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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, 2006**

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Number of shares of common stock outstanding on July 31, 2006: 28,205,138

Transitional Small Business Disclosure Format: Yes  No

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AXCESS INTERNATIONAL INC.  
CONSOLIDATED BALANCE SHEETS**

	(Unaudited) June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,222,602	\$ 236,869
Accounts receivable - trade, net of allowance for doubtful accounts of \$17,095 and \$17,389 for 2006 and 2005, respectively.	123,695	141,200
Inventory, net	281,198	112,270
Prepaid expenses and other	67,298	72,628
<b>Total current assets</b>	<b>1,694,793</b>	<b>562,967</b>
Property, plant and equipment, net	22,144	29,387
Deferred debt issuance costs	253,444	337,926
Other assets	3,096	2,699
<b>Total assets</b>	<b>\$ 1,973,477</b>	<b>\$ 932,979</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 137,704	\$ 252,155
Accrued liabilities	1,027,266	959,149
<b>Notes payable:</b>		
Convertible notes payable (includes \$80,000 with related parties in 2005)	—	396,666
Discounts on convertible debt	—	(5,520 )
Dividends payable	370,473	208,780
<b>Total current liabilities</b>	<b>1,535,443</b>	<b>1,811,230</b>
Notes payable to stockholders	3,473,660	3,709,071
<b>Total liabilities</b>	<b>5,009,103</b>	<b>5,520,301</b>
<b>Commitments and contingencies (Notes 1 and 2)</b>		
<b>Stockholders' deficit:</b>		
Convertible preferred stock, 10,000,000 and 7,000,000 shares authorized in 2006 and 2005, respectively		
With liquidation preference; no shares issued and outstanding in 2006 and 2005, respectively;	—	—
Without liquidation preference; \$0.01 par value, 6,323,550 and 3,371,495 shares issued and outstanding in 2006 and 2005, respectively	63,235	33,715
Common stock, \$0.01 par value, 70,000,000 and 50,000,000 shares authorized in 2006 and 2005, respectively; 28,205,138 shares issued and outstanding in 2006 and 27,437,111 shares issued and outstanding in 2005	282,052	274,371
Shares of common stock to be issued, 5,333 shares as of December 31, 2005	—	53
Non-voting convertible common stock, \$0.01 par value, 0 and 2,250,000 shares authorized in 2006 and 2005, respectively; no shares issued and outstanding in 2006 or 2005	—	—
Additional paid-in capital	156,710,890	153,436,725
Accumulated deficit	(160,091,803 )	(158,332,186 )
<b>Total stockholders' deficit</b>	<b>(3,035,626 )</b>	<b>(4,587,322 )</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,973,477</b>	<b>\$ 932,979</b>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Sales	\$ 354,475	\$ 206,818	\$ 808,038	\$ 447,976
Cost of sales	189,215	123,545	463,845	247,893
Gross profit	165,260	83,273	344,193	200,083
Expenses:				
Research and development	259,898	207,739	863,587	391,920
General and administrative	503,695	335,520	965,105	690,983
Selling and marketing	298,112	290,018	564,357	545,115
Depreciation and amortization	4,291	7,911	9,117	16,984
Operating expenses	1,065,996	841,188	2,402,166	1,645,002
Loss from operations	(900,736 )	(757,915 )	(2,057,973 )	(1,444,919 )
Other income (expense):				
Interest expense	(87,372 )	(246,599 )	(182,635 )	(411,737 )
Gain in vendor settlements	22,296	65,106	42,685	173,816
Gain on sale of intellectual property	—	—	600,000	—
Other income (expense), net	(65,076 )	(181,493 )	460,050	(237,921 )
Net loss	(965,812 )	(939,408 )	(1,597,923 )	(1,682,840 )
Preferred stock dividend requirements:				
Recurring	(80,847 )	(80,847 )	(161,694 )	(161,694 )
Warrant inducement	—	—	—	(2,060,397 )
2005 Preferred equity offering	—	—	(1,489,245 )	—
2006 Preferred equity offering	(645,020 )	—	(645,020 )	—
Preferred stock dividend requirements	(725,867 )	(80,847 )	(2,295,959 )	(2,222,091 )
Net loss applicable to common stock	\$ (1,691,679 )	\$ (1,020,255 )	\$ (3,893,882 )	\$ (3,904,931 )
Basic and diluted net loss per share	\$ (0.06 )	\$ (0.04 )	\$ (0.14 )	\$ (0.15 )
Weighted average shares of common stock outstanding	28,203,636	26,930,819	28,067,362	26,333,012

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,597,924 )	\$ (1,682,840 )
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	9,117	16,984
Amortization of financing discount and issuance costs	90,003	296,488
Gain on vendor settlements and statutory write-off of payables	(42,685 )	(173,816 )
Gain on sale of intellectual property	(600,000 )	—
Stock based compensation expense	375,272	—
Changes in operating assets and liabilities:		
Accounts receivable	17,505	18,117
Inventory	(168,928 )	(68,342 )
Prepaid expenses and other	5,330	(36,973 )
Other assets	(397 )	1,215
Accounts payable and accrued expenses	16,460	112,413
Net cash used by operating activities	<u>(1,896,247 )</u>	<u>(1,516,754 )</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(1,874 )	(2,461 )
Proceeds for sale of intellectual property	600,000	—
Net cash provided by (used in) investing activities	<u>598,126</u>	<u>(2,461 )</u>
<b>Cash flow from financing activities:</b>		
Net proceeds from issuance of common and preferred stock	2,484,244	—
Net proceeds from issuance of common stock from warrants	32,500	1,933,775
Net proceeds from issuance of common stock from employee options	2,521	17,840
Principal payments on financing agreements	(235,411 )	(223,021 )
Net cash provided by financing activities	<u>2,283,854</u>	<u>1,728,594</u>
Net change in cash and cash equivalents	985,733	209,379
Cash and cash equivalents, beginning of period	236,869	461,101
Cash and cash equivalents, end of period	<u>\$ 1,222,602</u>	<u>\$ 670,480</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Conversions of notes payable into common stock	\$ 396,667	\$ 106,666
Conversions of accrued interest into common stock	20,110	46,031
Conversion of accrued dividends into common stock	—	432,446
Preferred stock dividends accrued	161,694	161,694

See accompanying notes to unaudited consolidated financial statements.

**AXCESS**  
**NOTES TO CONSOLIDATED 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 personnel and vehicle access control and automatic asset tracking and protection. The Company provides solutions in 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. Access utilizes a patented technology: network-based radio frequency identification (RFID). The 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 2006 is predicated principally upon the successful marketing of its RFID products. During the first half of 2006, operating activities utilized approximately \$1.9 million of cash. During first half of 2006 the Company raised a net of \$2.5 million, for additional working capital through issuing exempt preferred stock, warrants and stock options.

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 LLC, Amphion Investments LLC, Antiope Partners LLC, VennWorks LLC (formerly incuVest LLC), Amphion Capital Management LLC, Amphion Innovations PLC, Richard Morgan, Anna Morgan (wife of Richard Morgan), and Robert Bertoldi (collectively, the "Amphion Group"). As of June 30, 2006, the Amphion Group owns approximately 62% of the outstanding voting common 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, 2006 and December 31, 2005:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Raw materials	\$ 38,433	\$ 10,887
Work-in-process	109	109
Finished goods	242,656	101,274
	<u>\$ 281,198</u>	<u>\$ 112,270</u>

## (d) Stock-Based Compensation

### Adoption of SFAS 123R

Beginning January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 "Share-Based Payment" (SAB 107) in March 2005, which provides supplemental SFAS 123R application guidance based in the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the three and six months ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, results for prior periods have not been restated.

The adoption of SFAS 123R resulted in stock compensation expense for the three months and six months period ended June 30, 2006 of \$187,038 and \$375,272, respectively to operating expenses. This expense increased net loss per share by \$0.007 for the three months ended June 30, 2006 and \$0.013 for the six months ended June 30, 2006. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The Black-Scholes option-pricing model was used to estimate the option fair value. The option pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over the most recent periods at the time of the grants equal to the expected option term. The expected option term was calculated using the "simplified" method permitted by SAB 107.

### Pro-Forma Stock Compensation Expense for the Three Months and Six Months Periods Ended June 30, 2005

For the three and six month periods ended June 30, 2005, the Company accounted for its stock-based compensation plan under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. Since all options granted during the periods ended June 30, 2005 had an exercise price equal to the closing market price of the underlying common stock on the grant date, no compensation expense was recorded. If compensation expense had been recognized based on the estimated fair value of each option granted in accordance with the 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, our net loss and net loss per share would have been increased to the following pro-forma amounts:

	<b>Three Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2005</b>
<b>Pro forma impact of fair value method (FAS 148)</b>		
Reported net loss attributed to common stock	\$ (1,020,255)	\$ (3,904,931)
Less: fair value of employee stock compensation	(172,613)	(373,176)
Pro forma net loss attributed to common stock	<u>(1,192,868)</u>	<u>(4,278,107)</u>
<b>Loss per common share</b>		
Basic and diluted net loss per share – as reported	\$ (0.04)	\$ (0.15)
Basic and diluted net loss per share – pro forma	\$ (0.04)	\$ (0.16)
<b>Weighted average Black-Scholes fair value assumptions</b>		
Risk free interest rate	4.25%	4.25%
Expected life	3 years	3 years
Expected volatility	164%	164%
Expected dividend yield	0.0%	0.0%

In accordance with the modified prospective transition method of SFAS 123(R), the prior comparative quarterly results have not been restated. The following table illustrates the effect on operating expenses from applying the fair value recognition provisions of SFAS 123(R) in 2006 and as if we had applied the fair value recognition provisions of SFAS No. 123 in 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Research and development expense	\$ 41,900	\$ 27,545	\$ 78,088	\$ 58,157
General and administrative expense	108,914	105,903	230,434	235,789
Selling and marketing expense	36,224	39,165	66,750	79,230
Total	<u>\$ 187,038</u>	<u>\$ 172,613</u>	<u>\$ 375,272</u>	<u>\$ 373,176</u>

#### Stock Options as of the Six Month Period Ended June 30, 2006

Under the Company's 2005 Equity Incentive Plan, the Company may grant up to 5,000,000 shares of common stock to its employees, consultants or directors. The exercise price of each option is not less than the market price of the Company's stock on the date of grant and an option's maximum term is ten years. During the six months ended June 30, 2006, the Company issued 1,533,000 shares under this plan. Options are generally granted each year and have various vesting requirements, typically vest over a four year period.

The following table summarizes stock options outstanding and change during the six month period ended June 30, 2006:

	Outstanding Options			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2006	3,117,485	\$ 2.19		
Options granted	1,533,000	1.05		
Options exercised	(6,300)	0.40		
Options forfeited	(16,000)	1.04		
Options outstanding at June 30, 2006	<u>4,628,185</u>	1.82	7.07	\$952,831
Options exercisable at June 30, 2006	<u>2,691,225</u>	2.19	6.46	\$619,321
Options available for grants as of June 30, 2006	<u>3,483,000</u>			

The total intrinsic value, or the difference between the exercise price and the market price on the date of exercise, of all options exercised during the six month period ended June 30, 2006, was approximately \$4,280. Cash received from stock options exercised during the six months ended June 30, 2006 was \$2,520. The Company did not realize any tax deductions related to the exercise of stock options during the quarter. The Company will record such deductions to additional paid in capital when realized. Shares available for grant under the Plan as of June 30, 2006 were 3,483,000.

Stock options outstanding and currently exercisable at June 30, 2006 are as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Of Options	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Of Options Exercisable	Weighted Average Exercise Price
\$0.00 - \$1.00	708,300	6.55	\$0.40	708,300	\$0.40
\$1.01 - \$2.00	2,661,170	8.58	1.40	761,710	1.82
\$2.01 - \$3.00	789,375	4.22	2.64	751,875	2.53
\$3.01 - \$4.00	201,340	4.34	3.88	201,340	3.88
\$4.01 - \$5.00	20,000	4.92	4.55	20,000	4.55
\$5.01 - \$6.25	248,000	3.73	5.80	248,000	5.80
Total	<u>4,628,185</u>	7.07	1.82	<u>2,691,225</u>	2.19

Total estimated unrecognized compensation cost from unvested stock options as of June 30, 2006 was approximately \$1.8 million, which is expected to be recognized over a weighted average period of approximately 2.5 years.

The weighted average per share fair value of stock options granted during the quarter ended June 30, 2006 and 2005 was \$0.99 and \$0, respectively. The fair value was estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2006	June 30, 2005
Volatility	131%	—
Expected option term	5 years	—
Risk-free interest rate	4.60%	—
Expected dividend yield	—	—

## (2) Contingencies

Access is engaged in a number of lawsuits with approximately five vendors who claim they are owed amounts from \$500 to \$45,000, which aggregates in total \$80,116. We are currently defending or seeking to settle each of the vendor's claims. At June 30, 2006, 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 10,000,000 shares of convertible preferred stock, of which shares designated in four series are currently outstanding. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	2003B Series	Series 2004	Series 2005	Series 2006
Number of shares authorized	2,750,000	625,000	2,750,000	1,200,000
Stated value	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Number of shares issued and outstanding:				
December 31, 2005	1,790,000	625,000	956,495	—
June 30, 2006	1,790,000	625,000	2,708,550	1,200,000
Conversion ratio (or conversion price) of preferred shares into common	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock
Liquidation preference	None	None	None	None
Dividend rights	7% per annum, cumulative	7% per annum, cumulative	None	None

### (a) Series 2003B Preferred Stock

The Company completed a \$3,132,500 exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors 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, 2006 there were \$54,669 of dividends accrued for Series 2003B Preferred Stock. Dividends payable were \$250,514 and \$220,280 for Series 2003B Preferred stock at June 30, 2006 and December 31, 2005, respectively. As of June 30, 2006 and December 31, 2005, 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, 2006 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 an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2004 Preferred and consisted of 625,000 shares of Preferred Stock bearing a 7% dividend and 357,142 warrants to purchase the Company's common stock exercisable for two years at \$3.20 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over \$4.00. During the three months ended June 30, 2006 there were \$26,178 of dividends accrued for Series 2004 Preferred Stock. Dividends payable were \$119,959 and \$71,918 for Series 2004 Preferred stock at June 30, 2006 and December 31, 2005, respectively. As of June 30, 2006 and December 31, 2005, 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, 2006 that amount is reflected in accumulated deficit on the balance sheet.

*(c) Series 2005 Preferred Stock*

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

A portion of the 2005 Preferred Equity Offering was the conversion of a convertible note with Amphion Innovations plc, an affiliate of the Amphion Group, our majority shareholder. The principal of the note converted was \$500,000 and accrued interest of \$4,521. Amphion also agreed to release its secured interest in Axxess' video patent portfolio.

The Company also recorded a preferred stock dividend of \$813,021 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2005 Preferred Stock Equity closed during December 2005.

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

The Company also recorded an additional preferred stock dividend of \$1,489,245 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2005 Preferred Stock Equity closed during March 2006.

*(d) Series 2006 Preferred Stock*

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

The Company also recorded an additional preferred stock dividend of \$645,020 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2006 Preferred Stock Equity closed during May 2006.

#### **(4) Significant Customers**

During the three months ended June 30, 2006 the Company had two customers that combined accounted for 25% of product sales. During the three months ended June 30, 2005 we had no single customer that accounted for more than 10% of the overall revenue.

During the six months ended June 30, 2006 we had one customer that accounted for 12% of the overall revenue. During the six months ended June 30, 2005 we had no single customer that account for more than 10% of the overall revenue.

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

#### **Forward-Looking Statements**

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

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

A variety of factors could cause actual results to differ materially from those anticipated in the Company's forward-looking statements, including the following factors: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents, technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company's product, and the ability of the Company to meet its stated business goals. For a detailed discussion of these and other cautionary statements and factors that could cause actual results to differ from the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, especially "Item 1. Description of Business" (including the "Risk Factors" section of Item 1) and "Item 6. Management's Discussion and Analysis or Plan of Operation" of the Company's 2005 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, 2005. 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, 2006, we had working capital of \$159,350.

Our operations generated losses in 2005 and continue to generate losses in 2006. Our cash increased \$985,733 during the six months ended June 30, 2006 with operating activities using \$1,896,247 of cash. We funded operations through cash from equity offerings and the sale of a portion of our video patents. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2006 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 2006.

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.

### **2006 Preferred Equity**

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

### **2005 Preferred Equity**

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

### **Patent Sale**

On November 10, 2005, Axxess entered into an agreement to sell certain of our video patents to Paolo Visual Data LLC for \$600,000. Upon closing, Axxess did receive a perpetual royalty free license to continue to utilize the patents. The transaction closed and funded in January 2006.

### **Sales and Marketing Initiatives**

In the past our sales volume has not been sufficient to sustain our operations. During 2005 we were able, through financing, to initiate a new marketing emphasis, which is intended by us to build sales, of our RFID products. During 2006, we are optimistic about our ability to grow the business. We continue to see broad-based awareness and acceptance of RFID on a world-wide basis. Our approach for 2006 has been:

1. We modified our indirect approach to more of a direct approach to gain visibility into the sales cycle;
2. We continue to add integrators and partners to our sales channel;
3. We have hired a new Vice President of Sales and expect to hire additional sales personnel.

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, 2006 Compared to Three Months Ended June 30, 2005**

*Sales and Gross Profit.* Sales for the three months ended June 30, 2006 were \$354,475 and for the three months ended June 30, 2005 were \$206,818. Cost of sales for the three months ended June 30, 2006 were \$189,215 and for the three months ended June 30, 2005 were \$123,545. The gross profit for the three months ended June 30, 2006 was \$165,260 and \$83,273 for the three months ended June 30, 2005. The majority of the increase in sales is a result of increase in the market acceptance of our Active RFID products. The increased margin percentage relates to increased efficiencies in our manufacturing process and lower cost from our production staff. We continue to expect the margin percentage will continue to be stable in the 40% to 50% range.

*Operating Expenses.* Operating expenses were \$1,065,996 for the three months ended June 30, 2006 and \$841,188 for the three months ended June 30, 2005. The majority of the increase relates to expensing of our stock options.

Research and development expenses were \$259,898 for the three months ended June 30, 2006 and \$207,739 for the three months ended June 30, 2005. The majority of the increase relates to the continued development of the next generation RFID tag. We have completed the feasibility study and are working on the actual development phase. The remainder of the increase relates to stock based compensation that was started in 2006.

Corporate general and administrative expenses were \$503,695 for the three months ended June 30, 2006 and \$335,520 for the three months ended June 30, 2005. The increase is largely related to the expensing of stock based compensation that started in 2006. However, during 2006 we also began paying directors fees for our outside directors; we had an increase in investor relations activities and the shareholders meeting was held during the second quarter of 2006.

Selling and marketing expenses were \$298,112 for the three months ended June 30, 2006 and \$290,018 for the three months ended June 30, 2005. The majority of the increase relates to stock-based compensation that was started in 2006. We also had an increase in recruiting expenses, travel expenses and advertising. We were able to offset the majority of the increases with a reduction in trade show expenses and salary expense relating to timing of the new vice president of sales during the second quarter of 2006.

Depreciation and amortization expenses were \$4,291 for the three months ended June 30, 2006 and \$7,911 for the three months ended June 30, 2005. The decrease is a result decreased depreciation expense as a result of the age of our equipment.

*Other income (expenses, net).* Other income (expenses), net, were (\$65,076) for the three months ended June 30, 2006 and (\$181,493) for the three months ended June 30, 2005. Interest expense was \$159,227 lower during the three months ended June 30, 2006, compared to the three months ended June 30, 2005, reflecting a decrease in the amortization of the debt discount related to the convertible notes and the deferred debt issuance costs and lower debt levels. We also had a decrease of \$42,810 of recognized income during the three months ended June 30, 2006 compared to the same period in 2005, relating to the expiration of the statute of limitation on old trade payables.

*Net Loss.* Net loss was \$965,812 for the three months ended June 30, 2006, compared to a loss of \$939,408 for the three months ended June 30, 2005. The increase is mainly related to the expensing of stock based compensation that began in 2006, by an increase in research and development relating to the next generation product development, the paying of directors' fees to our independent directors that began in 2006 and increased investor relations activities. Offset by a reduction in trade show expenses and reduced salary expenses.

*Preferred Stock dividend requirements.* Preferred Stock dividend requirements were \$725,867 for three months ended June 30, 2006 and \$80,847 for three months ended June 30, 2005. During 2006 we expensed \$645,020 related to the 2006 preferred equity offering. Recurring preferred Stock dividend requirements were \$80,847 in 2006 and 2005.

## **Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005**

*Sales and Gross Profit.* Sales for the six months ended June 30, 2006 were \$808,038 and for the six months ended June 30, 2005 were \$447,976. Cost of sales for the six months ended June 30, 2006 were \$463,845 and for the six months ended June 30, 2005 were \$247,893. The gross profit for the six months ended June 30, 2006 was \$344,193 and \$200,083 for the six months ended June 30, 2005. The majority of the increase in sales is a result of increase in the market acceptance of our Active RFID products. The margin continues to be stable in the 40% - 50% range.

*Operating Expenses.* Operating expenses were \$2,402,166 for the six months ended June 30, 2006 and \$1,645,002 for the six months ended June 30, 2005. The majority of the increase relates to expensing of our stock options and the development of the next generation RFID tag, offset by a reduction in contract labor and salary expenses.

Research and development expenses were \$863,587 for the six months ended June 30, 2006 and \$391,920 for the six months ended June 30, 2005. The largest portion of the increase relates to the continued development of the next generation RFID product. The remainder of the increase relates to stock based compensation that was started in 2006. We also had small decrease in contract labor.

Corporate general and administrative expenses were \$965,105 for the six months ended June 30, 2006 and \$690,983 for the six months ended June 30, 2005. The majority of the increase is related to the expensing of stock based compensation that started in 2006. However, during 2006 we also began paying directors fees for our outside directors; we had an increase in outside service fees and the shareholders meeting was held during the second quarter of 2006.

Selling and marketing expenses were \$564,357 for the six months ended June 30, 2006 and \$545,115 for the six months ended June 30, 2005. The majority of the increase relates to stock-based compensation that was started in 2006. We also had an increase in recruiting expenses, commissions, travel expenses and advertising. We were able to offset the majority of the increases with a reduction in trade show expenses and salary expense relating to timing of the new vice president of sales during the second quarter of 2006.

Depreciation and amortization expenses were \$9,117 for the six months ended June 30, 2006 and \$16,984 for the six months ended June 30, 2005. The decrease is related to lower depreciation expense as a result of the age of the equipment.

*Other income (expenses), net.* Other income (expenses), net, were \$460,050 for the six months ended June 30, 2006 and (\$237,921) for the six months ended June 30, 2005. Interest expense was \$229,102 lower during the six months ended June 30, 2006, compared to the six months ended June 30, 2005, reflecting a decrease in the amortization of the debt discount related to the convertible notes that converted during the period and lower debt levels. We also recognized \$42,685 during the six months ended June 30, 2006 relating to the expiration of the statute of limitations relating to accounts payables compared to \$173,816 during the same period of 2005. We expect to recognize a total of \$88,880 during 2006 relating to the amount of expiring accounts payable claims. We also sold a portion of our video patent portfolio for \$600,000 during the three months ended March 31, 2006.

*Net Loss.* Net loss was \$1,597,923 for the six months ended June 30, 2006, compared to a loss of \$1,682,840 for the six months ended June 30, 2005. The decrease was largely driven by the gain on sale of intellectual property during 2006, offset by the increase by the expensing of stock based compensation that began in 2006 and by an increase in research and development relating to the next generation product development.

*Preferred Stock dividend requirements.* Preferred Stock dividend requirements were \$2,295,959 for the six months ended June 30, 2006 and \$2,222,091 for the six months ended June 30, 2005. During 2006 we expensed \$645,020 related to the 2006 preferred equity offering and \$1,489,245 related to the second close of the 2005 preferred equity offering compared to \$2,060,397 related to the warrant inducement we offered to warrant holders to exercise their warrants early in January 2005. Recurring preferred Stock dividend requirements were \$161,694 in 2006 and 2005.

### **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**

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

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

Under the supervision and with the participation of our management, including our principal executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"), as of June 30, 2006. Based on this evaluation, our principal executive officer and our chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information was accumulated and communicated to our chief executive officer and chief financial officer, in a manner that allowed for timely decisions regarding required disclosure.

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

During the period ended June 30, 2006, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

Axcess is engaged in a number of lawsuits with approximately five vendors who claim they are owed amounts from \$500 to \$45,000, which aggregates in total \$80,116. We are currently defending or seeking to settle each of the vendor's claims. At June 30, 2006, 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, 2006, 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, 2006 we had one employees exercise 2,000 stock options.

#### ***2006 Preferred Equity***

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

### **Item 3. Defaults Upon Senior Securities**

None

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

On June 20, 2006, an annual meeting of the stockholders was held in New York, New York, whereby the stockholders voted on the following proposals:

1. Proposal to elect five directors to the board of directors to hold office until the next annual meeting of stockholders or until their respective successors are duly elected and qualified. The stockholders approved the proposal by the following vote:

<u>Director</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Total Votes</u>
Richard C.E. Morgan	19,926,335	3,897	19,930,232
Allan Griebenow	19,922,737	7,495	19,930,232
Paul J. Coleman	19,927,235	2,997	19,930,232
Robert J. Bertoldi	19,921,854	8,378	19,930,232
Robert F. Hussey	19,929,052	1,180	19,930,232

2. Proposal to ratify the board of directors appointment of Hein & Associates LLP, as the independent registered public accountants for the year ending December 31, 2006. The stockholders approved the proposal by the following vote:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstain</u>	<u>Total Votes</u>
19,927,162	1,385	1,685	19,930,232

3. Proposal to amend and restate the Company's Certificate of Incorporation to, among other things, increase the number of authorized Common Stock, from 50,000,000 shares to 70,000,000 shares and the authorized Preferred Stock from 7,000,000 shares to 10,000,000 shares and to eliminate the 2,250,000 shares of Non-Voting common stock. The stockholders approved the proposal by the following vote:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstain</u>	<u>Total Votes</u>
19,918,560	9,557	2,115	19,930,232

4. Proposal to ratify actions taken by our Board of Directors and Officers regarding prior fund raising and restructuring activities of the Company. The stockholders approved the proposal by the following vote:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstain</u>	<u>Total Votes</u>
19,926,907	3,280	45	19,930,232

5. Proposal to transact such other business as may properly come before the meeting or any adjournment thereof. The stockholders approved the proposal by the following vote:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstain</u>	<u>Total Votes</u>
19,893,599	32,688	3,945	19,930,232

#### 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	Stock Purchase agreement for the 2006 Preferred Equity Offering.
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.

(b) Reports on Form 8-K:

<u>Date</u>	<u>Description</u>
06/09/06	On June 9, 2006, Axxess International Inc. filed an 8-K announcing they closed on \$1,200,000 of the 2006 Preferred Equity round and hired a new Vice President of Sales

## 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 11, 2006

**AXCESS INTERNATIONAL INC.**  
**3208 Commander Drive**  
**Carrollton, Texas 75006**

May 31, 2006

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Re: Stock Purchase Agreement**

Ladies and Gentlemen:

This Agreement sets forth the terms and conditions on which Access International Inc., a Delaware Corporation, of 3208 Commander Drive, Carrollton, Texas, 75006 (the "Company") will issue and sell to \_\_\_\_\_ (the "Purchaser") shares of Series 2006 Preferred Stock of the Company, par value \$0.01 per share (*the "Preferred"*) and Series 2006 Warrants (*the "Warrants"*) which provide the right to purchase shares of the Company's Common Stock.

1. Type of Security and Purchase Price. The Purchaser hereby agrees to subscribe for and purchase from the Company, and the Company hereby agrees to issue and sell to the Purchaser \_\_\_\_\_ Preferred Shares and \_\_\_\_\_ number of Warrants. The purchase price shall be \_\_\_\_\_ payable in cash. Preferred shares shall bear no dividends. The Warrants shall have an exercise life of five (5) years following closing and the exercise price of the warrants is Two Dollar and no Cents (\$2.00). Each Warrant will be callable by the Company if and when the Company's common stock share price exceeds \$4.00 per share for 20 consecutive trading days. The purchase and sale shall be effective as of December 22, 2005 (*the "Effective Date"*).

2. Purchase Dates and Delivery of Shares. The Company closed on the sale during May of 2006. Upon its receipt of the purchase price, the Company shall issue and sell to the Purchaser the number of Preferred and Warrants based on paragraph 1 above. On and as of the Effective Date, the Company shall execute and deliver to the Purchaser stock and warrant certificates in proper form representing the Shares.

3. Securities Act Legend; Registration Rights.

3.1 The Shares will not be registered under the Securities Act of 1933, as amended (*the "Securities Act"*). Prior to registration, certificates representing the Shares shall bear a restrictive legend substantially to the effect of the following:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR APPLICABLE STATE SECURITIES LAWS, OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. THEY MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THOSE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION THEREFROM. ADDITIONAL RESTRICTIONS REGARDING THE TERMS UNDER WHICH THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE CONVERTED INTO NON-VOTING COMMON STOCK OF THE COMPANY ARE SET FORTH IN THE CERTIFICATE OF DESIGNATIONS, PREFERENCES, POWERS AND RIGHTS OF THE SERIES 2003 PREFERRED STOCK.

3.2 The Company has committed to register the Common Stock Underlying the Series 2006 Preferred Stock and Warrants under Form SB-2 (or comparable form, the "Registration Statement") within 90 days of the date of the last closing of the 2006 Preferred Equity and to make its best efforts to have the Registration Statement declared effective at the earliest possible date.

4. Representations and Warranties by the Company. The Company hereby represents and warrants to the Purchaser as follows:

4.1 The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the corporate power and authority to execute and deliver this Agreement, to issue the Shares on the basis described herein and otherwise to perform its obligations under this Agreement.

4.2 The execution and delivery by the Company of this Agreement, the issuance of the Shares, and the performance by the Company of its obligations hereunder, have been duly authorized by all requisite corporate action on the part of the Company and will not (i) violate any provision of law, statute, rule or regulation or any order of any court or other agency of government, (ii) conflict with or violate the Certificate of Incorporation (after amendment to authorize the additional shares of non-voting common stock) or By-Laws of the Company, in each case as amended, or (iii) violate, conflict with or constitute (with due notice or lapse of time or both) a default under any indenture, mortgage, lease, license, agreement or other contract or instrument or result in the creation or imposition of any lien, charge or encumbrance of any nature upon the properties or assets of the Company or any of its subsidiaries, in each case if such violation, conflict, default, lien, charge or encumbrance would have a material adverse effect on the Company.

4.3 This Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding obligation of the Company, enforceable in accordance with its terms, except to the extent the enforceability hereof may be limited by applicable bankruptcy, moratorium or similar laws affecting the rights of creditors generally.

4.4 Based in part upon the representations and warranties of the Purchaser contained in this Agreement, no registration or filing with, or consent or approval of, or other action by, any federal, state or other governmental department, commission, board, bureau, agency or instrumentality or any third party is or will be necessary for the execution and delivery of this Agreement by the Company and the issuance of the Shares hereunder, other than the filing of a notice of sale on Form D with the Securities and Exchange Commission and any other required jurisdictions in accordance with the rules and regulations thereof under the Securities Act and applicable state law.

4.5 The Preferred Shares are duly authorized, validly issued, fully paid and non-assessable shares of Series 2005 Preferred Stock, and are not subject to any preemptive rights.

5. Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company as follows:

5.1 The Purchaser is acquiring the Shares for its own account, for investment and not with a view to the distribution thereof within the meaning of the Securities Act.

5.2 The Purchaser understands that the Shares have not been registered under the Securities Act, by reason of their issuance by the Company in transactions exempt from the registration requirements of the Securities Act, and that the Common shares must be held by the Purchaser until registered under the Securities Act.

5.3 The Purchaser further understands that the exemption from registration afforded by Rule 144 (the provisions of which are known to it) promulgated under the Securities Act depends on the satisfaction of various conditions, and that, if applicable, Rule 144 may afford the basis for sales only in limited amounts, after compliance with the holding periods and other provisions thereof.

5.4 The Purchaser understands that its investment hereunder involves substantial risks and represents and warrants that it has made such independent examinations and investigations of the Company as it has deemed necessary in making its investment decision, and the Purchaser further represents and warrants that it has had sufficient access to the officers, directors, books and records of the Company as it has deemed necessary to conduct such examination and investigation and make such investment decision. Purchaser agrees to keep confidential the confidential information provided for the purpose of evaluating the purchase herein.

5.5 The Purchaser is a qualified investor able to bear the economic risk of the investment contemplated by this Agreement and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment contemplated by this Agreement.

6. Reaffirmation of Representations and Warranties. The date Units are purchased shall constitute a reaffirmation of each and every one of the representations and warranties of the Company set forth in Section 5 of

this Agreement and those of the Purchaser set forth in Section 6 of this Agreement as if made as of each Effective Date, unless otherwise restated or corrected by either the Purchaser or the Company, as the case may be.

7. Miscellaneous.

7.1 This Agreement constitutes our entire agreement with respect to the subject matter hereof. This Agreement may not be modified or amended or any provision hereof waived except by an instrument in writing signed by the Company and the Purchaser.

7.2 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The rights of the Purchaser hereunder shall be assignable to any holder of the Shares. Except as provided in the immediately preceding sentence, this Agreement and the rights of the Purchaser hereunder shall not be assignable, and any purported assignment hereof or thereof shall be void.

7.3 This Agreement may be executed in any number of counterparts and on separate counterparts, each of which shall be an original instrument, but all of which together shall constitute a single agreement. One or more signature pages from any counterpart of this Agreement may be attached to any other counterpart of this Agreement without in any way changing the effect thereof. This Agreement shall be effective when executed and delivered by the Company and the Purchaser.

7.4 All notices, requests, demands, consents, waivers, or other communications made hereunder to any party or holder of Shares shall be in writing and shall be deemed to have been duly given if delivered personally or sent by nationally-recognized overnight courier, facsimile or by first class registered or certified mail, return receipt requested, postage prepaid, addressed to such party at the address set forth below:

if to the Company, to:

Access International Inc.  
3208 Commander Drive  
Carrollton, TX 75006  
Attention: Chief Financial Officer

with a copy to:

Vial, Hamilton, Koch, and Knox  
1700 Pacific, Suite 2800  
Dallas, TX 75201  
214-712-4441  
Attention: Craig Ongley; and

if to the Purchaser:

to the Purchaser at its address first set forth above,

or to such other address as the party to whom such communication is to be given may have furnished to the other party in writing in accordance herewith. All such notices, requests, demands, consents, waivers or other communications shall be deemed to have been delivered (i) in the case of personal delivery, on the date of delivery, (ii) if sent by facsimile, on the date sender receives a confirmation confirming receipt, (iii) if sent by overnight courier, on the next business day following the date sent and (iv) in the case of mailing, on the third business day following such mailing.

7.5 All representations, warranties and agreements contained herein shall survive the execution and delivery of this Agreement and the sale of the Shares hereunder.

7.6 This Agreement, and all rights, obligations and liabilities hereunder, shall be construed according to the laws of the State of Texas applicable to contracts made and to be performed wholly therein. Any judicial proceeding brought against the Company to enforce, or otherwise in connection with, this Agreement may be brought in any court of competent jurisdiction in the City of New York, and, by execution and delivery of this Agreement, the Company (i) accepts, generally and unconditionally, the nonexclusive jurisdiction of such courts and any related appellate court and irrevocably agrees to be bound by any final judgment rendered thereby in connection with this Agreement and (ii) irrevocably waives any objection it may now or hereafter have as to the venue of any such proceeding brought in such a court or that such a court is an inconvenient forum.

If the foregoing correctly sets forth your understanding of our agreement, please so indicate by signing and returning to the Company the enclosed counterpart of this Agreement.

Very truly yours,

AXCESS INTERNATIONAL INC.

By: \_\_\_\_\_  
Allan Griebenow, Chief Executive Officer

The undersigned agrees with and accepts the foregoing terms and provisions as of the date first above written.

By: \_\_\_\_\_,

Printed Name: \_\_\_\_\_

**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 11, 2006

/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 11, 2006

/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, 2006, 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 11, 2006

**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, 2006, 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 11, 2006