our working capital requirements. At March 31, 2009, we had a working capital deficit of \$4,290,511.

Our operations generated losses in 2009. Our cash increased \$112,487 during the three months ended March 31, 2009. We funded operations with cash from operations and convertible notes. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2009 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 2009.

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 make 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.

## **Amphion Convertible Note**

On December 17, 2007 and through February 4, 2009, Axxess has entered into multiple convertible notes with Amphion Innovations plc. If within a specific time period Axxess completes an offering of any of its securities, and the aggregate proceeds to Axxess are at least \$1,000,000 ("Transaction") then Amphion would have had the option to convert these notes on the same terms as the completed offering. If the loans are not repaid or converted prior to their maturity date then Axxess shall issue to Amphion a warrant to purchase Axxess Common Shares at the closing price on the given date equivalent to ten percent (10%) of the outstanding amount (i.e. amount outstanding divided by closing stock price times 10%). If the amount is not repaid or converted prior to the next thirty days then Axxess will issue another warrant equal to an additional 10% and that will continue every thirty (30) days until Axxess has issued five warrants. These notes have been accounted for in accordance with EITF 00-19 (Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in a Company's Own Stock), EITF 05-2 (The Meaning of Conventional Convertible Debt Instrument in 00-19), EITF 98-5 (Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio) and EITF 00-27 (Application of Issue No. 98-5 to Certain Convertible Instruments).

On January 15, 2009 and February 4, 2009, we borrowed an additional \$80,000 from Amphion Innovations plc. under similar terms as prior Amphion notes. However, on February 19, 2009 and March 9, 2009 we repaid both of those notes. As of March 31, 2009 the outstanding principal balance on all of the outstanding notes is \$1,038,273 and the Company has issued 850,060 (293,827 during the 3 months ended March 31, 2009) warrants with strike

prices that range from \$0.22 to \$0.51 with a weighted average of \$0.27 during the three months ended March 31, 2009

## **Results of Operations**

### **Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008**

*Sales and Gross Profit.* Sales for the three months ended March 31, 2009 were \$1,082,682 and for the three months ended March 31, 2008 were \$176,486. Cost of sales for the three months ended March 31, 2009 were \$745,974 and for the three months ended March 31, 2008 were \$105,727. The gross profit for the three months ended March 31, 2009 was \$336,708 and \$70,759 for the three months ended March 31, 2008. The majority of the increase in sales is a result of the Trinidad Port of Spain Contract awarded in January 2009. The gross margin percent for the three months ended March 31, 2009 was 31% compared to 40% for the same period in 2008. The lower gross margin percent was a result of the deferral of revenue and related costs associated with the Trinidad Port of Spain Contract as a result of the project not being completely installed as of March 31, 2009. We continue to expect the margin will continue to be stable in the 40% to 50% range.

*Operating Expenses.* Operating expenses were \$1,033,035 for the three months ended March 31, 2009 and \$1,589,367 for the three months ended March 31, 2008. The majority of the decrease relates to the timing of the development of our next generation product and the closing of our California office, offset by an increased selling expense related to the Trinidad contract.

Research and development expenses were \$309,359 for the three months ended March 31, 2009 and \$871,590 for the three months ended March 31, 2008. The majority of the decrease relates to the timing of the development of the next generation RFID product. We also closed our California location. We are continuing to expense the development as incurred.

Corporate general and administrative expenses were \$324,453 for the three months ended March 31, 2009 and \$387,435 for the three months ended March 31, 2008. The decrease is related to a reduction in investor relations fees and reduced stock based compensation. However, we did have an increase in building lease expense as a result of our new Addison location.

Selling and marketing expenses were \$394,559 for the three months ended March 31, 2009 and \$326,050 for the three months ended March 31, 2008. The majority of the increase relates to an increase in selling expense for the Trinidad contract that were paid in 2009. However, we were able to offset a significant portion of the increase with lower salaries as a result of reduced headcount in the selling and marketing area, reduction in advertising and reduced marketing services.

Depreciation and amortization expenses were basically flat at \$4,664 for the three months ended March 31, 2009 and \$4,292 for the three months ended March 31, 2008.

*Other expenses, net.* Other expenses, net, were \$63,551 for the three months ended March 31, 2009 and \$116,423 for the three months ended March 31, 2008. Interest expense was \$9,133 lower during the three months ended March 31, 2009, compared to the three months ended March 31, 2008, reflecting lower expense associated with warrants that were issued with the convertible notes. The gain on vendor settlements was also increased by \$43,739.

*Net Loss.* Net loss was \$759,878 for the three months ended March 31, 2009, compared to a loss of \$1,635,031 for the three months ended March 31, 2009. The decrease is mainly related to a decrease in research and development relating to the next generation product development and an increase in gross margin mainly relating to the Trinidad Contract.

*Preferred Stock dividend requirements.* Preferred Stock dividend requirements were \$47,466 for three months ended March 31, 2009 and \$76,955 for three months ended March 31, 2008. The majority of the decrease is a result of several holders converting their preferred shares to common.

## **Other**

*Inflation.* During the last two fiscal years inflation has not had, and is not expected to have during this fiscal year, a material impact on the operations and financial condition of the Company.

## **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

None

## **Item 4. Controls and Procedures**

### **Controls and Procedures**

The Company's chief executive officer and chief financial officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

#### **(a) Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"), as of March 31, 2009. Based on this evaluation, our principal executive officer and our chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective and not adequately designed to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information was accumulated and communicated to our chief executive officer and chief financial officer, in a manner that allowed for timely decisions regarding required disclosure.

Based on our evaluation, management has concluded that our internal control over financial reporting was not effective as of March 31, 2009. Management has determined that (i) we are unable to maintain the proper segregation of various accounting and finance duties because of our small size and limited resources, (ii) much of the financial closing process is done off-line on electronic spreadsheets that are maintained on individual computers and are not backed up and (iii) based on our staffing we rely on our Chief Financial Officer to provide a significant amount of our compensating controls.

We intended to remediate these material weaknesses during 2008 however; liquidity issues prevented us from making changes. Therefore, we intend to address these material weaknesses during 2009. Notwithstanding these material weaknesses, we believe that our financial conditions, results of operations and cash flows presented in this report of Form 10-Q are fairly presented in all material respects.

#### **(b) Changes in Internal Controls**

During the period ended March 31, 2009, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Axcess is engaged in a number of lawsuits with approximately four vendors and one customer who claim they are owed amounts from \$500 to \$45,000, which aggregates in total \$90,676. We are currently defending or seeking to settle each of the vendor's and customer claims. At March 31, 2009, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

### **Item 1A. Risk Factors**

Not required

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended March 31, 2009, the Company issued unregistered securities in connection with the transactions described below. The proceeds were used for general working capital requirements. 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.

#### ***2003B Preferred Equity***

During the three months ended March 31, 2009 one holder elected to convert 10,000 shares into 10,000 shares of Axcess common stock. These shares had been previously registered under an SB-2 registration statement. The holder also elected to convert his \$1,913 accrued dividends into 7,085 shares. The dividend shares have not been registered and therefore carry a restrictive legend.

### **Warrants**

During the three months ended March 31, 2009 the Company issued an additional 293,827 warrants in conjunction with various debt offerings. The warrant price ranged from \$0.22 to \$0.51, with a weighted average strike price of \$0.27 and they expire between January 14, 2014 and March 31, 2014.

### **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:

<u>Exhibit No.</u>	<u>Description</u>
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.
99.1	May 14, 2009 Access International Reports First quarter 2009 earning results

## 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 14, 2009

**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-Q of Axxess 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 Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined Exchange Act Rules 13-15(f) and 15d-(f)) 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 14, 2009

/s/ ALLAN GRIEBENOW

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

**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-Q of Acess 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 Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined Exchange Act Rules 13-15(f) and 15d-(f)) 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 14, 2009

/s/ ALLAN L. FRANK

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

**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-Q for the period ended March 31, 2009, 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 14, 2009

**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-Q for the period ended March 31, 2009, 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 14, 2009

**ACCESS INTERNATIONAL REPORTS FIRST QUARTER 2009 RESULTS**

**Dallas – May 14, 2009** – [Access International Inc.](#) (OTCBB: AXSI), a leading provider of wireless business activity automation solutions, today reported results for the first quarter ended March 31, 2009.

**Highlights for the Quarter ended March 30, 2009**

- Record revenue in Q'1 2009 of \$1.08MM compared to \$.2MM for Q'1 2008 due to the contract for the port infrastructure security system upgrade in [Trinidad & Tobago](#)
- Record revenue forecasted for CY 2009 based on port award total of **\$3.54MM**
- Profitability forecasted for Q'2 2009 as a result of port solution implementation timing
- Gross margin of 31% lower than average due to port contract implementation timing
- Full year expectation for gross margins remains in 40-50% range
- Net loss per share of \$0.03 improved due to revenue increase
- Access implemented its Micro-Wireless solution into [Microsoft BizTalk Server 2009](#)
- Micro-Wireless technology continues to demonstrate competitive advantages and opportunities for future innovations

“The first quarter was dominated by our port security system infrastructure upgrade contract for the [Port of Spain](#) in Trinidad & Tobago,” said Allan Griebenow, president and CEO of Access. Mr. Griebenow further stated, “We have been credited for our role in successfully securing the facility and the 34 heads of state participating in the [Fifth Summit of the Americas](#) April conference held in Trinidad. As our second such installation, we believe we have demonstrated on the world stage how advanced wireless technologies, and Micro-Wireless technology in particular are necessary elements of advanced security system solutions”.

**Corporate and Industry Developments**

Access' systems for business and government use specialized Micro-Wireless technology to wirelessly enable “things” for real time business activity automation solutions. The systems directly increase productivity, security, safety and offer short term ROI's in traditional industries. Via its Micro-Wireless communications, Access transforms common manual identification products into wireless devices capable of automated identification, tracking and sensing.

Access turns manual property labels, bar codes, etc. into wireless asset tags capable of automating enterprise asset management including automatic asset inventory, locating, tracking and protection. Access turns manual access control badges into wireless personnel credentials for advanced workforce management, safety and security. These include applications such as contractor time and attendance data collection, visitor tracking for security and compliance, safety tracking and compliance reporting, and workforce time and motion data collection and productivity management. Systems are also used for advanced worker location determination and emergency evacuation management.

Micro-Wireless communications has been proven to represent the technological sweet spot where autonomous wireless identification and data transfer are best enabled in very small, low cost battery-powered devices. Regardless of their hardware platform or form factor, devices or tags commonly called [Dots](#)<sup>™</sup> operate in their own wireless frequency and are designed specifically for the unique need, independent from interference and unobtrusive to backbone networks. Micro-Wireless eclipses other wireless technologies such as cell phones, EPC-RFID, Ultra-Wideband (UWB), Zig-Bee, Wi-Fi and Bluetooth which are not suited to the automated monitoring of personnel and assets in the enterprise because of unacceptable cost, size, reliability, infrastructure and power consumption constraints.

In Q'1, Access won a competitive tender valued initially at \$3.54MM for its port infrastructure solutions, including visitor and vehicle tracking, wireless WMD sensing, various security scanner solutions and other equipment designed to enhance the security solutions and resources at the main port, The Port of Port-of-Spain in Trinidad & Tobago. The final value of the contract will be slightly higher due to additional items procured following the award. The award is Access' second in the region, following the 2007 award in [Barbados](#). Based upon the new award and its traditional channel partner sales, Access is forecasting profitability for the second quarter 2009 and record revenues for CY/FY 2009.

During the quarter, Axxess successfully implemented its patented Micro-Wireless system into the Microsoft BizTalk Server platform. [BizTalk Server 2009](#) provides a solution that allows organizations to more easily connect disparate systems, and then process the composite of information through pre-defined rules to automate new areas of business operations. The collaboration between Axxess and Microsoft Corp. will enable the collection of previously unavailable real-time business activity information through Axxess' "active" RFID system which wirelessly enables assets, personnel and sensors. The strategic relationship results in an expanded set of tools that customers can use to drive productivity. BizTalk Server is used by ninety percent of the Global 100, including the majority of retailers, hotel chains and the largest U.S. companies in pharmaceuticals, chemicals, railroads, telecommunications and aerospace and defense, opening additional sales avenues to Axxess. The unique aspect of Axxess' Micro-Wireless technology is that the powered wireless devices attached to assets and personnel autonomously collect their exact location ID and status that can be provided directly to Microsoft BizTalk Server without a central processing element required by RFID and RTLS systems.

Bringing to market the complete set of innovative functions of Micro-Wireless creates an open architecture for multiple sources of data to be acquired to deliver previously inaccessible information 24/7 in real-time. These innovation and growth efforts continue to be supported by our shareholders and by key financial advisor Amphion Innovations plc.

### **First Quarter 2009 Financial Results**

Revenue was \$1,082,682 for the three months ended March 31, 2009 compared to \$176,486 for the same quarter in 2008. The majority of the increase relates to the Trinidad contract that was sold in 2009.

Gross margin was 31% or \$336,708 in the first quarter 2009 as compared to 40% or \$70,759, in the same quarter in 2008. The 2009 margin percentage was adversely affected by the Trinidad transaction. However, we continue to believe our margins will be stable in the 40%-50% range.

Research & development (R&D) expenses for the first quarter totaled \$309,359, compared to \$871,590 in the year-ago period. The decrease in R&D is due to the timing of the development of the next generation RFID product that was launched in the fourth quarter of 2007.

Selling, marketing, general & administrative (SMG&A) expenses for the first quarter totaled \$719,012, as compared to \$713,485 in the prior year period. We did have a significant increase in selling expenses in connection with the Trinidad transaction; however, we were able to offset them with lower headcount in the selling and marketing area and lower marketing initiatives.

Other expense for the first quarter of 2009 totaled \$63,551, as compared to \$116,423 for the same period in 2008. The majority of the change was relating to an increase in the gain on vendor settlements during 2009.

Net loss for the first quarter of 2009 was \$759,878, as compared to \$1,635,031 in the prior year's first quarter. The decrease in the net loss is a result of the decrease in research and development for the next generation RFID platform and the impact of the Trinidad contract.

Recurring preferred stock dividend requirements for the first quarter of 2009 was \$47,466, compared to \$76,955 for the same period in 2008. The majority of the decrease is due to the conversion of several of the preferred shareholders converting their shares to common stock.

Net loss applicable to common stock for the first quarter of 2009 was \$807,344, or \$0.03 per share, compared to a loss of \$1,711,986, or \$0.06 per share, for the first quarter of 2008. The difference in loss in the current year period from the prior year is primarily attributable to the decrease in R&D and the impact of the Barbados Contract.

### **Conference Call**

In conjunction with the earnings release, Axxess invites you to listen to its conference call Thursday, May 14, 2009, at 12:00 A.M. (Eastern). To participate in the call, domestic callers can dial (888) 680-0865 and international callers can dial (617) 213-4853 and enter the reservation code "96426390." Participants should dial into the call about 10 minutes prior to the start time.

For those unable to attend the live conference call, a replay will be available by dialing (888) 286-8010 for domestic callers and (617) 801-6888 for international callers and entering the replay code "68051096." The replay will be available for one month beginning approximately two hours after the end of the call. There is no charge for participants to access the live event or replay. The conference call and replay dial in information is also available at Axxess' Website at [www.axcessinc.com](http://www.axcessinc.com).

**About Access International Inc.**

[Access International Inc.](#) (OTCBB: AXSI) provides wireless automatic identification and sensing solutions for real-time business activity automation. When embedded into vehicle passes, property tags, personnel badges and sensors, its revolutionary and patented [Micro-Wireless technology](#) enables automatic local-area wireless data collection and control applications. The systems improve productivity, security and safety and enable personalized education and entertainment. Typical applications include: “hands-free” access control, automatic advanced workforce management, immersive entertainment, workflow management, asset monitoring and distributed sensing. Access is a portfolio company of [Amphion Innovations plc](#) (AIM: AMP). For more information on Access, visit [www.accessinc.com](http://www.accessinc.com).

**Contacts**

**Public Relations**

Driver Public Relations

Kenni Driver

972.978.6455

[kenni.driver@driverpr.com](mailto:kenni.driver@driverpr.com)

**Access Contact**

Access International

Allan Frank, CFO

972.407.6080

[afrank@accessinc.com](mailto:afrank@accessinc.com)

**Investor Relations**

James Kautz

888.654.5318

[jkautz@epochfinancial.com](mailto:jkautz@epochfinancial.com)

This release contains forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, including statements about future business operations, financial performance and market conditions. Such forward-looking statements involve risks and uncertainties inherent in business forecasts.

**AXCESS INTERNATIONAL INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 163,879	\$ 51,392
Accounts receivable - trade, net of allowance for doubtful accounts of \$30,320 and \$27,424 for 2009 and 2008, respectively.	97,449	92,844
Inventory, net	81,906	142,782
Prepaid expenses and other	373,580	43,100
Total current assets	716,814	330,118
Property, plant and equipment, net	16,894	18,969
Deferred debt issuance costs	17,187	18,750
Other assets	50,474	53,062
Total assets	<u>\$ 801,369</u>	<u>\$ 420,899</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable (includes \$15,446 and \$18,645 with related party in 2009 and 2008, respectively)	\$ 980,799	\$ 905,354
Accrued liabilities	388,364	502,566
Accrued interest	1,165,171	1,112,862
Deferred revenue	946,771	22,222
Notes payable (includes \$1,038,273 with a related party in 2009 and 2008)	1,200,273	1,200,273
Dividends payable	325,947	280,394
Total current liabilities	5,007,325	4,023,671
Notes payable (includes \$393,787 with a related party in 2009 and 2008), net of discount of \$9,476 and \$13,092 in 2009 and 2008, respectively	2,686,870	2,683,254
Total liabilities	7,694,195	6,706,925
Commitments and contingencies		
Stockholders' deficit:		
Convertible preferred stock, 10,000,000 shares authorized in 2009 and 2008. Without liquidation preferences; \$0.01 par value, 6,115,211 and 6,125,211 shares issued and outstanding in 2009 and 2008, respectively	61,152	61,252
Common stock, \$.01 par value, 70,000,000 shares authorized in 2009 and 2008; 31,222,016 shares issued and outstanding in 2009 and 31,204,931 shares issued and outstanding in 2008.	312,220	312,050
Additional paid-in capital	165,842,396	165,641,922
Accumulated deficit	(173,108,594 )	(172,301,250 )
Total stockholders' deficit	(6,892,826 )	(6,286,026 )
Total liabilities and stockholders' deficit	<u>\$ 801,369</u>	<u>\$ 420,899</u>

**AXCESS INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATION**  
**(Unaudited)**

	Three Months Ended March 31,	
	2009	2008
Sales	\$ 1,082,682	\$ 176,486
Cost of sales	<u>745,974</u>	<u>105,727</u>
Gross profit	336,708	70,759
Expenses:		
Research and development	309,359	871,590
General and administrative	324,453	387,435
Selling and marketing	394,559	326,050
Depreciation and amortization	<u>4,664</u>	<u>4,292</u>
Operating expenses	<u>1,033,035</u>	<u>1,589,367</u>
Loss from operations	(696,327 )	(1,518,608 )
Other income (expense):		
Interest expense, net	(107,361 )	(116,494 )
Gain on vendor settlements	<u>43,810</u>	<u>71</u>
Other expense, net	<u>(63,551 )</u>	<u>(116,423 )</u>
Net loss	(759,878 )	(1,635,031 )
Preferred stock dividend requirements	(47,466 )	(76,955 )
Net loss applicable to common stock	<u>\$ (807,344 )</u>	<u>\$ (1,711,986 )</u>
Basic and diluted net loss per share	<u>\$ (0.03 )</u>	<u>\$ (0.06 )</u>
Weighted average shares of common stock outstanding	<u>31,211,006</u>	<u>29,388,883</u>