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# 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 JUNE 30, 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**

(State or other jurisdiction of incorporation or  
organization)

**85-0294536**

(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 August 1, 2005: 27,211,119

Transitional Small Business Disclosure Format: Yes  No

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**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****ACCESS INTERNATIONAL INC.  
CONSOLIDATED BALANCE SHEETS**

	(Unaudited) June 30, 2005	December 31, 2004
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 670,480	\$ 461,101
Accounts receivable - trade, net of allowance for doubtful accounts of \$11,863 in 2005 and \$8,859 in 2004	61,848	79,965
Inventory, net	213,056	144,714
Prepaid expenses and other	134,137	97,164
<b>Total current assets</b>	<b>1,079,521</b>	<b>782,944</b>
Property, plant and equipment, net	35,006	49,395
Intellectual property, net	—	133
Deferred debt issuance costs	422,407	506,889
Other assets	2,691	3,906
<b>Total assets</b>	<b>\$ 1,539,625</b>	<b>\$ 1,343,267</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 295,448	\$ 490,100
Accrued liabilities	876,805	789,589
<b>Notes payable:</b>		
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	(111,558)	(289,482 )
Dividends payable	45,310	316,062
<b>Total current liabilities</b>	<b>1,719,338</b>	<b>1,789,602</b>
Notes payable to stockholders	3,709,070	3,932,092
Convertible notes payable (includes \$13,333 with related party in 2004)	—	236,667
Discount on convertible debt	—	(34,084 )
<b>Total liabilities</b>	<b>5,428,408</b>	<b>5,924,277</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit:</b>		
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; 27,211,119 shares issued and outstanding in 2005 and 24,720,939 shares issued and outstanding in 2004	272,111	247,209
Shares of common stock to be issued, 5,333 shares in 2005	53	—
Additional paid-in capital	152,410,403	149,898,600
Accumulated deficit	(156,595,500)	(154,750,969 )
<b>Total stockholders' deficit</b>	<b>(3,888,783)</b>	<b>(4,581,010 )</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,539,625</b>	<b>\$ 1,343,267</b>

See accompanying notes to unaudited financial statements.

**ACCESS INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Sales	\$ 206,818	\$ 225,129	\$ 447,976	\$ 431,807
Cost of sales	123,545	124,787	247,893	223,673
Gross profit	83,273	100,342	200,083	208,134
Expenses:				
Research and development	207,739	166,534	391,920	351,892
General and administrative	335,520	461,863	690,983	866,079
Selling and marketing	290,018	172,162	545,115	346,745
Depreciation and amortization	7,911	88,434	16,984	182,065
Operating expenses	841,188	888,993	1,645,002	1,746,781
Loss from operations	(757,915 )	(788,651 )	(1,444,919 )	(1,538,647 )
Other income (expense):				
Interest expense	(246,599 )	(334,830 )	(411,737 )	(657,553 )
Gain in vendor settlements	65,106	64,509	173,816	152,751
Other	—	—	—	6,509
Other expense, net	(181,493 )	(270,321 )	(237,921 )	(498,293 )
Net loss	(939,408 )	(1,058,972 )	(1,682,840 )	(2,036,940 )
Preferred stock dividend requirements:				
Recurring	(80,847 )	(70,490 )	(161,694 )	(136,011 )
Warrant inducement	—	—	(2,060,397 )	—
Preferred stock dividend requirements	(80,847 )	(70,490 )	(2,222,091 )	(136,011 )
Net loss applicable to common stock	<u>\$ (1,020,255 )</u>	<u>\$ (1,129,462 )</u>	<u>\$ (3,904,931 )</u>	<u>\$ (2,172,951 )</u>
Basic and diluted net loss per share	<u>\$ (0.04 )</u>	<u>\$ (0.05 )</u>	<u>\$ (0.15 )</u>	<u>\$ (0.09 )</u>
Weighted average shares of common stock outstanding	<u>26,930,819</u>	<u>24,303,151</u>	<u>26,333,012</u>	<u>22,951,611</u>

See accompanying notes to unaudited financial statements.

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

	Six Months Ended	
	June 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,682,840 )	\$ (2,036,940 )
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	16,984	182,065
Amortization of financing discount and issuance costs	296,488	522,570
Shares issued for services rendered	—	65,000
Gain on vendor settlements	(173,816 )	(152,751 )
Changes in operating assets and liabilities:		
Accounts receivable	18,117	7,579
Inventory	(68,342 )	15,141
Prepaid expenses and other	(36,973 )	3,500
Other assets	1,215	—
Accounts payable and accrued expenses	112,413	(81,809 )
Net cash used by operating activities	<u>(1,516,754 )</u>	<u>(1,475,645 )</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(2,461 )	(29,589 )
Net cash used by investing activities	<u>(2,461 )</u>	<u>(29,589 )</u>
<b>Cash flow from financing activities:</b>		
Net proceeds from issuance of common stock from warrants	1,933,775	1,200,000
Net proceeds from issuance of common stock from employee options	17,840	13,120
Principal payments on financing agreements	(223,021 )	(122,624 )
Net cash provided by financing activities	<u>1,728,594</u>	<u>1,090,496</u>
Net change in cash and cash equivalents	209,379	(414,738 )
Cash and cash equivalents, beginning of period	461,101	2,163,977
Cash and cash equivalents, end of period	<u>\$ 670,480</u>	<u>\$ 1,749,239</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Conversions of notes payable into common stock	\$ 106,666	\$ 384,999
Conversions of accrued interest into common stock	46,031	138,461
Conversions of preferred stock into common stock	—	536,623
Conversion of accrued dividends into common stock	432,446	109,417
Preferred stock dividends accrued	161,694	136,011

See accompanying notes to unaudited financial statements.

**AXCESS**  
**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 half of 2005, operating activities utilized approximately \$1.5 million of cash. During 2005 the Company raised a net of \$1.9 million, for additional working capital through the exercise of warrants including warrants exercised 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 June 30, 2005, the Amphion Group owns approximately 63% 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 June 30, 2005 and December 31, 2004:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Raw materials	\$ 55,828	\$ 56,701
Work-in-process	109	109
Finished goods	157,119	87,904
	<u>\$ 213,056</u>	<u>\$ 144,714</u>

#### (d) Stock Options

The Company accounts for its stock-based compensation plan under Accounting Principles Board ("APB") 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. Because, among other things, changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options. 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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Pro forma impact of fair value method (FAS 148)</b>				
Reported net loss attributed to common stock	\$ (1,020,255)	\$ (1,129,462)	\$ (3,904,931)	\$ (2,172,951)
Less: fair value of employee stock compensation	(172,613)	(136,629)	(373,176)	(217,053)
Pro forma net loss attributed to common stock	<u>(1,192,868)</u>	<u>(1,266,091)</u>	<u>(4,278,107)</u>	<u>(2,390,004)</u>
<b>Loss per common share</b>				
Basic and diluted net loss per share – as reported	\$ (0.04)	\$ (0.05)	\$ (0.15)	\$ (0.09)
Basic and diluted net loss per share – pro forma	\$ (0.04)	\$ (0.05)	\$ (0.16)	\$ (0.10)
<b>Weighted average Black-Scholes fair value assumptions</b>				
Risk free interest rate	4.25%	4.25%	4.25%	4.25%
Expected life	3 years	2 years	3 years	2 years
Expected volatility	164%	175%	164%	175%
Expected dividend yield	0.0%	0.0%	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

Access 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 June 30, 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 two series have been issued. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	<b>2003B Series</b>	<b>Series 2004</b>
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
June 30, 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 June 30, 2005 there were \$54,669 of dividends accrued for Series 2003B Preferred Stock. On May 10, 2005, the Board elected to pay all accrued dividends with additional shares. Therefore, \$326,008 of accrued dividends were paid by issuing 220,280 shares of restricted Axxess common shares. Dividends payable were \$30,638 and \$247,309 for Series 2003B Preferred stock at June 30, 2005 and December 31, 2004, respectively. As of June 30, 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 June 30, 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 June 30, 2005 there were \$26,178 of dividends accrued for Series 2004 Preferred Stock. On May 10, 2005, the Board elected to pay all accrued dividends with additional shares. Therefore, \$106,438 of accrued dividends were paid by issuing 71,918 shares of restricted Axxess common shares. Dividends payable were \$14,671 and \$68,753 for Series 2004 Preferred stock at June 30, 2005 and December 31, 2004, respectively. As of June 30, 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 June 30, 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.

On May 10, 2005 the Board elected to pay all accrued interest relating to Convertible Debt by issuing Access restricted common shares. Therefore, \$27,318 of accrued interest was paid by issuing 27,594 shares of Access' restricted common stock.

On January 17, 2003, Access 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 Access. 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.

On May 10, 2005 the Board elected to pay all accrued interest relating to Convertible Debt by issuing Access restricted common shares. Therefore, \$9,615 of accrued interest was paid by issuing 9,711 shares of Access' restricted common stock.

#### **(5) Significant Customers**

During the three months ended June 30, 2005 we had no single customer that accounted for more than 10% of the overall revenue or RFID product sales. However, we did have three customers account for 75% of our digital video product sales. During the three months ended June 30, 2004 we had no single customer that accounted for more than 10% of the overall revenue or RFID product sales. However, we did have two customers account for 72% of our digital video product sales.

During the six months ended June 30, 2005 we had no single customer that account for more than 10% of the overall revenue or RFID product sales. However, we did have three customers account for 72% of the digital video product sales. During the six months ended June 30, 2004 we had one customer that accounted for 14% of the overall revenue, two customers account for 52% of the digital video product sales and two customers account for 26% of the RFID product sales.

#### **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 June 30, 2005, we had working capital deficit of \$639,817.

Our operations generated losses in 2004 and continue to generate losses in 2005. Our cash increased \$209,379 during the six months ended June 30, 2005 with operating activities using \$1,516,754 of cash. We funded operations primarily through cash on hand from borrowings, equity offerings and the exercise of warrants 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 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.

### **Warrants Exercised**

During the first half of 2005 we raised a net of \$1,933,775 of additional working capital through the exercise of warrants. In order to induce a portion of the warrant holders to exercise their warrants early we offered an 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 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 June 30, 2005 Compared to Three Months Ended June 30, 2004**

*Sales and Gross Profit.* Sales for the three months ended June 30, 2005 were \$206,818 and for the three months ended June 30, 2004 were \$225,129. Cost of sales for the three months ended June 30, 2005 were \$123,545 and for the three months ended June 30, 2004 were \$124,787. The gross profit for the three months ended June 30, 2005 was \$83,273 and \$100,342 for the three months ended June 30, 2004. The decrease in sales was due to the loss of a sales person during the quarter along with the transition to a more direct sales approach from the indirect model. The margin continues to be stable in the 40% - 50% range.

Radio frequency identification (RFID) product sales were \$172,232 for the three months ended June 30, 2005 and \$195,300 for the three months ended June 30, 2004. Cost of sales was \$105,654 for the three months ended June 30, 2005 and \$107,979 for the three months ended June 30, 2004. As a result, gross profits from RFID products were \$66,578 for the three months ended June 30, 2005 and \$87,321 for the three months ended June 30, 2004. The decrease in sales was due to the loss of a sales person during the quarter along with the transition to a more direct sales approach from the indirect model. The margin decline is a result of the product mix shift and an increase in smaller lots of specialty tags.

Digital video product sales were \$34,586 for the three months ended June 30, 2005 and \$29,829 for the three months ended June 30, 2004. Cost of sales was \$17,891 for the three months ended June 30, 2005 and \$16,808 for the three months ended June 30, 2004. As a result, gross profits from digital video products were \$16,695 for the three months ended June 30, 2005 and \$13,021 for the three months ended June 30, 2004. The sales have been steady in this range for the last several quarters. The margin has been steady as a result of the product mix.

*Operating Expenses.* Operating expenses were \$841,188 for the three months ended June 30, 2005 and \$888,993 for the three months ended June 30, 2004. This decrease was due to a decrease in investor relations expense, lower insurance expenses, lower depreciation expense and a decrease in amortization. However, some of those expenses were offset by an increase in sales and market activities and increased research and development efforts.

Research and development expenses were \$207,739 for the three months ended June 30, 2005 and \$166,534 for the three months ended June 30, 2004. The largest portion of the increase relates to the feasibility study we have undertaken for development of a next generation product. We also had small increases in salaries and health insurance expenses offset by the reduction in contract labor.

Corporate general and administrative expenses were \$335,520 for the three months ended June 30, 2005 and \$461,863 for the three months ended June 30, 2004. The decrease is a result of lower investor relations expenses, a reduction in general insurance, lower outside legal expenses and reduced bad debt expense.

Selling and marketing expenses were \$290,018 for the three months ended June 30, 2005 and \$172,162 for the three months ended June 30, 2004. The increase is a result of increased salaries from increased headcount, an increase in advertising and increased travel. We continue to spend money on advertising to establish our brand and to gain exposure in the marketplace. We also increased the amount of travel in an attempt to generate more control over the sales.

Depreciation and amortization expenses were \$7,911 for the three months ended June 30, 2005 and \$88,434 for the three months ended June 30, 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 \$181,493 for the three months ended June 30, 2005 and \$270,321 for the three months ended June 30, 2004. Interest expense was \$88,231 lower during the three months ended June 30, 2005, compared to the three months ended June 30, 2004, reflecting lower debt balances, lower interest rates and a reduction of the amortization of the debt discount. We also recognized \$65,106 during the second quarter of 2005 relating to the expiration of the statute of limitations relating to accounts payables compared to \$64,509 during the second 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 \$939,408 for the three months ended June 30, 2005, compared to a loss of \$1,058,972 for the three months ended June 30, 2004. This decrease was due to a decrease in investor relations expense, lower insurance expenses, lower depreciation expense and a decrease in amortization. However, some of those expenses were offset by an increase in sales and market activities, increased research and development efforts and a reduction in gross profit.

*Preferred Stock dividend requirements.* Preferred Stock dividend requirements were \$80,847 for the three months ended June 30, 2005 and \$70,490 for the three months ended June 30, 2004. This increase was due to the full three month impact of the 2004 Preferred Equity issued during May of 2004.

## **Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

*Sales and Gross Profit.* Sales for the six months ended June 30, 2005 were \$447,976 and for the six months ended June 30, 2004 were \$431,807. Cost of sales for the six months ended June 30, 2005 were \$247,893 and for the six months ended June 30, 2004 were \$223,673. The gross profit for the six months ended June 30, 2005 was \$200,083 and \$208,134 for the six months ended June 30, 2004. The increase in sales was due to an increase in sales and marketing activities initiated during 2005. The margin continues to be stable in the 40% - 50% range.

Radio frequency identification (RFID) product sales were \$393,727 for the six months ended June 30, 2005 and \$369,607 for the six months ended June 30, 2004. Cost of sales was \$222,518 for the six months ended June 30, 2005 and \$193,477 for the six months ended June 30, 2004. As a result, gross profits from RFID products were \$171,209 for the six months ended June 30, 2005 and \$176,130 for the six months ended June 30, 2003. Sales are continuing to increase based on the increased exposure in the marketplace. The margin continues to be stable in the 40% - 50% range.

Digital video product sales were \$54,249 for the six months ended June 30, 2005 and \$62,200 for the six months ended June 30, 2004. Cost of sales was \$25,375 for the six months ended June 30, 2005 and \$30,196 for the six months ended June 30, 2004. As a result, gross profits from digital video products were \$28,874 for the six months ended June 30, 2005 and \$32,004 for the six months ended June 30, 2004. The decrease in sales is a result of our continued focus and marketing activity on the RFID product line. The margin continues to be stable in the 50% range.

*Operating Expenses.* Operating expenses were \$1,645,002 for the six months ended June 30, 2005 and \$1,746,781 for the six months ended June 30, 2004. This decrease was due to a reduction in insurance expenses, investor relations expenses, outside legal expense, depreciation expense and amortization expense. Offset by an increase in selling and marketing salaries, increased advertising and additional research and development expenses.

Research and development expenses were \$391,920 for the six months ended June 30, 2005 and \$351,892 for the six months ended June 30, 2004. The largest portion of the increase relates to the feasibility study we have undertaken for development of a next generation product. We also had small increases in salaries and health insurance expenses offset by the reduction in contract labor.

Corporate general and administrative expenses were \$690,983 for the six months ended June 30, 2005 and \$866,079 for the six months ended June 30, 2004. The decrease is a result of lower directors and officer insurance, reduced expenses for investor relations activities, reduction in outside legal expense and reduced outside accounting fees.

Selling and marketing expenses were \$545,115 for the six months ended June 30, 2005 and \$346,745 for the six months ended June 30, 2004. The increase is a result of increased salaries from increased headcount and an increase in advertising. We attended several trade shows during the period as well as placed several advertisements. We are attempting to reestablish our place in the market.

Depreciation and amortization expenses were \$16,984 for the six months ended June 30, 2005 and \$182,065 for the six months ended June 30, 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 \$237,921 for the six months ended June 30, 2005 and \$498,293 for the six months ended June 30, 2004. Interest expense was \$245,816 lower during the six months ended June 30, 2005, compared to the six months ended June 30, 2004, reflecting a decrease in the amortization of the debt discount related to the convertible notes that converted during the period. We also recognized \$173,816 during the six months ended June 30, 2005 relating to the expiration of the statute of limitations relating to accounts payables compared to \$152,751 during the same period 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 \$1,682,840 for the six months ended June 30, 2005, compared to a loss of \$2,036,940 for the six months ended June 30, 2004. This decrease was due to a decrease in investor relations expense, lower insurance expenses, lower outside services, lower depreciation expense and a decrease in amortization. However, some of those expenses were offset by an increase in sales and market activities, increased research and development efforts and a reduction in gross profit.

*Preferred Stock dividend requirements.* Preferred Stock dividend requirements were \$2,222,091 for the six months ended June 30, 2005 and \$136,011 for the six months ended June 30, 2004. \$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.

## **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 June 30, 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 June 30, 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.

#### ***Common Stock***

During the three months ended June 30, 2005 we had one employee exercise 7,800 stock options.

On May 10, 2005 the Board elected to convert \$27,318 of accrued and unpaid interest, relating to the July 2002 convertible notes, into 27,594 shares of Axcess common stock.

On May 10, 2005 the Board elected to convert \$9,615 of accrued and unpaid interest, relating to the January 2003 convertible notes, into 9,711 shares of Axcess common stock.

On May 10, 2005 the Board elected to convert \$432,446 of accrued and unpaid dividends into 292,198 shares of Axcess common stock.

#### ***Warrants Exercised***

During the three months ended June 30, 2005 we received \$282,305 of additional working capital through the exercise of warrants, in exchange we issued 278,966 shares of Axcess common stock.

#### ***Warrants***

During the three months ended June 30, 2005 we had eight entities exercise 278,966 warrants. During the same period we had 250,762 warrants expire unexercised.

#### ***2005 Equity Incentive Plan***

The Company believes that incentives and stock-based awards focus its employees, consultants and directors on the objective of creating stockholder value and promoting the Company's success. On May 10, 2005, the Company's board of directors adopted the 2005 Equity Incentive Plan (the "Plan") and on July 12, 2005 the Company's stockholders approved the plan at the annual meeting of the stockholders. Since the plan was adopted, no further awards will be granted under the Company's 2001 Equity Incentive Plan after the date of the Annual Meeting of Stockholders.

The following discussion summarizes the material provisions of the Plan. The complete Plan is attached as Exhibit 10.1 to this Form 10QSB because the following discussion is only a summary and does not contain all of the terms and provisions of the Plan.

**Purpose.** The Plan is intended to attract and retain the services of employees, consultant and directors of the Company by providing them with incentives and stock-based awards as a reward for their contribution to the Company's success and to more closely align their interests with the interests of the Company's stockholders.

**Eligibility.** Any employee, including an employee who is also a director or officer, non-employee director, or consultant to the Company or its subsidiaries is eligible to receive awards under the Plan at the discretion of the body that administers the Plan. Only employees are eligible to receive incentive stock options. Currently, there are four non-employee directors and nineteen officers and employees who are considered to be eligible under the Plan. The body that administers the Plan will have sole responsibility for determining the participants to whom awards will be granted.

**Administration.** The Plan is required by the board or a committee of the board consisting of at least two persons. If a committee of the board administers the Plan, each committee member must satisfy independence requirements under applicable tax and securities laws. The Plan is currently administered by the compensation

committee of the board. Any member of the committee may be removed at any time, with or without cause, by resolution of the board. The board may fill any vacancies in the committee by appointment.

Each award made to a participant under the Plan will be evidenced by an award agreement. The committee will set forth in each award agreement the award period, the date of grant, and other terms that are approved by the committee but not inconsistent with the Plan. The committee will determine whether an award will include one type of incentive or two or more incentives granted in combination. Although the members of the committee may receive awards, no member of the committee may participate in any decisions regarding any award granted under the Plan to that member.

The committee also has the authority to (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, (iii) establish performance goals for an award and certify the extent to their achievement, and (iv) make such other determinations or certifications and take such action as it deems necessary or advisable in the administration of the Plan.

Any interpretation determination, or other action made or taken by the committee will be final, binding, and conclusive on all interested parties.

The committee may delegate to officers of the Company the authority to perform specified functions under the Plan.

If restrictions in the Plan that are based on the requirements of Rule 16b-3 of the Securities Exchange Act of 1934, Sections 422 or 163(m) of the Internal Revenue Code of 1986, the rules of the exchange on which the Company's Common Stock is traded, or any other applicable law are no longer required by applicable law, then the committee can grant awards that are not subject to such restrictions.

**Awards.** The committee may grant or award stock options and restricted stock under the Plan. Awards may be granted singly, or in combination with other awards.

Stock options may be granted as either "incentive stock options" or "non-qualified stock options." Stock options which are intended to qualify for special tax treatment under particular provisions of the Code are considered incentive stock options, and options which are not intended to so qualify are considered non-qualified stock options. See "Certain Federal Income Tax Aspects" below. The Company will not receive any consideration for granting or extending any stock options under the Plan.

Restricted stock awards give the recipient the right to receive a specified number of shares of Common Stock upon terms, conditions and restrictions as the committee deems appropriate. Restrictions may include limitations on the right to transfer or pledge the restricted stock and forfeiture of the restricted stock upon the occurrence of specified events. Restricted stock awards may provide that these types of restrictions lapse after a specified term of employment is completed or other specified events occur. See "Restrictions" below.

The maximum number of shares of Common Stock that may be issued under the Plan is 5,000,000, subject to adjustment for stock splits and similar events affecting the Common Stock. See "Adjustments" below. Shares to be issued under the Plan may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise, which purchases will be subject to normal brokerage fees and commissions. The Company is required to reserve and keep available sufficient shares of Common Stock to be issued under the Plan.

The number of shares of Common Stock that may be issued under the Plan will be increased by (a) shares of Common Stock previously subject to awards that expire or are forfeited, terminated, settled in cash in lieu of Common Stock, or exchanged for awards that do not involve Common Stock, (b) any shares of Common Stock surrendered to the Company in payment of the exercise price of options issued under the Plan, and (c) shares of restricted stock forfeited for any reason, except that any dividends paid on shares of restricted stock before forfeiture will not be reused for grants or awards. In addition, only the "net" shares issued in the case of a share-for share exercise or "cashless" exercise under the Plan will be deemed to have been issued under the Plan for purposes of calculating the number of shares that have been issued under the Plan. However, the number of shares of Common stock subject to incentive stock options may not exceed, in the aggregate, 5,000,000 shares of Common Stock plus shares subject to incentive stock options that expire or are forfeited or terminated.

**Award Agreements.** The grant of awards under the Plan will be authorized by the committee and will be evidenced by award agreements that set forth the incentives, the total number of shares of Common Stock subject

to the incentives, the price, the award period, the purchase price, if any, the date of grant, any restriction period, and any other terms, provisions, limitations and performance objectives approved by the committee but that are not inconsistent with the Plan.

Any award granted under the Plan must be granted within ten years after the date of adoption of the Plan. Options granted within ten years after the adoption of the Plan will continue to be effective in accordance with their terms and conditions. The grant of an award will not entitle the participant to, or disqualify the participant from, receipt of any other award under the Plan. If the committee establishes a purchase price for an award of restricted stock, the participant must accept the award by executing the applicable award agreement and paying the appropriate purchase price within the time period specified in the Plan or by the committee.

The exercise period for a stock option may not extend longer than ten years from the date the stock option is granted and, in the case of incentive stock options, is limited to five years from the date of grant for certain employees owning more than 10% of the shares of the Company's outstanding Common Stock.

The exercise price for a non-qualified stock option may be less than, equal to, or greater than the fair market value of the Common Stock on the date of grant. The exercise price for an incentive stock option for any share of Common Stock must be at least the fair market value of the Common Stock on the date of grant. In the case of incentive stock options granted to certain employees owning more than 10% of the outstanding shares of Common Stock, the exercise price for an incentive stock option must be at least 110% of the fair market value of the Common Stock on the date of grant.

**Exercise of Awards.** The committee may, in its sole discretion, determine that a stock option will be immediately exercisable. On the date that the participant desires to exercise a stock option, called the exercise date, the participant must pay the total exercise price of the shares to be purchased by delivering to the Company (a) cash, check, bank draft, or money order in the amount of the exercise price, (b) shares of Common Stock, excluding restricted stock, with a fair market value equal to the exercise price, (c) an executed irrevocable option exercise form with irrevocable instructions from the participant to a broker or dealer, or (d) any other form of payment which is acceptable to the committee. If the participant fails to pay the exercise price on the exercise date or fails to accept delivery of the Common Stock to be issued upon exercise, the participant's option may be forfeited by the Company.

Proceeds from the sale of shares of Common Stock pursuant to awards granted under the Plan will constitute general funds of the Company.

If a participant delivers shares of Common Stock in payment of all or part of the exercise price of a stock option and/or if the Company withholds shares of Common Stock in satisfaction of the Company's tax withholding obligations upon exercise, then the committee may authorize the automatic grant to a participant so exercising a stock option, a replacement stock option. The replacement non-qualified stock option, called a reload stock option, would be to purchase that number of shares of Common Stock so delivered to or withheld by the Company, at an option exercise price equal to the fair market value per share of the Common Stock on the date of exercise of the original stock option. The option period for the reload stock option will commence on its date of grant and expire on the expiration date of the original stock option it replaces. The date of grant of a reload stock option will be the date that the stock option it replaces is exercised. A reload stock option will automatically vest and be exercisable in full after the expiration of six months from its date of grant.

**Restrictions.** The grant of incentive stock options to each participant is subject to a \$100,000 calendar year limit. Under this limit, participants cannot be granted an incentive stock option if the fair market value of the stock that could be issued during any calendar year under that option and all other Company incentive stock options the participant holds exceeds \$100,000. The fair market value of the stock is determined as of the date of grant of the options. If any stock option granted under the Plan that is designated as an incentive stock option exceeds this limit, the stock option will be a non-qualified stock option to the extent that those limits are exceeded. See "Certain Federal Income Tax Aspects" below for additional limitations on incentive stock options.

No participant may receive during any fiscal year of the Company awards covering an aggregate of more than 200,000 shares of Common Stock. The committee may grant an award that could be subject specified forfeiture restrictions that lapse when the participant satisfies continued employment or other vesting criteria. The committee has the right to withhold shares to satisfy a participant's income tax obligations associated with the exercise of an award granted under the Plan.

Under the Plan, the committee determines the vesting schedule, restrictions or conditions, if any, applicable to any award granted. Once exercisable, awards may be exercised at any time during the award period in accordance with their terms. Restricted stock may be subject to specified restrictions and conditions, including length of continuous service, achievement of specific business objectives, increases in stock price, attainment of specified growth rates or other comparable measures of the Company's performance. Restricted stock certificates will have a legend referring to the terms, conditions, and restrictions applicable to the restricted stock. The committee may, in its discretion and in accordance with the terms of the Plan, accelerate any vesting schedule or otherwise remove any restrictions or conditions applicable to an award. A participant who owns restricted stock will have all of the rights of a stockholder of the Company, including the right to vote the shares and to receive any dividends on the Common Stock. Certificates for shares of Common Stock free of restriction will be delivered to the participant promptly after the restriction period expires.

Incentive stock options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the participant only by the participant or the participant's legally authorized representative. The committee may waive or modify this limitation if it is not required for compliance with the tax laws.

Although non-qualified stock options are not subject to as many restrictions on transfer as are incentive stock options, they generally are not assignable except under limited circumstances. The committee is entitled to allow all or a portion of a non-qualified stock option to be transferred to the spouse, former spouse, children or grandchildren of a participant, to trusts for the benefit of such family members and partnerships owned by such family members, and to certain charities, charitable trusts and charitable foundations. Transfers of this nature are required to be subject to the following conditions: (a) no consideration may be furnished for the transfer, and (b) subsequent transfers of transferred non-qualified stock options by the transferee cannot be made except by will or the laws of descent and distribution. Following a transfer, non-qualified stock options will continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer.

**Termination and Forfeiture.** Subject to the provisions of the particular award agreement, if the Company or any of its subsidiaries terminates the participant's employment with the Company and its subsidiaries, then a participant's awards will be exercisable as specified in the award agreement. If a participant forfeits non-vested shares of restricted stock and has paid consideration to the Company for such forfeited restricted stock, the committee will specify in the award agreement that either (a) the Company will be obligated to or (b) the Company may, in its sole discretion, elect to, pay to the participant in cash the lesser of the total consideration paid by the participant for the forfeited shares or the fair market value of the forfeited shares on the date of termination of service, as the committee selects.

**Adjustments.** The Plan provides that the maximum number of shares issuable under the Plan as a whole and to each participant individually, the number of shares issuable upon exercise of outstanding stock options, the exercise prices of such awards, the number of shares subject to restricted stock awards, other numerical share limitations and the amount, if any, the Company pays for forfeited shares of Common Stock are subject to such adjustments as are appropriate to reflect any stock dividend, stock split, share combination, exchange of shares, recapitalization or increase or decrease in shares of Common Stock without receipt of consideration of or by the Company.

If the Company merges or consolidates, transfers all or substantially all of its assets to another entity or dissolves or liquidates, then under certain circumstances a holder of an award will be entitled to purchase the equivalent number of shares of stock, other securities, cash or property that the award holder would have been entitled to receive had he exercised his award immediately prior to such event. Regardless of these adjustment provisions, all awards granted under the Plan may be canceled by the Company, in its sole discretion, if the Company is not the surviving or resulting corporation in a reorganization, merger, consolidation or share exchange, or any sale of all or substantially all of the assets of the Company is proposed, or any dissolution or liquidation of the Company occurs, if the Company (a) gives notice to each holder of the stock options that will be canceled and permits the purchase during the 30-day period preceding the effective date of any or all of the shares subject to such outstanding stock options, including, in the board's discretion, some or all of the shares as to which such stock options would not otherwise be vested or exercisable, or (b) pays the holder of the stock options that will be canceled fair compensation, as specified in the Plan.

**Discontinuance or Amendment of the Plan.** The Plan provides that the board of directors may from time to time discontinue or amend the Plan without the consent of the participants or stockholders, unless stockholder approval is required by Sections 162(m), 421 and 422 of the Code. Subject to certain specified

conditions, if an amendment to the Plan would adversely affect an outstanding award, the consent of the participant holding that award must be obtained.

### **Certain Federal Income Tax Aspects**

The following is a summary of the general rules of the current U.S. federal income tax law relating to awards granted under the Plan. The discussion is general in nature and does not take into account a number of considerations that may apply based on the circumstances of a particular participant under the Plan.

**Withholding.** Withholding of federal taxes at applicable rates will be required in connection with any ordinary income realized by a participant by reason of the exercise of awards granted pursuant to the Plan. In the event of a participant's assignment of a non-qualified stock option, the participant who assigns the non-qualified stock option will remain subject to withholding taxes upon exercise of the non-qualified stock option by the transferee to the extent required by the Code.

**Non-qualified Stock Options.** The granting of a non-qualified stock option will not result in federal income tax consequences to either the Company or the optionee. Upon exercise of a non-qualified stock option, the optionee will recognize ordinary income in an amount equal to the difference between the fair market value of the shares on the date of exercise and the exercise price, and the Company will generally be entitled to a corresponding deduction.

For purposes of determining gain or loss realized upon a subsequent sale or exchange of such shares, the optionee's tax basis will be the sum of the exercise price paid and the amount of ordinary income, if any, recognized by the optionee upon exercise of the option. Any gain or loss realized by an optionee on disposition of such shares generally will be a long-term capital gain or loss (if the shares are held as a capital asset for at least one year) and will not result in any tax deduction to the Company. The holding period commences upon exercise of the non-qualified stock option. The exercise of a non-qualified stock option will not trigger the alternative minimum tax consequences described below that are applicable to incentive stock options.

Reload stock options, which were granted as non-qualified stock options, will have the same tax consequences any other non-qualified stock options granted under the Plan.

**Incentive Stock Options.** In general, no income will be recognized by an optionee and no deduction will be allowed to the Company at the time of the grant or exercise of an incentive stock option granted under the Plan. When the stock received on exercise of the option is sold, provided that the stock is held for more than two years from the date of grant of the option and more than one year from the date of exercise, the optionee will recognize long-term capital gain or loss equal to the difference between the amount realized and the exercise price of the option related to such stock, and the Company will not be entitled to take a corresponding deduction.

If these holding period requirements under the Code are not satisfied, the sale of stock received upon exercise of an incentive stock option is treated as a "disqualifying disposition", and the optionee must notify the Company in writing of the date and terms of the disqualifying disposition. In general, the optionee will recognize at the time of a disqualifying disposition ordinary income in an amount equal to the amount by which the lesser of (a) the fair market value of the Common Stock on the date the incentive stock option is exercised or (b) the amount realized on such disqualifying disposition, exceeds the exercise price. The optionee will also recognize capital gain to the extent of any excess of the amount realized on such disqualifying disposition over the fair market value of the Common Stock on the date the incentive stock option is exercised (or capital loss to the extent of any excess of the exercise price over the amount realized on disposition). Any capital gain or loss recognized by the optionee will be long-term or short-term depending upon the holding period for the stock sold. The Company may claim a deduction at the time of the disqualifying disposition equal to the amount of the ordinary income the optionee recognizes. Certain special rules apply if an incentive stock option is exercised by tendering stock.

Although an optionee will not realize ordinary income upon the exercise of an incentive stock option, the excess of the fair market value of the shares acquired at the time of exercise over the option price is included in "alternative minimum taxable income" for purposes of calculating the optionee's alternative minimum tax, if any, pursuant to Section 55 of the Code.

Reload stock options, which were granted as incentive stock options, will have the same tax consequences any other incentive stock options granted under the Plan.

**Restricted Stock.** A participant who receives a grant of restricted stock will not recognize any taxable income for Federal income tax purposes in the year of the award, provided the shares are subject to restrictions (that is, they are nontransferable and subject to a substantial risk of forfeiture). A participant's rights in restricted stock awarded under the Plan are subject to a substantial risk of forfeiture if the rights to full enjoyment of the shares are conditioned, directly or indirectly, upon the future performance of substantial services by the participant. However, the participant may elect under Section 83(b) of the Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the shares on the date of the award, determined without regard to the restrictions. If the participant does not make a Section 83(b) election, the fair market value of the shares on the date the restrictions lapse, less any amount paid by the participant for such shares, will be treated as compensation income to the participant and will be taxable in the year the restrictions lapse. The Company or one of its subsidiaries generally will be entitled to a compensation deduction for the amount of compensation income the participant recognizes.

The amount of taxable gain arising from a participant's sale of shares of restricted stock acquired pursuant to the Plan is equal to the excess of the amount realized on such sale over the sum of the amount paid, if any, for the stock and the compensation element included by the participant in taxable income. For stock held for more than one year, the participant will realize long-term capital gain or loss upon disposition.

### Resales by Participants

Common stock acquired pursuant to awards granted under the Plan may be resold only in compliance with the requirements of the Securities Act of 1933 and applicable state securities laws.

Persons not deemed to be affiliates of the Company within the meaning of the Securities Act may resell shares of Common Stock issued pursuant to the exercise of options granted under the Plan from time to time without limitation as to either the quantity of Common Stock sold or the period during which such Common Stock was held, provided such Common Stock is acquired upon exercise of an option while a registration statement under the Securities Act covering the issuance of such Common Stock is in effect.

Persons who are "affiliates" of the Company as defined in Rule 405 pursuant to the Securities Act may resell shares acquired pursuant to the Plan only:

- in accordance with the provisions of Rule 144 of the Securities Act (except that such affiliate is not required to meet the two-year holding period requirement of Rule 144 if such Common Stock is acquired upon exercise of an option while a registration statement covering the issuance of such shares is in effect) or some other exemption from registration under the Securities Act;
- pursuant to an exemption from the registration requirements of the Securities Act; or
- pursuant to an effective registration statement.

The board has approved the Plan and believes it to be in the best interest of the Company and its stockholders. All members of the board are eligible to receive awards under the Plan and thus have a personal interest in its approval.

### Item 3. Defaults Upon Senior Securities

None

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

At our annual meeting of stockholders held July 12, 2005, the following individuals were re-elected to our Board of Directors to hold office until the next annual meeting or until their successors are elected and qualified, with the following votes in favor of election:

	For	Withheld
Richard C.E. Morgan	18,452,122	25,969
Allan Griebenow	18,452,122	25,234
Paul J. Coleman, Jr.	18,456,400	21,691
Robert J. Bertoldi	18,452,907	25,184
Robert F. Hussey	18,457,835	20,256

The stockholders also ratified the selection of Hein & Associates, LLP as the independent registered public accountants for the year ended December 31, 2005.

	<u>Total</u>
Total number of shares voted in favor:	18,465,301
Total number of shares voted against:	9,258
Total number of abstentions:	3,532
Total number of broker non-votes:	0

The shareholders also approved the 2005 Equity Incentive Plan that had previously been approved by our Board of Directors. We believe that incentives and stock-based awards focus our employees, consultants and directors on the objective of creating stockholder value and promoting our success. Since the plan was adopted, no further awards will be granted under the Company's 2001 Equity Incentive Plan.

	<u>Total</u>
Total number of shares voted in favor:	18,407,117
Total number of shares voted against:	60,404
Total number of abstentions:	10,570
Total number of broker non-votes:	0

The shareholders also ratified the prior fundraising activities including the issuance of convertible promissory notes, preferred equity offerings and the restructuring of debt and preferred equity completed during 2003 and 2004.

	<u>Total</u>
Total number of shares voted in favor:	18,423,792
Total number of shares voted against:	45,294
Total number of abstentions:	9,005
Total number of broker non-votes:	0

#### Item 5. Other Information

None

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

(a) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
10.1	Access International Inc. 2005 Equity Incentive Plan. *
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:

<u>Date</u>	<u>Description</u>
July 18, 2005	8-K disclosing a press release that announced the results of the annual meeting and the departure of our vice president of marketing.

## 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)

August 15, 2005

AXCESS INTERNATIONAL, INC.  
2005 EQUITY INCENTIVE PLAN

The AXCESS INTERNATIONAL Inc. 2005 Equity Incentive Plan (the "Plan") was adopted by the Board of Directors of AXCESS INTERNATIONAL Inc., a Delaware corporation (the "Company"), effective as of May 10, 2005, subject to approval by the Company's stockholders.

ARTICLE 1  
PURPOSE

The purpose of the Plan is to foster and promote the long-term financial success of the Company and its Subsidiaries and materially increase the value of the Company and its Subsidiaries by (a) encouraging the long-term commitment of the Employees, Consultants, and Outside Directors of the Company and its Subsidiaries, (b) motivating performance of the Employees, Consultants, and Outside Directors of the Company and its Subsidiaries by means of long-term performance related incentives, (c) encouraging and providing Employees, Consultants, and Outside Directors of the Company and its Subsidiaries with an opportunity to obtain an ownership interest in the Company, (d) attracting and retaining outstanding Employees, Consultants, and Outside Directors by providing incentive compensation opportunities, and (e) enabling participation by Employees, Consultants, and Outside Directors in the long-term growth and financial success of the Company and its Subsidiaries.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "1934 Act"). To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void ab initio, to the extent permitted by law and deemed advisable by the Committee.

ARTICLE 2  
DEFINITIONS

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

- 2.1 "Award" means the grant of any Incentive Stock Option, Nonqualified Stock Option, Reload Option, or Restricted Stock whether granted singly or in combination (each individually referred to herein as an "Incentive").
- 2.2 "Award Agreement" means a written agreement between a Participant and the Company which sets out the terms of the grant of an Award.
- 2.3 "Award Period" means the period set forth in the Award Agreement with respect to a Stock Option during which the Stock Option may be exercised, which shall commence on the Date of Grant and expire at the time set forth in the Award Agreement.
- 2.4 "Board" means the board of directors of the Company.
- 2.5 "Code" means the Internal Revenue Code of 1986, as amended.
- 2.6 "Committee" means the committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.
- 2.7 "Common Stock" means the common stock, par value \$0.01 per share, which the Company is currently authorized to issue or may in the future be authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.
- 2.8 "Company" means Access International Inc., a Delaware Corporation, and any successor entity.

- 2.9 "Consultant" means any person performing advisory or consulting services for the Company or a Subsidiary, with or without compensation, to whom the Company chooses to grant an Award in accordance with the Plan, provided that bona fide services must be rendered by such person and such services shall not be rendered in connection with the offer or sale of securities in a capital raising transaction.
- 2.10 "Corporation" means any entity that (i) is defined as a corporation under Code Section 7701 and (ii) is the Company or is in an unbroken chain of corporations (other than the Company) beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain. For purposes of clause (ii) hereof, an entity shall be treated as a "corporation" if it satisfies the definition of a corporation under Section 7701 of the Code.
- 2.11 "Date of Grant" means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement; provided, however, that solely for purposes of Section 16 of the 1934 Act and the rules and regulations promulgated thereunder, the Date of Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than the effective date of such Award as set forth in the Award Agreement.
- 2.12 "Employee" means common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company.
- 2.13 "Fair Market Value" means, as of a particular date, (a) if the shares of Common Stock are listed on a national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (b) if the shares of Common Stock are not so listed but are quoted on the Nasdaq National Market System, the closing sales price per share of Common Stock on the Nasdaq National Market System on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by Nasdaq, or, if not reported by Nasdaq, by the National Quotation Bureau, Inc., or (d) if none of the above is applicable, such amount as may be determined by the Board (acting on the advice of an Independent Third Party, should the Board elect in its sole discretion to utilize an Independent Third Party for this purpose), in good faith, to be the fair market value per share of Common Stock.
- "Independent Third Party" means an individual or entity independent of the Company having experience in providing investment banking or similar appraisal or valuation services and with expertise generally in the valuation of securities or other property for purposes of this Plan. The Board may utilize one or more Independent Third Parties.
- 2.14 "Incentive Stock Option" means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.
- 2.15 "Nonpublicly Traded" means not listed on a national securities exchange registered with the Securities and Exchange Commission or designated for trading on the Nasdaq National Market.
- 2.16 "Nonqualified Stock Option" means a nonqualified stock option, granted pursuant to this Plan, to which Section 421 of the Code does not apply.
- 2.17 "Option Price" means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.
- 2.18 "Outside Director" means a director of the Company who is not an Employee.
- 2.19 "Participant" means an Employee, Consultant, or Outside Director of the Company or a Subsidiary to whom an Award is granted under this Plan.

- 2.20 "Plan" means this AXCESS INTERNATIONAL Inc. 2005 Equity Incentive Plan, as amended from time to time.
- 2.21 "Reload Stock Option" means a Nonqualified Stock Option or an Incentive Stock Option granted pursuant to Section 8.3(b) hereof.
- 2.22 "Reporting Participant" means a Participant who is subject to the reporting requirements of Section 16 of the 1934 Act.
- 2.23 "Restricted Stock" means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.5 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.
- 2.24 "Retirement" means any Termination of Service solely due to retirement upon or after attainment of age sixty-five (65), or permitted early retirement as determined by the Committee.
- 2.25 "Stock Option" means a Nonqualified Stock Option, a Reload Stock Option or an Incentive Stock Option.
- 2.26 "Subsidiary" means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above.
- "Subsidiaries" means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.
- 2.27 "Termination of Service" occurs when a Participant who is an Employee ceases to or a Consultant of the Company or any Subsidiary shall cease to serve as an Employee or Consultant of the Company and its Subsidiaries, for any reason; or, when a Participant who is an Outside Director of the Company or a Subsidiary shall cease to serve as a director of the Company and its Subsidiaries for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a "Termination of Service" shall not be deemed to have occurred when a Participant who is an Employee becomes a Consultant or an Outside Director or vice versa. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Code section 422 upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Nonqualified Stock Option.
- 2.28 "Total and Permanent Disability" means a Participant is qualified for long-term disability benefits under the Company's or Subsidiary's disability plan or insurance policy; or, if no such plan or policy is then in existence or if the Participant is not eligible to participate in such plan or policy, that the Participant, because of ill health, physical or mental disability or any other reason beyond his or her control, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee; provided that, with respect to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code.

### ARTICLE 3 ADMINISTRATION

Subject to the terms of this Article 3, the Plan shall be administered by the Board or such committee of the Board as is designated by the Board to administer the Plan (the "Committee"). The Committee shall consist of not fewer than two persons. Any member of the Committee may be removed at any time, with or without cause, by resolution of the Board. Any vacancy occurring in the membership of the Committee may be filled by appointment by the Board. At any time there is no Committee to administer the Plan, any references in this Plan to the Committee shall be deemed to refer to the Board.

If necessary to satisfy the requirements of Section 162(m) of the Code and/or Rule 16b-3 promulgated under the 1934 Act, membership on the Committee shall be limited to those members of the Board who are "outside directors" under Section 162(m) of the Code and "non-employee directors" as defined in Rule 16b-3 promulgated under the 1934 Act. The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

The Committee shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement, where applicable, the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive or two or more Incentives granted in combination. Although the members of the Committee shall be eligible to receive Awards, no member of the Committee shall participate in any decisions regarding any Award granted hereunder to such member. All decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

The Committee, in its discretion, shall (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, (iii) establish performance goals for an Award and certify the extent of their achievement, and (iv) make such other determinations or certifications and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

The Committee may delegate to officers of the Company, pursuant to a written delegation, the authority to perform specified functions under the Plan. Any actions taken by any officers of the Company pursuant to such written delegation of authority shall be deemed to have been taken by the Committee. Notwithstanding the foregoing, to the extent necessary to satisfy the requirements of Section 162(m) of the Code and/or Rule 16b-3 promulgated under the 1934 Act, any function relating to a Reporting Participant or a covered employee (as defined in Section 162(m) of the Code) shall be performed solely by the Committee.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the 1934 Act, Section 422 of the Code, Section 162(m) of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, or any other applicable law, rule or restriction (collectively, "applicable law"), to the extent that any such restrictions are no longer required by applicable law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

#### ARTICLE 4 ELIGIBILITY

Any Employee (including an Employee who is also a director or an officer), Outside Director, or Consultant of the Company whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; provided that only Employees of a Corporation shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Outside Director, or Consultant of the Company or any Subsidiary. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards granted at different times need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, Outside Directors, or Consultants, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Participants who receive, or are eligible to receive, Awards under the Plan.

ARTICLE 5  
SHARES SUBJECT TO PLAN

- 5.1 Number Available for Awards. Subject to adjustment as provided in Articles 11 and 12, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is 5,000,000 shares. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.
- 5.2 Reuse of Shares. Subject to Section 5.2(c), if, and to the extent:
- (a) A Stock Option shall expire or terminate for any reason without having been exercised in full, or in the event that a Stock Option is exercised or settled in a manner such that some or all of the shares of Common Stock relating to the Stock Option are not issued to the Participant (or beneficiary) (including as the result of the use of shares for withholding taxes), the shares of Common Stock subject thereto which have not become outstanding shall (unless the Plan shall have sooner terminated) become available for issuance under the Plan; in addition, with respect to any share-for-share exercise or cashless exercise pursuant to Section 8.3 or otherwise, only the "net" shares issued shall be deemed to have become outstanding for purposes of the Plan as a result thereof.
- (b) If shares of Restricted Stock under the Plan are forfeited for any reason, such shares of Restricted Stock shall (unless the Plan shall have sooner terminated) become available for issuance under the Plan; provided, however, that if any dividends paid with respect to shares of Restricted Stock were paid to the Participant prior to the forfeiture thereof, such shares shall not be reused for grants or awards.
- (c) In no event shall the number of shares of Common Stock subject to Incentive Stock Options exceed, in the aggregate, 5,000,000 shares of Common Stock plus shares subject to Incentive Stock Options which are forfeited or terminated, or expire unexercised.

ARTICLE 6  
GRANT OF AWARDS

- 6.1 In General. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within ten (10) years after the date of adoption of this Plan. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Awards under the Plan prior to the time of stockholder approval. Any such Award granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.
- 6.2 Stock Options. The grant of an Award of Stock Options shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth: (i) the Incentive or Incentives being granted, (ii) the total number of shares of Common Stock subject to the Incentive(s), (iii) the Option Price, (iv) the Award Period, (v) the Date of Grant, (vi) resale restrictions or limitation on resale, and (vii) such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but not inconsistent with the Plan.
- 6.3 Option Price. The Option Price for any share of Common Stock which may be purchased under a Nonqualified Stock Option for any share of Common Stock may be less than, equal to, or greater than the Fair Market Value of the share on the Date of Grant. The Option Price for any share of Common Stock which may be purchased under an Incentive Stock Option must be at least equal to the Fair Market Value of the share on the Date of Grant.
- 6.4 Maximum ISO Grants. The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed \$100,000. To the extent any Stock Option granted under this Plan which is designated as

an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any such portion thereof) shall be a Nonqualified Stock Option. In such case, the Committee shall designate which stock will be treated as Incentive Stock Option stock by causing the issuance of a separate stock certificate and identifying such stock as Incentive Stock Option stock on the Company's stock transfer records.

- 6.5 Restricted Stock. If Restricted Stock is granted to or received by a Participant under an Award (including a Stock Option), the Committee shall set forth in the related Award Agreement: (i) the number of shares of Common Stock awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (iii) the time or times within which such Award may be subject to forfeiture, (iv) specified performance goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock, which shall be consistent with this Plan. The provisions of Restricted Stock need not be the same with respect to each Participant. If the Committee establishes a purchase price for an Award of Restricted Stock, the Participant must accept such Award within a period of thirty (30) days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.
- (a) Legend on Shares. Each Participant who is awarded or receives Restricted Stock shall be issued a stock certificate or certificates in respect of such shares of Common Stock. Such certificate(s) shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 15.11 of the Plan.
- (b) Restrictions and Conditions. Shares of Restricted Stock shall be subject to the following restrictions and conditions:
- i. Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant or the date of exercise of an Award (the "Restriction Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock. Except for these limitations, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.
  - ii. Except as provided in sub-paragraph (i) above or in the applicable Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock or after any other restrictions imposed in such shares of Common Stock by the applicable Award Agreement or other agreement have expired. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that each Participant, in connection with the issuance of a certificate for Restricted Stock, shall endorse such certificate in blank or execute a stock power in form satisfactory to the Company in blank and deliver such certificate and executed stock power to the Company.
  - iii. The Restriction Period of Restricted Stock shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Award Agreement, and, subject to Article 12 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on (i) length of continuous service, (ii)

achievement of specific business objectives, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other comparable measurements of Company performance, as may be determined by the Committee in its sole discretion.

- iv. Except as otherwise provided in the particular Award Agreement, upon Termination of Service for any reason during the Restriction Period, the non-vested shares of Restricted Stock shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Committee shall specify in the Award Agreement that either (i) the Company shall be obligated to, or (ii) the Company may, in its sole discretion, elect to, pay to the Participant, as soon as practicable after the event causing forfeiture, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service, as the Committee, in its sole discretion shall select. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

- 6.6 Maximum Individual Grants. No Participant may receive during any single grant of the Company Awards covering an aggregate of more than 500,000 shares of Common Stock.

#### ARTICLE 7 AWARD PERIOD; VESTING

- 7.1 Award Period.

- (a) Subject to the other provisions of this Plan, the Committee shall specify in the Award Agreement the Award Period for a Stock Option. No Stock Option granted under the Plan may be exercised at any time after the end of its Award Period. The Award Period for any Stock Option shall be no more than ten (10) years from the Date of Grant of the Stock Option.
- (b) In the event of a Termination of Service of a Participant, the Award Period for a Stock Option shall be reduced or terminated in accordance with the Award Agreement.

- 7.2 Vesting. The Committee, in its sole discretion, may determine that an Incentive will be immediately vested in whole or in part, or that all or any portion may not be vested until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If the Committee imposes conditions upon vesting, then, subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Incentive may be vested.

#### ARTICLE 8 EXERCISE OF INCENTIVE

- 7.1 In General. The Committee, in its sole discretion, may determine that a Stock Option will be immediately exercisable, in whole or in part, or that all or any portion may not be exercised until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise of the Stock Option shall be Restricted Stock which is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Stock Option may be exercised. No Stock Option may be exercised for a fractional share of Common Stock. The granting of a Stock Option shall impose no obligation upon the Participant to exercise that Stock Option.

- 7.2 Securities Law and Exchange Restrictions. In no event may an Incentive be exercised or shares of Common Stock be issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished.

### 7.3 Exercise of Stock Option.

- (a) Notice and Payment. Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised and the date of exercise thereof (the "Exercise Date") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as provided in the Award Agreement, which may provide for payment in any one or more of the following ways: (a) cash or check, bank draft, or money order payable to the order of the Company, (b) Common Stock (excluding Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, and which the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, (c) so long as the Common Stock is not Nonpublicly Traded, by delivery (including by FAX) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion.
- (b) Reload Stock Options. In the event that shares of Common Stock are delivered by a Participant in payment of all or a portion of the exercise price of a Stock Option as set forth in Section 8.3(a) above and/or shares of Common Stock are delivered to or withheld by the Company in satisfaction of the Company's tax withholding obligations upon exercise in accordance with Section 15.6 hereof, then, subject to Article 10 hereof, the Committee may authorize the automatic grant to a Participant so exercising a Nonqualified Stock Option, a replacement Nonqualified Stock Option, and to a Participant so exercising an Incentive Stock Option, a replacement Incentive Stock Option (in either case, a "Reload Stock Option"), to purchase that number of shares so delivered to or withheld by the Company, as the case may be, at an option exercise price equal to the Fair Market Value per share of the Common Stock on the date of exercise of the original Stock Option (subject to the provisions of the Plan regarding Incentive Stock Options and, in any event not less than the par value per share of the Common Stock). The option period for a Reload Stock Option will commence on its Date of Grant and expire on the expiration date of the original Stock Option it replaces (subject to the provisions of the Plan regarding Incentive Stock Options), after which period the Reload Stock Option cannot be exercised. The Date of Grant of a Reload Stock Option shall be the date that the Stock Option it replaces is exercised. A Reload Stock Option shall automatically vest and be exercisable in full after the expiration of six (6) months from its Date of Grant. It shall be a condition to the grant of a Reload Stock Option that promptly after its Date of Grant, a stock option agreement shall be delivered to the Participant and executed by the Participant and the Company which sets forth the total number of shares subject to the Reload Stock Option, the option exercise price, the option period of the Reload Stock Option and such other terms and provisions as are consistent with the Plan.
- (c) Issuance of Certificate. Except as otherwise provided in Section 6.5 hereof (with respect to shares of Restricted Stock) or in the applicable Award Agreement, upon payment of all amounts due from the Participant, the Company shall cause certificates for the Common Stock then being purchased to be delivered as directed by the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office promptly after the Exercise Date; provided that if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that, if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration,

qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

- (d) Failure to Pay. If the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, the Participant's Stock Option and right to purchase such Common Stock may be forfeited by the Company.

8.4 Disqualifying Disposition of Incentive Stock Option. If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

#### ARTICLE 9 AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this Article 9, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment which requires stockholder approval in order for the Plan and Incentives awarded under the Plan to continue to comply with Sections 162(m), 421, and 422 of the Code, including any successors to such Sections, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this Article 9 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

#### ARTICLE 10 TERM

The Plan shall be effective from the date that this Plan is approved by the Board. Unless sooner terminated by action of the Board, the Plan will terminate on July 12, 2015, but Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

#### ARTICLE 11 CAPITAL ADJUSTMENTS

In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the (i) the number of shares and type of Common Stock (or the securities or property) which thereafter may be made the subject of Awards, (ii) the number of shares and type of Common Stock (or other securities or property) subject to outstanding Awards, (iii) the number of shares and type of Common Stock (or other securities or property) specified as the annual per-participant limitation under Section 6.6 of the Plan, (iv) the Option Price of each outstanding Award, and (v) the amount, if any, the Company pays for forfeited shares of Common Stock in accordance with Section 6.5; provided however, that the number of shares of Common Stock (or other securities or property) subject to any Award shall always be a whole number. In lieu of the foregoing, if deemed appropriate, the Committee may make provision for a cash payment to the holder of an outstanding Award. Notwithstanding the foregoing, no such adjustment or cash payment shall be made or authorized to the extent that

such adjustment or cash payment would cause the Plan or any Stock Option to violate Code Section 422. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of any such adjustment or cash payment, the Company shall provide notice to each affected Participant of its computation of such adjustment or cash payment which shall be conclusive and shall be binding upon each such Participant.

## ARTICLE 12 RECAPITALIZATION, MERGER AND CONSOLIDATION

- 12.1 No Effect on Company's Authority. The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.
- 12.2 Conversion of Incentives Where Company Survives. Subject to any required action by the stockholders, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled.
- 12.3 Exchange or Cancellation of Incentives Where Company Does Not Survive. In the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of outstanding Stock Options, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Stock Options to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms.

Notwithstanding the foregoing, however, all Stock Options may be canceled by the Company, in its sole discretion, as of the effective date of any such reorganization, merger, consolidation, or share exchange, or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

- (a) giving notice to each holder thereof or his personal representative of its intention to cancel such Stock Options and permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares subject to such outstanding Stock Options, including in the Board's discretion some or all of the shares as to which such Stock Options would not otherwise be vested and exercisable; or
- (b) paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the exercise price per share of such Stock Option (hereinafter the "Spread"), multiplied by the number of shares subject to the Stock Option. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Stock Options shall be made, such as deeming the Stock Options to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of the Options as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

ARTICLE 13  
LIQUIDATION OR DISSOLUTION

Subject to Section 12.3 hereof, in case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then each Participant shall be entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) then in such event the Option Prices then in effect with respect to each Stock Option shall be reduced, on the payment date of such distribution, in proportion to the percentage reduction in the tangible book value of the shares of the Company's Common Stock (determined in accordance with generally accepted accounting principles) resulting by reason of such distribution.

ARTICLE 14  
INCENTIVES IN SUBSTITUTION FOR  
INCENTIVES GRANTED BY OTHER ENTITIES

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees or directors of a corporation, partnership, or limited liability company who become or are about to become Employees or Outside Directors of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company, the acquisition by the Company of equity of the employing entity, or any other similar transaction pursuant to which the Company becomes the successor employer. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the Incentives in substitution for which they are granted.

ARTICLE 15  
MISCELLANEOUS PROVISIONS

- 15.1 Investment Intent. The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.
- 15.2 Nonpublicly Traded Common Stock. In the event a Participant receives, as Restricted Stock or pursuant to the exercise of a Stock Option, shares of Common Stock that are Nonpublicly Traded (as defined herein), the Committee may impose restrictions and conditions on the transfer or other disposition of those shares. The restrictions and conditions may be reflected in the Award Agreement or in a separate stockholders' agreement.
- 15.3 No Right to Continued Employment. Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.
- 15.4 Indemnification of Board and Committee. No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee, each officer of the Company, and each Employee of the Company acting on behalf of the Board or the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.
- 15.5 Effect of the Plan. Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

- 15.6 Compliance With Other Laws and Regulations. Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the 1934 Act and Section 162(m) of the Code); and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.
- 15.7 Lock-up Agreement. The Company may require that an Award Agreement include a provision requiring a Participant to agree that in connection with an underwritten public offering of Common Stock, upon the request of the Company or the principal underwriter managing such public offering, no shares of Common Stock received by the Participant under such Award Agreement may be sold, offered for sale or otherwise disposed of without the prior written consent of the Company or such underwriter, as the case may be, for at least 180 days after the effectiveness of the registration statement filed in connection with such offering, or such longer period of time as the Board may determine, if all of the Company's directors and officers agree to be similarly bound. The obligations under this Section 15.7 shall remain effective for all underwritten public offerings with respect to which the Company has filed a registration statement, provided, however, that this Section 15.7 shall cease to apply to any such shares of Common Stock sold to the public pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act in a transaction that complied with the terms of the applicable Award Agreement.
- 15.8 Tax Requirements. The Company shall have the right to deduct from all amounts hereunder paid in cash or other form, any Federal, state, or local taxes required by law to be withheld with respect to such payments. The Participant receiving shares of Common Stock issued under the Plan shall be required to pay the Company the amount of any taxes which the Company is required to withhold with respect to such shares of Common Stock. Notwithstanding the foregoing, in the event of an assignment of a Nonqualified Stock Option pursuant to Section 15.9, the Participant who assigns the Nonqualified Stock Option shall remain subject to withholding taxes upon exercise of the Nonqualified Stock Option by the transferee to the extent required by the Code or the rules and regulations promulgated thereunder. Such payments shall be required to be made prior to the delivery of any certificate representing such shares of Common Stock. Such payment may be made (i) by the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligation of the Company; (ii) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Stock Option, which shares so withheld have an aggregate fair market value that equals (but does not exceed) the required tax withholding payment; or (iv) any combination of (i), (ii), or (iii).
- 15.9 Stock Option Assignability. Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 15.9 that is not required for compliance with Section 422 of the Code.

Except as otherwise provided herein, Nonqualified Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. The Committee may, in its discretion, authorize all or a portion of a Nonqualified Stock Option granted to a Participant to be on terms which permit transfer by such Participant to (i) the spouse (or former spouse), children or grandchildren of the Participant ("Immediate Family Members"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, (iii) a partnership in which the only partners are (1) such Immediate Family Members and/or (2) entities which are controlled by Immediate

Family Members, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the Award Agreement pursuant to which such Nonqualified Stock Option is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Nonqualified Stock Options shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Nonqualified Stock Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Articles 8, 9, 11, 13 and 15 hereof the term "Participant" shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Nonqualified Stock Options shall be exercisable by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Nonqualified Stock Option of any expiration, termination, lapse or acceleration of such Stock Option. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Nonqualified Stock Option that has been transferred by a Participant under this Section 15.9.

- 15.10 Use of Proceeds. Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.
- 15.11 Legend. Each certificate representing shares of Restricted Stock issued to a Participant shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

"Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate."

On the reverse:

"The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain Axxess International Inc. 2005 Equity Incentive Plan, a copy of which is on file at the principal office of the Company in Carrollton, Texas. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledgee hereof agrees to be bound by all of the provisions of said Plan."

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

"Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company."

A copy of this Plan shall be kept on file in the principal office of the Company in Carrollton, Texas.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed as of May 10, 2005 by its Chief Executive Officer and Secretary pursuant to prior action taken by the Board.

AXCESS INTERNATIONAL, INC.

By: /S/ Allan Griebenow

Name: Allan Griebenow

Title: President and Chief Executive Officer

Attest:

By: /S/ Allan Frank

Name: Allan Frank

Title: Chief Financial 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 Griebenow, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 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: August 15, 2005

/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-QSB 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 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: August 15, 2005

/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-QSB for the period ended June 30, 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: August 15, 2005

**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 June 30, 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: August 15, 2005