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

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

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark weather 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 November 10, 2006: 28,657,313

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) September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 238,050	$ 236,869
Accounts receivable - trade, net of allowance for doubtful accounts of $17,095 and $17,389 for 2006 and 2005, respectively.	189,765	141,200
Inventory, net	472,309	112,270
Prepaid expenses and other	123,608	72,628
Total current assets	1,023,732	562,967
Property, plant and equipment, net	20,675	29,387
Deferred debt issuance costs	211,204	337,926
Other assets	3,096	2,699
Total assets	$ 1,258,707	$ 932,979
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 181,386	$ 252,155
Accrued liabilities	1,082,133	959,149
Notes payable:		
Convertible notes payable (includes $80,000 with related parties in 2005)	—	396,666
Discounts on convertible debt	—	(5,520)
Dividends payable	56,859	208,780
Total current liabilities	1,320,378	1,811,230
Notes payable to stockholders	3,365,500	3,709,071
Total liabilities	4,685,878	5,520,301
Commitments and contingencies (Notes 1 and 2)		
Stockholders' deficit:		
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, $.01 par value, 70,000,000 and 50,000,000 shares authorized in 2006 and 2005, respectively; 28,657,313 shares issued and outstanding in 2006 and 27,437,111 shares issued and outstanding in 2005	286,573	274,371
Shares of common stock to be issued, 5,333 shares as of December 31, 2005	—	53
Non-voting convertible common stock, $.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	157,270,169	153,436,725
Accumulated deficit	(161,047,148)	(158,332,186)
Total stockholders' deficit	(3,427,171)	(4,587,322)
Total liabilities and stockholders' deficit	$ 1,258,707	$ 932,979

See accompanying notes to unaudited consolidated financial statements.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATION
(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Sales	$ 369,621	$ 204,711	$ 1,177,659	$ 652,687
Cost of sales	197,379	109,797	661,224	357,689
Gross profit	172,242	94,914	516,435	294,998
Expenses:				
Research and development	245,888	177,221	1,109,476	569,141
General and administrative	444,010	341,286	1,409,115	1,032,269
Selling and marketing	291,838	237,752	856,195	782,867
Depreciation and amortization	4,463	5,734	13,580	22,718
Operating expenses	986,199	761,993	3,388,366	2,406,995
Loss from operations	(813,957)	(667,079)	(2,871,931)	(2,111,997)
Other income (expense):				
Interest expense	(86,994)	(193,785)	(269,629)	(605,522)
Gain in vendor settlements	27,343	75,144	70,027	248,960
Other	—	—	600,000	—
Other expense, net	(59,651)	(118,641)	400,398	(356,562)
Net loss	(873,608)	(785,720)	(2,471,533)	(2,468,559)
Preferred stock dividend requirements:				
Recurring	(81,735)	(81,735)	(243,428)	(243,428)
Warrant inducement	—	—	—	(2,060,397)
2005 Preferred equity offering	—	—	(1,489,245)	—
2006 Preferred equity offering	—	—	(645,020)	—
Preferred stock dividend requirements	(81,735)	(81,735)	(2,377,693)	(2,303,825)
Net loss applicable to common stock	$ (955,343)	$ (867,455)	$ (4,849,226)	$ (4,772,384)
Basic and diluted net loss per share	$ (0.03)	$ (0.03)	$ (0.17)	$ (0.18)
Weighted average shares of common stock outstanding	28,516,329	27,288,181	28,218,656	26,654,901

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities:		
Net loss	$ (2,471,533)	$ (2,468,559)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	13,580	22,718
Amortization of financing discount and issuance costs	132,243	434,992
Gain on vendor settlements and statutory write-off of payables	(70,000)	(248,960)
Gain on sale of intellectual property	(600,000)	—
Stock based compensation expense	538,564	—
Changes in operating assets and liabilities:		
Accounts receivable	(48,565)	(16,246)
Inventory	(360,039)	(59,667)
Prepaid expenses and other	(50,980)	(16,261)
Other assets	(397)	1,215
Accounts payable and accrued expenses	142,323	245,783
Net cash used by operating activities	(2,774,804)	(2,104,985)
Cash flow from investing activities:		
Capital expenditures	(4,868)	(7,491)
Proceeds for sale of intellectual property	600,000	—
Net cash provided by (used in) investing activities	595,132	(7,491)
Cash flow from financing activities:		
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	7,680	22,040
Principal payments on financing agreements	(343,571)	(223,021)
Net cash provided by financing activities	2,180,853	1,732,794
Net change in cash and cash equivalents	1,181	(379,682)
Cash and cash equivalents, beginning of period	236,869	461,101
Cash and cash equivalents, end of period	$ 238,050	$ 81,419
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Conversions of notes payable into common stock	$ 396,667	$ 290,000
Conversions of accrued interest into common stock	20,110	49,257
Conversion of accrued dividends into common stock	395,349	432,446
Preferred stock dividends accrued	243,428	243,429

See accompanying notes to unaudited consolidated financial statements.

(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. Axcess 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 nine months ended September 30, 2006, operating activities utilized approximately $2.8 million of cash. During the same period 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 September 30, 2006, the Amphion Group owns approximately 61% 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 September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Raw materials	$ 37,037	$ 10,887
Work-in-process	109	109
Finished goods	435,163	101,274
	$ 472,309	$ 112,270

(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 nine months ended September 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 nine months period ended September 30, 2006 of $163,291 and $538,564, respectively to operating expenses. This expense increased net loss per share by $0.006 for the three months ended September 30, 2006 and $0.019 for the nine months ended September 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 Nine Months Periods Ended September 30, 2005

For the three and nine month periods ended September 30, 2005, the Company accounted for its stock-based compensation plan under Accounting Principles Board ("ABP") Opinion No. 25, Accounting for Stock Issued to Employees. Since all options granted during the periods ended September 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:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Pro forma impact of fair value method (FAS 148)		
Reported net loss attributed to common stock	$ (867,455)	$ (4,772,384)
Less: fair value of employee stock compensation	(158,935)	(531,383)
Pro forma net loss attributed to common stock	(1,026,390)	(5,303,767)
Loss per common share		
Basic and diluted net loss per share – as reported	$ (0.03)	$ (0.18)
Basic and diluted net loss per share – pro forma	$ (0.04)	$ (0.20)
Weighted average Black-Scholes fair value assumptions		
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 September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Research and development expense	$ 32,424	$ 27,545	$ 110,514	$ 85,702
General and administrative expense	93,728	105,903	324,162	340,963
Selling and marketing expense	37,139	25,487	103,888	104,718
Total	$ 163,291	$ 158,935	$ 538,564	$ 531,383

Stock Options for the Nine Month Ended September 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 nine months ended September 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 nine month period ended September 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	(19,200)	0.40		
Options forfeited	(164,412)	1.47		
Options outstanding at September 30, 2006	4,466,873	1.83	6.77	$424,294
Options exercisable at September 30, 2006	2,647,869	2.19	6.09	$424,294
Options available for grants as of September 30, 2006	3,568,000			

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 nine month period ended September 30, 2006, was approximately $13,000. Cash received from stock options exercised during the nine months ended September 30, 2006 was $7,680. 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 September 30, 2006 were 3,568,000.

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

	Options Outstanding			Options Exercisable	
Range of Exercise Price	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	695,400	6.30	$0.40	695,400	$0.40
$1.01 - $2.00	2,520,258	8.32	1.40	738,754	1.81
$2.01 – $3.00	789,375	3.97	2.64	751,875	2.53
$3.01 - $4.00	193,840	4.08	3.88	193,840	3.88
$4.01 - $5.00	20,000	4.67	4.55	20,000	4.55
$5.01 - $6.25	248,000	3.48	5.80	248,000	5.80
Total	4,466,873	6.77	1.83	2,647,869	2.19

Total estimated unrecognized compensation cost from unvested stock options as of September 30, 2006 was approximately $1.6 million, which is expected to be recognized over a weighted average period of approximately 2.3 years.

The Company did not grant any stock options during the quarter ended September 30, 2006 or 2005.

(2) Contingencies

Axcess is engaged in a number of lawsuits with approximately five vendors who claim they are owed amounts from $200 to $45,000, which aggregates in total $76,326. We are currently defending or seeking to settle each of the vendor's claims. At September 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	—
September 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 September 30, 2006 there were $55,269 of dividends accrued for Series 2003B Preferred Stock. On July 28, 2006, the Board elected to pay all accrued dividends with additional shares. Therefore, $267,335 of accrued dividends were paid by issuing 297,038 shares of restricted Axcess common shares. Dividends payable were $38,448 and $220,280 for Series 2003B Preferred stock at September 30, 2006 and December 31, 2005, respectively. As of September 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 September 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 September 30, 2006 there were $26,466 of dividends accrued for Series 2004 Preferred Stock. On July 28, 2006, the Board elected to pay all accrued dividends with additional shares. Therefore, $128,014 of accrued dividends were paid by issuing 142,237 shares of restricted Axcess common shares. Dividends payable were $18,411 and $71,918 for Series 2004 Preferred stock at September 30, 2006 and December 31, 2005, respectively. As of September 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 September 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 lease twenty (20) consecutive trading days. The Company used 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 Axcess’ 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 $1,200,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006 Preferred and consists of 1,200,000 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to one basis at $1.00. In addition, the Company issued 600,000 warrants to purchase the Company’s common stock exercisable for five years at $2.00 per share. Each warrant will be callable by the Company if and when the Company’s common stock share price exceeds $5.00 per share for at least twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

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 September 30, 2006 the Company had three customers that combined accounted for 28% of overall revenue. During the three months ended September 30, 2005 we had two customers that combined accounted for 32% of the overall revenue.

During the nine months ended September 30, 2006 we had one customer that accounted for 10% of the overall revenue. During the nine months ended September 30, 2005 we had no single customer that accounted 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 September 30, 2006, we had working capital deficit of $296,646.

Our operations generated losses in 2005 and continue to generate losses in 2006. Our cash increased $1,181 during the nine months ended September 30, 2006 with operating activities using $2,774,804 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 $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 lease twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

2005 Preferred Equity

On March 14, 2006 the Company raised $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 lease twenty (20) consecutive trading days. The Company used the proceeds for general working capital.

Patent Sale

On November 10, 2005, Axcess entered into an agreement to sell certain of our video patents to Paolo Visual Data LLC for $600,000. Upon closing, Axcess 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 September 30, 2006 Compared to Three Months Ended September 30, 2005

Sales and Gross Profit. Sales for the three months ended September 30, 2006 were $369,621 and for the three months ended September 30, 2005 were $204,711. Cost of sales for the three months ended September 30, 2006 were $197,379 and for the three months ended September 30, 2005 were $109,797. The gross profit for the three months ended September 30, 2006 was $172,242 and $94,914 for the three months ended September 30, 2005. The majority of the increase in sales is a result of increase in the market acceptance of our Active RFID products. We continue to expect the margin percentage will continue to be stable in the 40% to 50% range.

Operating Expenses. Operating expenses were $986,199 for the three months ended September 30, 2006 and $761,993 for the three months ended September 30, 2005. The majority of the increase relates to expensing of our stock options.

Research and development expenses were $245,888 for the three months ended September 30, 2006 and $177,221 for the three months ended September 30, 2005. The increase is largely related to stock based compensation that was started in 2006 and the recruiting fee associated with our new Vice President of Engineering.

Corporate general and administrative expenses were $444,010 for the three months ended September 30, 2006 and $341,286 for the three months ended September 30, 2005. The majority of the increase relate to the expensing of stock based compensation that started in 2006. However, during 2006 we also began paying directors fees for our outside directors and we had an increase in investor relations activities.

Selling and marketing expenses were $291,838 for the three months ended September 30, 2006 and $237,752 for the three months ended September 30, 2005. The majority of the increase relates to stock-based compensation that was started in 2006. We also had an increase in salaries as we increase staff, as well as an increase in travel as we continue to transform the selling model to more of a direct model.

Depreciation and amortization expenses were $4,463 for the three months ended September 30, 2006 and $5,734 for the three months ended September 30, 2005. The decrease is a result of decreased depreciation expense as a result of the age of our equipment.

Other expenses, net. Other expenses, net, were $59,651 for the three months ended September 30, 2006 and $118,641 for the three months ended September 30, 2005. Interest expense was $106,791 lower during the three months ended September 30, 2006, compared to the three months ended September 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 $47,801 of recognized income during the three months ended September 30, 2006 compared to the same period in 2005, relating to the expiration of the statue of limitation on old trade payables.

Net Loss. Net loss was $873,608 for the three months ended September 30, 2006, compared to a loss of $785,720 for the three months ended September 30, 2005. The increase is mainly related to the expensing of stock based compensation that began in 2006, the paying of directors' fees to our independent directors that began in 2006 and increased investor relations activities.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $81,735 for three months ended September 30, 2006 and 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Sales and Gross Profit. Sales for the nine months ended September 30, 2006 were $1,177,659 and for the nine months ended September 30, 2005 were $652,687. Cost of sales for the nine months ended September 30, 2006 were $661,224 and for the nine months ended September 30, 2005 were $357,689. The gross profit for the nine months ended September 30, 2006 was $516,435 and $294,998 for the nine months ended September 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 $3,388,366 for the nine months ended September 30, 2006 and $2,406,995 for the nine months ended September 30, 2005. The majority of the increase relates to expensing of our stock options and the development of the next generation RFID tag.

Research and development expenses were $1,109,476 for the nine months ended September 30, 2006 and $569,141 for the nine months ended September 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.

Corporate general and administrative expenses were $1,409,115 for the nine months ended September 30, 2006 and $1,032,269 for the nine months ended September 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 a decrease in bad debt expense.

Selling and marketing expenses were $856,195 for the nine months ended September 30, 2006 and $782,867 for the nine months ended September 30, 2005. The majority of the increase relates to stock-based compensation that was started in 2006. We also had an increase in travel expenses and advertising. We were able to offset a significant portion of the increases with a reduction in trade show expenses and salary expense relating to timing of new employees.

Depreciation and amortization expenses were $13,580 for the nine months ended September 30, 2006 and $22,718 for the nine months ended September 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 $400,398 for the nine months ended September 30, 2006 and ($356,562) for the nine months ended September 30, 2005. Interest expense was $335,893 lower during the nine months ended September 30, 2006, compared to the nine months ended September 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 $70,027 during the nine months ended September 30, 2006 relating to the expiration of the statue of limitations relating to accounts payables compared to $248,960 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 nine months ended September 30, 2006.

Net Loss. Net loss was $2,471,533 for the nine months ended September 30, 2006, compared to a loss of $2,468,559 for the nine months ended September 30, 2005. The increase was largely driven 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, offset by the gain on sale of intellectual property during 2006.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $2,377,693 for the nine months ended September 30, 2006 and $2,303,825 for the nine months ended September 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 $243,428 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 September 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 September 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 $200 to $45,000, which aggregates in total $76,326. We are currently defending or seeking to settle each of the vendor's claims. At September 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 September 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 September 30, 2006 we had one employee exercise 12,900 stock options.

On July 28, 2006 the Board elected to convert $395,349 of accrued and unpaid dividends into 439,275 shares of restricted Axcess common stock.

Warrants

During the three months ended September 30, 2006 we had 117,999 warrants expire unexercised and during the nine months ended September 30, 2006 we had 600,141 warrants expire unexercised.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

On November 9, 2006, AXCESS closed on a convertible loan for $140,000 of additional working capital. The loan is from the Company's largest shareholder group, Amphion Innovations plc (AMP.L). The loan is anticipated to be converted into shares of preferred stock bearing no dividends and warrants to purchase the Company's common stock exercisable for five years at $1.50 per share during the fourth quarter of 2006 as long as the company is able to close on a preferred equity offering of at least 700,000. The loan bears interest at 10% and is due on December 31, 2006.

On November 15, 2006 we issued a press release announcing our third quarter financial results highlighting our increased revenue over the same third quarter period of 2005, the narrowing of our loss per share to $0.03 per share and announcing a new significant customer, PriceWaterhouseCoopers. A copy of the press release is attached to this report as Exhibit 99.1.

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

(a) Exhibits:

Exhibit No.	Description
31.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	On November 15, 2006 the Company issued a press release that announced operating results for its third quarter and nine months ended September 30, 2006.

(b) Reports on Form 8-K:

Date	Description
09/21/06	On September 21, 2006, the Company issued a press release giving certain guidance stating that its annual revenue for fiscal year 2006 will substantially exceed its 2005 fiscal year revenues.
11/13/06	8-K disclosing that on November 9, 2006 the Company closed on an Unsecured Convertible Note, between the Company and Amphion Innovations plc.

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)

November 15, 2006

Exhibit 31.1

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

I, Allan Griebenow, certify that:

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

Date: November 15, 2006

/s/ ALLAN GRIEBENOW

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

Exhibit 31.2

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

I, Allan Frank, certify that:

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

Date: November 15, 2006

/s/ ALLAN L. FRANK

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

Exhibit 32.1

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

In connection with the Quarterly Report of AXCESS International Inc. (the "***Company***") on Form 10-QSB for the period ended September 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: November 15, 2006

Exhibit 32.2

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

In connection with the Quarterly Report of AXCESS Inc. (the "***Company***") on Form 10-QSB for the period ended September 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: November 15, 2006

Exhibit 99.1

AXCESS INTERNATIONAL ANNOUNCES THIRD QUARTER 2006 RESULTS

Dallas – November 15, 2006 – AXCESS International Inc. (OTCBB: AXSI), a leading provider of Radio Frequency Identification (RFID) solutions and Real Time Location Systems (RTLS), today reported results for the third quarter ended September 30, 2006.

Highlights for the Third Quarter Ended September 30, 2006

- YE Record RFID Revenue to be Achieved
- Year-to-date Revenue is Up 80% Over 2005
- Third Quarter Revenue was Up 81% Over Third Quarter 2005
- The Gross Margin Improved to 47%
- Third Quarter Loss Per Share of $.03 Within Range of Prior Guidance
- The Early Stage RFID Market Continues to Mature
- Further Success Achieved in Physical IT Asset Management Solutions
- Increase in Number of Signed Channel Partners
- Senior Technical Staff Augmented
- Set to Launch Marketing of New Technology

"AXCESS' revenue growth continued upward in the third quarter, with year-to-date revenue eclipsing last year's total revenue. We will have record year-end revenue in 2006," said Allan Griebenow, President and CEO of AXCESS. Mr. Griebenow further stated, "The RFID market continues to mature. Our application for the management and security of physical IT assets has been well received, exemplified by the announcement of a new world class user, PriceWaterhouseCoopers. The accelerating loss of personal privacy information and corporate intellectual property continues to raise concerns and generate new legal mandates. Shortly after the quarter closed, we introduced our revolutionary new technology, the Enterprise Dot™. As the smallest, lowest cost and most feature rich wireless System-on-a-Chip platform in the world, AXCESS further extends its lead in RFID, RTLS, and wireless sensing solutions."

Corporate and Industry Developments

AXCESS provides complete RFID system solutions for improving productivity and security in industry and government. These systems are based on "active" RFID technology, where wireless "tags" use on-board battery power to transmit signals from a few feet to hundreds of feet in order to automatically identify, track, monitor, and protect people, assets, and vehicles. Active RFID systems (as opposed to passive systems which have no battery power on-board) enable flexible implementations which can serve multiple purposes. AXCESS' unique patented technology enables tags to wake-up on-demand as needed to provide precise location determination and enable accurate and reliable information for real-time decision making. The ability to have tags always "on" in a beaconing signal mode plus have the option to transmit their status on demand is called "dual-active" operation. AXCESS' dual-active RFID is the most economical and flexible solution on the market today. The recent industry report by IDTechEx indicated active RFID solutions are growing rapidly and will sustain 28% compound growth through 2016 and reach $6.8B.

Overall, the awareness of RFID globally continues to grow with the continued adoption of all types of RFID and RTLS technologies across multiple industry segments including: the retail supply chain; vehicle toll tagging; contact less payment systems; transportation ticketing; security access control; military container tagging; and AXCESS' enterprise solutions. Wal-Mart continues to mandate that more of its suppliers use low cost, disposable passive tags for identifying cases and pallets. In 2005, that awareness began to translate into increased user demand for active (battery-powered) RFID and RTLS applications. AXCESS believes it is developing its business into a distinct, exciting, and large niche within the total market basket of RFID solutions.

The Company's solution for the management and protection of physical IT assets continues to be best in class. PricewaterhouseCoopers was announced as a customer for AXCESS' Dual-Active RFID solution for asset management and protection. The solution prevents theft or loss of assets and data by offering individual asset tracking and protection, dynamic wireless custodian assignments to assets, complete reports, and wireless alerting to exception-based security events. When an item is removed from company premises without authorization the technology delivers actionable intelligence through which a reliable security response can be determined and initiated. PricewaterhouseCoopers identified the potential for significant ROI by managing assets and by preventing computer theft. In addition to preventing monetary loss associated with the theft or loss of IT assets, the company recognized how AXCESS' ActiveTag™ solution could empower them with the ability to better protect their clients' data through increased accountability and security.

In the area of personnel access control and tracking, the Company announced the development of a partnership with Digital Defense Group, a producer of biometric-based secure identity cards. Digital Defense has integrated AXCESS International's ultra-thin long range personnel card to transmit the industry's only long range biometrically activated digital certificate. IronGate™ biocard is a unique device that allows the benefits of highest level of security with the convenience and high through-put capabilities of active RFID. The impact of this integration allows for applications like high security personnel and vehicle access through borders, industrial and secured facilities. Utilities, transportation, IT, financial, medical and manufacturing are just few of the industries mandating the use of biometrics in their security procedures. The IronGate biocard assures biometric privacy because the biometric is stored on the card.

During the quarter, the Company announced the signing of 34 partners in 14 different countries to their Global Business Partnership Program. The results are a reflection of the enhanced partner development program launched in Q3 2006 which enables systems integrators from disparate backgrounds and worldwide locales to successfully sell, implement, and maintain AXCESS RFID solutions for enterprise operations in multiple industries. Driving the growth are integrators from industries such as security, homeland defense, supply chain, enterprise management, bar-coding and automatic identification who are bumping into the limitations of passive RFID technology and recognizing the need for the unique capabilities of Dual-Active RFID™. Demand is high domestically and around the world including the Latin America, Asia Pacific, and Middle East regions.

The Company continues to work on its next generation products based on the demands of the market for smaller, lower cost tags and infrastructure which also have multiple features and flexible operating options. Just after the quarter ended, AXCESS announced a new, revolutionary wireless tracking and sensing technology for 2007 called The Enterprise Dot™. Based on a System-on-a-Chip (SoC) design, the patents-pending technology yields the world's lowest cost and smallest multifunctional wireless sub-micro device for delivering visibility oriented data about the assets operating in and around the enterprise. Devices built on the Dot™ platform will enable widespread and reliable automatic identification, locating, tracking, protecting and monitoring of personnel, physical assets, and vehicles. Dot™ facilitates the capture, processing and delivery of previously unavailable real-time information for dramatic improvements in supply chain visibility, mobile asset management, physical asset security, access control, and industrial condition monitoring. The low cost and flexibility to use existing supply chain infrastructure results in a very low total cost of ownership, yielding short term ROIs for customers. In an OEM package, it is small enough to be embedded into a variety of things such as computers, test equipment, medical equipment, credential cards, pallets, and cartons.

Bringing together the new functions of the Dot™ and building on the current AXCESS wireless infrastructure for enterprise management creates an open architecture for multiple sources of data to be acquired to deliver previously inaccessible business intelligence. AXCESS sees this as an opportunity to use its time-to-market and technical advantages to serve an ever-expanding market based on its core technology which has been optimized for the exact needs of enterprise tagging. The Dot™ technology will extend AXCESS' existing time to market advantage. It further eclipses competing architectures such as Wi-Fi based and battery-assisted passive RFID where size, cost, signal robustness and power management are problematic.

The development of AXCESS' intellectual property portfolio continues in support of the ongoing product development, market strategies, and to re-enforce competitive advantages. These innovation and growth efforts continue to be supported by our shareholder and key financial advisor Amphion Innovations plc

Third Quarter and Nine Months of 2006 Financial Results

Revenue was $369,621 for the three months ended September 30, 2006, an increase of 81% from the same quarter in 2005. Revenue for the nine months of 2006 was $1,177,659, an increase of 80% from the same period in 2005. The increase in revenue in the quarter and the first nine months of the year is due to the Company gaining traction in the active RFID market with new customers and add-on sales for products and services relating to existing customers. Historically, AXCESS reported revenue from its RFID and video businesses. Following the sale of the video patent portfolio in the first quarter, the Company is generating and reporting revenues only from its RFID operations. Add-on sales that are considered by the Company to represent a form of recurring revenue was 25% of total sales in the third quarter 2006 and 20% for the first nine months of 2006.

Gross margin was 47% or $172,242, in the third quarter 2006 as compared to 46%, or $94,914, in the 2005 period and 44% or $516,435, in the first nine months of 2006 as compared to 45% or $294,998 in the nine months of 2005, reflecting an improved sales mix and benefits of manufacturing leverage. AXCESS outsources the manufacturing of all of its proprietary and patent-protected RFID system components.

Research & development (R&D) expenses for the third quarter totaled $245,888, compared to $177,221 in the year-ago period and $1,109,476 for the first nine months of 2006, compared to $569,141 for the same period in 2005. The increase in R&D is due to the timing of the development of the next generation RFID product which will continue to be expensed over the remainder of this year and into next year.

Selling, marketing, general & administrative (S, M, G &A) expenses for the third quarter totaled $735,848, as compared to $579,038 in the prior year period and $2,265,310 for the first nine months of 2006, as compared to $1,815,136 for the nine months of 2005. The majority of the increase relates to non-cash costs associated with expensing of stock options from current and prior years, and certain public company expenses. Increased spending for sales and marketing initiatives primarily reflect the expanding direct sales strategy implemented during the past several months, including higher advertising, personnel and travel costs.

Other income (expense) for the third quarter of 2006 totaled ($59,651), as compared to ($118,641) for the same period in 2005 and $400,398 for the nine months of 2006 compared to ($356,562) for the nine months of 2005. The majority of the improvement relates to the gain on the sale of the video patents and the lower interest expense resulting from lower debt balances and the completion of the amortization of the fees.

Net loss for the third quarter of 2006 was $873,608 as compared to $785,720 in the prior year quarter and $2,471,533 for the nine months of 2006 compared to $2,468,559 in the nine months of 2005. The increase in the net loss is a result of the expenses of stock options that began in 2006, the increase in research and development for the next generation RFID product and increased selling and marketing activities offset by increased gross margins, the sale of video patents and lower interest expenses.

Recurring preferred stock dividend requirements for the third quarter of both fiscal 2006 and 2005 were $81,735 and $243,428 for the nine months of both years. AXCESS also recorded a one-time dividend of $645,020 for preferred stock issued in the second quarter 2006, $1,489,245 for preferred stock issued in the first quarter of 2006 and $2,060,397 for warrants issued during the first quarter of 2005.

Net loss applicable to common stock for the 2006 third quarter was $955,343, or $0.03 per share, compared to a loss of $867,455, or $0.03 per share, for the third quarter of 2005 and $4,849,226 or $0.17 per share for the nine months of 2006 compared to $4,772,384 or $0.18 per share for the same period in 2005. The difference in loss in the current year period from the prior year is primarily attributable to the preferred stock dividend requirements.

Financing

On November 9, 2006, AXCESS closed on a convertible loan for $140,000 of additional working capital. The loan is from the Company's largest shareholder group, Amphion Innovations plc (AMP.L), a company which creates, operates, and finances technology companies. These investors have been encouraged by AXCESS position in the RFID industry to capitalize on existing and more substantial emerging opportunities. The loan is anticipated to be converted into shares of preferred stock bearing no dividends and warrants to purchase the Company's common stock exercisable for five years at $1.50 per share during the fourth quarter of 2006 as long as the company is able to close on a preferred equity offering of at least 700,000. The loan bears interest at 10% and is due on December 31, 2007.

Conference Call

In conjunction with the third quarter earnings release, AXCESS invites you to listen to its conference call today, November 15, 2006, at 4:30 p.m. (Eastern). To participate in the call, domestic callers can dial (866) 356-4441 and international callers can dial (617) 597-5396 and enter the reservation code "97030132." Participants should dial into the call about 10 minutes prior to the start time.

For those unable to attend the live conference call, a replay will be available by dialing (888) 286-8010 for domestic callers and (617) 801-6888 for international callers and entering the replay code "17971628." The replay will be available from approximately one hour after the end of the call until 11:59 (ET) on December 15, 2006. There is no charge for participants to access the live event or replay. The conference call and replay dial in information is also available on AXCESS' website at www.axcessinc.com.

About AXCESS International Inc.

AXCESS International Inc. (OTCBB:AXSI), headquartered in greater Dallas, TX, provides Radio Frequency Identification (RFID) solutions and Real Time Location Systems (RTLS) for asset management, physical security and supply chain efficiencies. The battery-powered "active" and "semi-active" (on-demand) RFID tags locate, identify, track, monitor, count, and protect people, assets, inventory, and vehicles. AXCESS' RFID solutions are supported by its integrated network-based, streaming digital video (or IPTV) technology. Both patented technologies enable applications including: automatic "hands-free" personnel access control, automatic vehicle access control, automatic asset management, real time location determination, and sensor management. AXCESS is a portfolio company of Amphion Innovations plc.

Media Contact – AXCESS
Kelly Stark
972-250-5981
kstark@AXCESSinc.com

Investor Relations – Darrow Associates
Jordan Darrow
631-367-1866
jdarrow@darrowir.com

(tables to follow)

Source: AXCESS International, Inc.

AXCESS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	(Unaudited) September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 238,050	$ 236,869
Accounts receivable - trade, net of allowance for doubtful accounts of $17,095 and $17,389 for 2006 and 2005, respectively.	189,765	141,200
Inventory, net	472,309	112,270
Prepaid expenses and other	123,608	72,628
Total current assets	1,023,732	562,967
Property, plant and equipment, net	20,675	29,387
Deferred debt issuance costs	211,204	337,926
Other assets	3,096	2,699
Total assets	$ 1,258,707	$ 932,979
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 181,386	$ 252,155
Accrued liabilities	1,082,133	959,149
Notes payable:		
Convertible notes payable (includes $80,000 with related parties in 2005)	—	396,666
Discounts on convertible debt	—	(5,520)
Dividends payable	56,859	208,780
Total current liabilities	1,320,378	1,811,230
Notes payable to stockholders	3,365,500	3,709,071
Total liabilities	4,685,878	5,520,301
Commitments and contingencies (Notes 1 and 2)		
Stockholders' deficit:		
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, $.01 par value, 70,000,000 and 50,000,000 shares authorized in 2006 and 2005, respectively; 28,657,313 shares issued and outstanding in 2006 and 27,437,111 shares issued and outstanding in 2005	286,573	274,371
Shares of common stock to be issued, 5,333 shares as of December 31, 2005	—	53
Non-voting convertible common stock, $.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	157,270,169	153,436,725
Accumulated deficit	(161,047,148)	(158,332,186)
Total stockholders' deficit	(3,427,171)	(4,587,322)
Total liabilities and stockholders' deficit	$ 1,258,707	$ 932,979

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATION
(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Sales	$ 369,621	$ 204,711	$ 1,177,659	$ 652,687
Cost of sales	197,379	109,797	661,224	357,689
Gross profit	172,242	94,914	516,435	294,998
Expenses:				
Research and development	245,888	177,221	1,109,476	569,141
General and administrative	444,010	341,286	1,409,115	1,032,269
Selling and marketing	291,838	237,752	856,195	782,867
Depreciation and amortization	4,463	5,734	13,580	22,718
Operating expenses	986,199	761,993	3,388,366	2,406,995
Loss from operations	(813,957)	(667,079)	(2,871,931)	(2,111,997)
Other income (expense):				
Interest expense	(86,994)	(193,785)	(269,629)	(605,522)
Gain in vendor settlements	27,343	75,144	70,027	248,960
Other	—	—	600,000	—
Other expense, net	(59,651)	(118,641)	400,398	(356,562)
Net loss	(873,608)	(785,720)	(2,471,533)	(2,468,559)
Preferred stock dividend requirements:				
Recurring	(81,735)	(81,735)	(243,428)	(243,428)
Warrant inducement	—	—	—	(2,060,397)
2005 Preferred equity offering	—	—	(1,489,245)	—
2006 Preferred equity offering	—	—	(645,020)	—
Preferred stock dividend requirements	(81,735)	(81,735)	(2,377,693)	(2,303,825)
Net loss applicable to common stock	$ (955,343)	$ (867,455)	$ (4,849,226)	$ (4,772,384)
Basic and diluted net loss per share	$ (0.03)	$ (0.03)	$ (0.17)	$ (0.18)
Weighted average shares of common stock outstanding	28,516,329	27,288,181	28,218,656	26,654,901