U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

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**
(Address of principal executive offices)	(Zip Code)
(972) 407-6080	
(Issuer's Telephone Number)	

Securities registered pursuant to Section 12(b) of the Exchange Act: **NONE**
Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of Class:	**Name of exchange on which registered:**
Common Stock, par value $.01 per share	Over-The-Counter Bulletin Board

29,304,927
(Number of Shares Outstanding as of: December 31, 2007)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for the fiscal year ended December 31, 2007 were $3,412,484.

On April 14, 2008, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $11,979,568. This amount was calculated by reducing the total number of shares of the registrant's common stock outstanding by the total number of shares of common stock held by officers and directors, and stockholders owning in excess of 5% of the registrant's common stock, and multiplying the remainder by the average of the bid and asked price for the registrant's common stock on April 11, 2008, as reported on the Over-The-Counter Bulletin Board Market. The information provided shall in no way be construed as an admission that any officer, director or more than 5% stockholder of the issuer may be deemed an affiliate of the issuer or that such person is the beneficial owner of shares reported as being held by such person, and any such inference is hereby disclaimed.

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

Documents Incorporated by Reference: ***None***.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

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PART I

Forward Looking Statements

This annual report on Form 10-KSB 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 (the "Exchange Act"), which can be identified by the use of forward-looking terminology such as "may," "can," "believe," "expect," "intend," "plan," "seek," "anticipate," "estimate," "will," or "continue" or the negative thereof or other variations thereon or comparable terminology. All statements other than statements of historical fact included in this annual report on Form 10-KSB, including without limitation, the statements under "Item 1. Description of Business" and "Item 6. Management's Discussion and Analysis or Plan of Operation" and located elsewhere herein regarding the financial position and liquidity of the Company (defined below) are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements"), are disclosed in this annual report on Form 10-KSB, including, without limitation, in conjunction with the forward-looking statements and under the caption "Risk Factors." In addition, important factors that could cause actual results to differ materially from those in the forward-looking statements included herein include, but are not limited to, inability to continue as a going concern, limited working capital, limited access to capital, changes from anticipated levels of sales, future national or regional economic and competitive conditions, changes in relationships with customers, access to capital, 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. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements.

As used herein, references to the "Company" are to Axcess International, Inc., a Delaware corporation ("Axcess") and its subsidiaries.

Item 1. DESCRIPTION OF BUSINESS

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, 2007. 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 the Company will be successful in raising additional funds or entering into business alliances.

See “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Company

Axcess International, Inc. ("Axcess" or "Company") provides Dual-Active RFID (radio frequency identification) and Real Time Location Systems (RTLS) for asset management, physical security and supply chain efficiencies. The battery-powered (active) RFID tags locate, identify, track, monitor, count, and protect people, assets, inventory, and vehicles. The main applications of the Company's systems are personnel and vehicle access control, automatic asset tracking and protection, and wireless sensing. The Company provides complete system 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 enterprise 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. Our principal offices are located at 3208 Commander Drive, Carrollton, Texas, 75006, and our telephone number is 972-407-6080.

Company Evolution

Axcess was formed in November 1982 as Lasertechnics, Inc. Prior to 1999, Axcess, through two subsidiaries, sold high-end dye-sublimation card printers and high-speed laser marking equipment. During 1998, we determined that it could not be consistently profitable selling these products. Accordingly, in October 1998, we discontinued the operations of our 96% owned subsidiary, Sandia Imaging Systems Corporation, which was engaged in distributing and reselling high-end dye-sublimation card printers and consumables. We sold this business in December 1998. A second subsidiary, Lasertechnics Marking Corporation, was engaged in fabricating, distributing and selling high-speed laser marking equipment. In April 1999, we sold Lasertechnics Marking Corporation to affiliates of Amphion Ventures, LP, a major stockholder of ours. See also "Item 12. Certain Relationships and Related Transactions."

Axcess then made a concerted effort to enter into the high technology security products marketplace, and identified RFID as its initial target. In September 1998, we consummated the acquisition of the RFID based intellectual property assets of ASGI, Inc. and Nauta, Inc., unaffiliated entities to Axcess. The intellectual property assets included a patent, trade secret rights, software, hardware, product designs and all other technical information necessary for us to manufacture and market RFID products to the access control and asset management markets.

In July 1999, Axcess acquired another company in the security technology marketplace in the digital video or CCTV area. We acquired substantially all of the assets, including the network video technology, of Prism Video, Inc. Prism Video, Inc. was engaged in the development, design, manufacture and marketing of video security technology and video storage products. Axcess then hired new senior management experienced in the packaging, sales, and marketing of high technology security products.

Axcess further developed the RFID and network-based streaming video technologies throughout 2002 and 2003. It also secured key reference accounts and established branding for its product lines during that period. In November 2001, we acquired all of the assets of IVEX Corporation which primarily consisted of certain patents related to video and audio processing. The video patent portfolio was sold in early 2006 and the video portion of Axcess' business minimized. We retain a royalty free perpetual license to use the patents in our products.

In April 2003, we changed our name from Axcess Inc. to Axcess International, Inc.

From 2002 through 2005, we used our reference customers and our brand awareness to secure key marketing channel partners. These partners are important to the future revenue growth of Axcess' business due to their market presence. We believe that by integrating our systems into the systems of these channel partners or by selling through them, adoption of our technologies and products will be accelerated. Axcess has completed the integration efforts with certain channel partners and is in the process of integrating others.

On November 6, 2007 we announced our micro-wireless technology platform called Dot™, which we believe is the smallest, most powerful, lowest cost battery powered wireless computer of its type.

Sales Channels

Axcess utilizes both indirect and direct sales model. Axcess has five sales people who support individual sales as needed. The indirect sales effort is focused primarily on building and supporting system integrators as marketing channel partners capable of selling, installing and servicing automatic identification solutions, and access control and asset management applications. Other indirect outlets include distributors, specialty dealers, catalog sales organizations, and OEMs (original equipment manufacturers). The system integrators and dealers are responsible for the installation in almost all cases. Using established channels to gain widespread exposure and sales leverage is a well-utilized model in the industry. The indirect model also enables the company to sell its products worldwide with minimal direct selling expense.

The indirect sales model allows us to address multiple industry segments generically, including manufacturing, wholesale / distribution, retail, services, government, education and finance. The indirect sales model fits the characteristics of our product portfolio with other products, which become system solutions that require custom site planning and installation. Sales generally have multiple locations with the average revenue per system location in the tens of thousands, and are based on a new technology and its application to traditional security problems. By working directly with established marketing channel partners, this indirect model also gives us the flexibility to introduce new products and applications as they are developed.

We work directly with the end user for certain focused large system sales opportunities. This direct selling approach enables us to prospect directly for selected larger transactions and reference accounts in a prudent, "opportunity driven" fashion. The eventual installation is still accomplished through an established channel partner.

In 2004, we began to pursue the enterprise supply chain/logistics market for RFID solutions which in 2006 resulted in a co-development and business sharing arrangement with Stemco, a division of Enpro Inc. With Stemco, the Company will provide automated vehicle access control and wireless data collection systems for large fleets. We also announced a recent example where a customer implemented a vehicle access control solution, which automatically tied the vehicle to the inventory it was carrying. In 2004 we announced the Onlinesupervisor middleware and software platform and its ability to operate when needed in a compatible fashion with the Global Electronic Product Code (EPC) RFID tagging standards.

In 2005, we announced our system was now able to be used on a wireless local area network (LAN) and the release of our comprehensive physical asset management solution. We also announced several additional reference customers using our system in the gaming industry, for homeland security and for attendance in a college environment.

In 2006, we announced the strengthening of our channel partner relationship with Tyco's ADT and SoftwareHouse divisions. We also announced a successful asset management solution for PriceWaterhouseCoopers designed to protect against the loss of customer privacy data on laptop computers. We implemented and announced a workforce management solution for Occidental Petroleum to automatically account for personnel time and attendance, location monitoring and reporting, and emergency evacuation.

In late 2006, we announced the invention and development of the Enterprise Dot™ which became available in late in 2007. We believe Dot is the world's smallest single system-on-a-chip microcomputer with an embedded, software definable wireless capability of its type. The Dot is compatible with the our existing systems for access control, asset management and sensing as well as the existing infrastructures for proximity access control systems and Electronic Product Code version C1G2 passive supply chain inventory systems.

Partnering

Axcess has signed partnering agreements with several integrators. In general, these agreements provide for the integrators to: sell and market Axcess' products, favorably price Axcess' products based on the volume of our products sold, provide customer service support for our products sold by the integrators, and integrate Axcess products into the integrator's system. We believe this integration strategy has advantages over its prior partnership arrangements and will offer an increased opportunity for rapid sales growth.

Software House, Sensormatic, KanTech, and ADT (Tyco). In 2001, Axcess was selected by Software House as the preferred provider of RFID solutions for asset management. Since then, Axcess' ActiveTag™ products have been integrated into Tyco's C-Cure 800 access control system which is utilized by Tyco entities Sensormatic, KanTech and ADT. During 2004, ADT group delivered a new product release to its organization announcing the Axcess ActiveTag™ product line would be now available for sale by ADT.

PSA Security. In 2003, the security industry's largest buying cooperative, PSA and Axcess agreed to partner whereby we would supply PSA's approximate 135 integrators with our system solutions. In April 2004, we demonstrated our products at PSA's annual trade show in Las Vegas.

Media Recovery. In 2006, Axcess worked with Media Recovery to implement an asset management system at a large U.S. bank data center. The solution was implemented to account for back-up and recovery data tapes and to improve the security of their handling. Since then, Axcess and Media Recovery have been conducting joint sales calls on Media Recovery's clients in hopes of marketing additional bank installation.

Digital Defense. In 2006, the Company engaged in a joint development project to add Axcess' long range wireless tagging to Digital Defense's standalone biometric card credential. This unique card with a biometric reader on board enables personnel to be authenticated remotely with a small credential enabling high speed and accurate access control.

Other Integrator Partners

Axcess has signed partnership agreements with Honeywell, GTSI, Anixter and Samsung USA. The Axcess system has been integrated into the systems provided by Tyco, Iteras, Digital Defense, and TVL, totaling four companies who actively have the Axcess RFID or video system embedded into their core solutions.

Products and Technology

Under the ActiveTag™ label, Axcess supplies active RFID system solutions that connect directly into standard security systems or utilize the enterprise networks or the Internet. ActiveTag™ is a multi-use, single-system solution scaleable for small, medium, and large enterprises. This versatile technology has four patents awarded with applications for four additional patents pending. The system supports a variety of automatic monitoring and tracking applications, including electronic asset protection and asset management, automatic personnel and vehicle access control, and wireless sensing.

ActiveTag™ uses small, battery-powered tags that, when automatically activated at control points throughout a facility, transmit a wireless message to palm-size receivers networked on an existing corporate local area network (commonly referred to as LAN). Tag identification and location information are instantly forwarded to a local security control panel or transmitted over the network to a host computer. ActiveTrac™ is an application software program that logs and displays the information from the tag to provide a comprehensive picture of the person, asset or vehicle being tracked. In addition, Axcess is continuing to develop OnlineSupervisor™ software, which has a browser-based display and provides real-time management solutions through reporting, display, and decision and control functions.

ActiveTag™ tracks assets as the assets enter, exit and move within a facility to monitor their whereabouts, detect theft and prevent loss. ActiveTag™ software can link assets and personnel together to provide a non-invasive, hands-free access control and asset protection solution at perimeter doors and other controlled entry and exit points. Personnel tags include a panic button for increased personal safety and peace of mind. This software can track vehicle and equipment movements to provide real-time, paperless logistics data and automated gate control. Not only can pallets, containers or boxes be tracked in real-time, but also a beaconing feature (where the tag transmits on a fixed time interval) allows the user to automatically count and monitor all inventory, even while stationary. One version of the RFID tag includes an embedded temperature sensor inside to monitor and transmit measurement of ambient temperature or to signal when the temperature moves outside of a defined range. Another version of the RFID tag has external contacts so the tag can act as a low-cost wireless transmitter for external digital sensors.

The Onlinesupervisor™ system integrates the presentation of RFID data and digital video to a standard web browser. Through a display customized to each end user, real-time status is integrated with live and recorded digital video. Events that can be shown involve premises security, physical asset protection, personnel staffing, and operations performance. Up to the minute personnel and asset inventory counts can be provided. Each monitored event is linked to the database of recorded video files to enable the viewing of tagged events such as personnel activity at door entrances and exits, access to controlled areas, and asset movements. The system is available as a stand alone enterprise solution or as a portal-based solution hosted by Axcess. We believe that the system is unique in its ability to link information from various tag reads and integrate the reads with video clips and pictures from the environment surrounding the tags.

Typical applications for our products include:

Automated Workforce Management Solutions. "Hands-free" automatic personnel identification and access control enables high speed facility entry and exit. Doors can be automatically opened as the accredited employee approaches the door, enabling rapid and easy entrance without presenting a card to be swiped. Multiple logical control zones can be set up within a facility, making key areas automatically more secure as non-authorized people are quickly identified. Personnel dwell times can be automatically calculated for improved workforce optimization. Automatic location monitoring provides immediate location visibility and accounting for government regulations such as OSHA compliance. In the event of a catastrophe, emergency evacuation tallies can be automatically gathered. The personnel identification can be linked to tagged assets to improve asset management accountability.

Automated Fleet Access Control and Data Capture Solutions. "Hands-free" automatic vehicle identification and access control enables high speed facility entry and exit. Vehicles automatically enter into controlled or gated areas without stopping using a validated tag placed on or inside the vehicle. The tag is recognized as it approaches the gate, allowing "rolling access" and facilitating a higher entrance and exit speed to reduce bottlenecks and security threats. For industrial applications, driver, truck, trailer and payload tags can all be matched to ensure the integrity of the shipment and provide automated data capture and recording. Logged sensor data on the condition of vehicles or goods can be automatically off-loaded to improve the turn-around time of fleet vehicles plus more accurate and less costly data recording.

Electronic Asset Protection and Tracking. Assets, such as computers and medical equipment, are automatically tracked as they move throughout the facility and protected if they approach a perimeter door without authorization. Linking to custodian tags provides accountability and instant authorized movement. Static assets such as desktop computers are also tagged and automatically inventoried at periodic intervals or at specific control points. Should the assets be moved, their location is identified and automatically tracked.

Electronic Inventory Control and Tracking. Inventory items, such as pallets, crates, barrels and vessels, can be automatically located, identified, and tracked as they move, and protected against unauthorized removal.

Automatic Personnel Identification. Low cost, long range credentials which provide automatic identification are playing an important role in customer loyalty systems, trade show attendee management and booth marketing, as well as in interactive amusement experiences. In the trade show market, auto ID can automatically account for hall and seminar attendance as well as enhancing the trade booth presentation by enabling custom content delivery.

Markets

Axcess operates in the electronic security and automatic identification systems markets. Its products have been designed, built and introduced with general purpose, enterprise improving broad applications in mind, cutting across many industries. Some examples of product solutions in selected markets are provided below.

Corporate Access Control and Asset Management. Employees may gain access to company premises using automatic hands-free personnel RFID tags that may also be placed on corporate assets, such as laptops, to track movements and prevent loss. Axcess, through its control-point architecture, believes that it has a unique solution to address this market by tagging laptops and implementing control zones.

Airport and Port Security Infrastructure Homeland Defense. Axcess can provide hands-free premise access control to employees and authorized vehicles needing easy, secure access to the container terminal and airport tarmac. Our products can provide controlled access for fuel trucks at the fuel depot. Courtesy vehicles can use access control for added gate security. Personnel are automatically identified, tracked, and traced through a grid of security control zones. Wireless sensors provide detection of potentially harmful chemicals and/or weapons of mass destruction (WMDs). The integrated software platform adds substantially greater security coverage via automating surveillance. Networked video and recording may be added to the network infrastructure to extend security visibility throughout the terminal and grounds.

Civil and Military Government. The government tagging of assets targets the prevention of lost citizen data on mobile assets such as laptops. Data center data tapes management provides integrity in data archival tracking and tracing. Personnel and vehicle access control provides both security and accountability. Government contractor activity is automatically collected for accounting and regulatory compliance purposes. Documents have been successfully tagged to prevent their loss from secure rooms.

Education. Various schools and universities are implementing tagging to protect data center assets; schools and universities are also using networked video for life safety reasons. Many schools and universities already have built-out networks, so RFID tagging and networked video may be added for the incremental cost of this equipment. Built-out networks also offer additional flexibility to move video remotely and share video data with school administrators and authorities.

Inventory and Transportation Management. Cartons, pallets, containers and even missiles may be tagged so they can be located, tracked and monitored to facilitate movement, rapid order picking and inventory verification. Bar coding is common in source product labeling at the start of the supply chain. Once products are packaged in larger containers for shipping and warehousing, RFID tagging complements bar coding and the warehouse system by enabling automatic long-range identification and location of products. In production applications, the tag can be a wireless sensor for a production line, transmit information about the build specifications for a product, and send notifications from the finished goods area after production is completed.

Financial Data Center Asset Management. Axcess products locate and protect computer servers, central processing units and other equipment using RFID tagging. Tagged servers can also be monitored with temperature sensor tags that not only protect against loss and misplacement, but also provide an early indication of potential failure. Axcess products provide security and visibility from the entrances to the server and cage level. Many legacy data centers and computer rooms have the same characteristics. In addition to tagging the computers, users of Axcess products can tag authorized personnel to facilitate easy movement of the assets and to restrict access to sensitive areas. Video complements the asset management application by providing live viewing capability into the co-location cage or cabinet area. Archived video is also available to investigate asset-based activity alarms.

Patents and Proprietary Technology

Axcess relies on a combination of patents, trade secrets, technology licenses, and other intellectual property rights. Historically, we have received eighteen U.S. patents. During 2006 we sold eleven of our video patents but retain a royalty free perpetual license to use the patents in our products. During 2007 we were granted two additional patents for a total of seven patents relating to our RFID technology and we have seven additional patents in various stages of prosecution and seventeen more at the early stage of the application process. The period covered by our issued patents ranges from four to twenty years. We intend to protect and enforce our intellectual property rights and to preserve our rights relating to our key product technologies to the extent commercially reasonable. We have applied for registration of a number of trade and service marks, including Axcess Inc.™ the Axcess Inc. (logo)™ LANcam, ActiveTag™, Onlinesupervisor.com™, Prism Video™, LANcorder™, Accessability™, AccessPlug™, Asset Activator™ and Enterprise Dot™.

Engineering and Development

In November 2007, we announced the availability of a new, revolutionary wireless tracking and sensing technology called The Enterprise Dot™. Based on a System-on-a-Chip (SoC) design, the patents-pending technology management believes 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. 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 and 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 return on investments for customers. The first product we delivered using the new technology was a software definable, battery-powered Dot-OEM module for product manufacturers, small enough to be embedded into a variety of devices such as computers, test equipment, medical equipment, credential cards, pallets, and cartons. The module, about the size of a quarter is priced at less than $5 per unit. Delivery of the first articles was during the fourth quarter of 2007.

We intend to work toward the inclusion of various sensors, such as motion, humidity and power, to enable the tagging system to more fully address market needs in the data center and logistics markets. We anticipate that third party improvements to battery technology and manufacturing methods will enable size reduction, cost savings and increased functionality.

The Dot™ technology incorporates a powered software definable wireless transceiver which is compatible with multiple global regulations including the RFID EPC Class I, Gen II standard and is expected to make supply chain tagging more reliable while opening up new applications in sensing and security. Memory and sensor inputs enable the Dot™ to be tailored to each specific data capture need. Devices built on the Dot™ platform will enable widespread and reliable automatic identification, locating, tracking, protecting and monitoring of personnel, physical assets, and vehicles. 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.

During 2007 we also have redesigned the Activator and Receivers to further take advantage of the new Dot technology. The new devices should be ready for delivery during the first part of 2008.

Onlinesupervisor™ is a highly versatile combined middleware and software product which is able to capture tag ID's and data, process them, and present an actionable information alert to a desktop or wireless device for exception management. It relies on the Axcessability middleware platform where with an open standard database engine and programmable rule bases, radio frequency identification (RFID) tag transmissions are received from readers over the network, then filtered against the various criteria needed for managing a business most productively. The middleware enables virtually any data format to be received, translated into another, and transmitted to the destination system. The browser-based viewing dashboard of Onlinesupervisor™ is customizable by type of user which allows customized event alerting. Alerts can be linked automatically to a digital video clip of the transaction if needed for supervisory review. Onlinesupervisor™ development continues to add additional data sources that can be delivered over the same platform, making the product expandable beyond RFID data on an industry specific basis to support all application areas such as workforce management, asset management, and automatic identification.

Competition

The market for our products and services is intensely competitive and is characterized by rapidly changing technology, evolving perceived user needs and the frequent introduction of new products.

A number of our competitors are more established, benefit from greater name recognition and have substantially greater financial, technical and marketing resources. We believe that the principal factors affecting competition in our markets include product functionality, performance, flexibility and features, use of open standards technology, quality of service and support, company reputation, price and overall costs of ownership. In order to compete, we seek to provide products that are technologically superior and that deliver better value. We believe that the following factors help distinguish our products from those of competitors.

The ActiveTag™ RFID automatic identification system benefits from low cost, long-range tag activation and transmission, which have a small form factor, long-term battery life, and also a platform for adding sensor capabilities. The activation of tags occurs at a separate low frequency, a patented approach, which we believe, gives Axcess an advantage among active RFID companies in the ability to establish physical control points, such as doorways, and virtual control points, such as hallways. The receiver system is designed as a low cost infrastructure that connects directly into legacy systems and also runs on a standard Ethernet network backbone. The system is flexible enough to support multiple applications for people, physical assets, and vehicles. Finally, the tag data is integrated with live and recorded streaming video on a multi-user browser display platform for both casual viewing and industrial requirements.

Flexibility comes from the use of dual frequencies for wake-up and transmission; low frequency on wake-up and UHF for transmission. Tag transmission at UHF penetrates all materials except metal, enabling reliable tag transmission. This also enables long range tag reads using omni-directional antennas so that no line of sight is required. A simple transmission protocol allows multiple tags to be read simultaneously. The advanced battery management design provides battery life of three to five years under normal operating conditions, and five to seven years with an enhanced battery. Control point activation, combined with the ability for tags to transmit on set time intervals or be queried individually enables the ActiveTag™ line to meet the major user requirements, including dynamic tracking, static tracking, multiple simultaneous tag reads, "authorized" movement of tagged assets, and a long read range for tag transmission, which we believe gives us an advantage. We also believe that these features enable the system to outperform passive systems, relative location positioning systems, and infrared and combo infrared / RFID systems from competitors.

Current RFID, RTLS, and wireless sensing technologies face prominent barriers that prevent them from addressing the majority of today’s application needs. These barriers include: cost, interoperability, size, and reliability. While existing wireless tags and sensing nodes meet certain needs, the Enterprise Dot™ has been developed to surpass these barriers and solve the reliability issues of passive RFID, the connectivity problems of sensors, provide interoperability between standards, enable a store and forward capability for monitored data, and reduce the cost and tag size of active RFID/RTLS, while opening up dramatic new applications. The Dot™ technology will extend Axcess’ advantages including: its more complete product functionality; the better cost-to-function ratio, its robust and complete end-to-end system offering, and its existing time to market benefit. 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.

Manufacturing and Suppliers

We outsource the manufacturing of our products and consequently depend on outside manufacturers to supply finished product. A large number of manufacturers in the U.S. have the capability to produce our products. We periodically seek bids for manufacturing and have multiple manufacturing sources for each of our products.

Although we depend on a number of outside suppliers for components of our products, we have designed our current line of products so that we are not dependent on a single source for any of our products' components. Most of the components we use are "off the shelf" and are readily available. Although we have generally been able to secure adequate suppliers, the inability of the Company in the future to obtain sufficient suppliers of component parts could have a material adverse effect on our results of operations.

There are currently no long-term agreements between us and our manufacturers or suppliers.

Research and Development

If we have sufficient working capital, we plan to continually develop new products utilizing our existing technology and we plan to bring new products to market throughout 2008. New products in RFID will be built upon the core platforms now in place. We believe that our next generation platform offers more functionality and covers more of the market place that our research shows is there. There can be no assurance that we will have sufficient working capital to undertake these activities.

During 2007 and 2006, we spent $3,167,736 and $1,380,875, respectively, for research and development and plan to maintain that amount of spending in fiscal year 2008 to develop our next generation RFID product to support our continued revenue growth. However, any such spending will be dependent upon our ability to raise additional capital, as we do not have sufficient revenues to support such an activity using our own resources.

Employees

As of December 31, 2007, we had nineteen full-time employees and no part-time employees.

Government Regulation

Government regulations have not had, nor are they expected to have, a material effect on Axcess' financial condition, results of operations or competitive position. FCC approval is required for some of our principal products.

Environmental Factors

There has been, and it is anticipated that there will continue to be, no material effect upon Axcess' capital expenditures, earnings, or competitive position due to compliance with existing provisions of federal, state and local laws regulating the discharge of material into, or otherwise relating to the protection of, the environment.

Risk Factors

We operate in a changing environment that involves numerous risks, some of which are beyond our control. The following highlights some of these risks.

We may not be able to continue as a going concern or fund our existing capital needs.

Our auditors have included an explanatory paragraph in their audit opinion with respect to our consolidated financial statements for the fiscal year ended December 31, 2007. The paragraph states that our recurring losses from operations and resulting continued dependence on external financing raise substantial doubts about our ability to continue as a going concern. Our existing and anticipated capital needs are significant. We believe our existing financing arrangements and estimated operating cash flows will not be sufficient to fund our operations and working capital needs for the next twelve months and there can be no assurance that we will be able to fund our existing capital needs under our existing credit facilities or otherwise secure additional funding, if necessary. In addition, changes in our operating plans, the acceleration or modification of our existing expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions, or other events may cause us to seek additional financing sooner than anticipated, prevent us from achieving the goals of our business plan or expansion strategy, or prevent our newly acquired businesses, if any, from operating profitably. If we are unable to fund our existing capital needs under our existing credit facilities, or are otherwise unable to secure additional equity financing, if necessary, our business could be materially adversely affected. *See* Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources.

We have a history of losses and expectation of future losses; uncertainty of future profitability; and limits on operations.

From our incorporation in 1982 through December 31, 2007, we have incurred an accumulated loss of approximately $167.3 million and have been profitable in only one fiscal year during that time. There can be no assurance that we will generate sufficient revenues to achieve profitability in the future. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Our continued slow revenue growth and operating losses may indicate circumstances requiring an impairment to be recorded.

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. *See* Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources.

We are dependent upon our proprietary technology and its marketability as state of the art.

The technology we use may become obsolete or limit our ability to compete effectively within the wireless, automatic identification and multi-media applicable industries. These industries are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. The introduction of products embodying new technologies or the emergence of industry standards can render existing products obsolete and unmarketable. Our success will depend on our ability to enhance our existing products. Our success will also depend on our ability to develop and introduce, on a timely and cost-effective basis, new products that keep pace with technological developments and emerging industry standards and that address increasingly sophisticated customer requirements.

Our business would be adversely affected if we were to incur difficulties or delays in developing new products or enhancements or if those products or enhancements did not gain market acceptance. Specifically:

- we may not be successful in identifying, developing and marketing product enhancements or new products that respond to technological change or evolving industry standards;
- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these products; and
- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these products; and
- our new products and enhanced products may not adequately meet the requirements of the marketplace and achieve market acceptance or may not keep pace with advances made by our competitors.

We currently hold five U.S. patents. We have four patents in various stages of prosecution. The time period covered by our patents ranges from five to twenty years; however, there can be no assurance that our technologies will be accepted in the marketplace. In addition, different technologies owned by others could arise that would be superior or more marketable than ours. *See* Description of Business—Patents and Proprietary Technology.

The loss of one or more members of management or key personnel could adversely affect our operations and could lead to loss of clients and proprietary information.

Our business, success, growth, operating results, and profitability are dependent upon the skills, experience, efforts, performance, and abilities of members of management and other key personnel. We depend upon members of management and key personnel, including key sales personnel, to generate new business and to service new and existing clients. If any members of management or key personnel were to leave us, our business, success, growth, operating results and profitability could suffer. If we lose any key personnel, we may also be unable to prevent the unauthorized disclosure or use of our technical knowledge, practices, procedures, or client lists by the former personnel. Disclosure or use of this information could harm our business.

We may face substantial competition in attracting and retaining qualified personnel, and may be unable to grow our business if we cannot attract and retain qualified personnel.

Our success will depend to a significant degree upon our ability to attract and retain highly qualified and experienced personnel who possess the skills and experience necessary to satisfy our business and client service needs. These personnel may be in great demand, particularly in certain geographic areas, and are likely to remain a limited resource for the foreseeable future. Our ability to attract and retain employees with the requisite experience and skill depends on several factors, including our ability to offer competitive wages, benefits, and professional growth opportunities. To attract and retain these individuals, we will be required to invest a significant amount of time and money. Many of the companies with which we will compete for experienced personnel have greater financial resources and name recognition than we do. In addition, an important component of overall compensation for our personnel will be equity. If our stock price does not increase over time, it may be more difficult to retain personnel who have been compensated with stock awards or options. The inability to attract, train, and retain experienced personnel could have a material adverse effect on our business.

Because we are significantly smaller and less established than a majority of our competitors, we may lack the financial resources necessary to compete effectively and sustain profitability.

We operate in competitive, fragmented industries and compete for clients with a variety of larger and smaller companies that offer similar products and services. These industries are subject to rapid technology changes and are significantly affected by new products and services and the marketing activities of industry participants, which may often be beyond our control. Due to the nature of our business, we compete with companies in the security products, security consulting and defense industries. Although we primarily compete directly with firms who offer similar security products, we also compete directly and indirectly with a number of other companies, which provide and install large security systems as a single contractor. Many of these competitors are more established, offer more products, services and features, have a greater number of clients, locations, and employees, and also have significantly greater financial (based on total assets and annual revenues), technical, marketing, public relations, name recognition, and other resources than we have.

We also expect to experience increased competition from new entrants into the market. We may be unable to compete with large multi-product security companies, including the security divisions of large international firms. This increased competition may result in pricing pressures, loss of market share or loss of clients, any of which could have an adverse effect on our business, financial condition, operating results and cash flows. *See* Description of Business—Competition.

We are dependent upon third party manufacturers and suppliers to produce our products.

As a cost efficiency measure, we do not manufacture our own parts and product line but contract such supply and manufacture to third parties. The failure by any of our vendors, suppliers or contractors to fulfill their contractual obligations to us could adversely affect our operations. If we are unable to obtain sufficient components and manufacturers for our products, or develop alternative sources, delays in product introductions or shipments could occur and could have a material adverse effect on our results of operations. *See* Description of Business—Manufacturing.

The voting control of Axcess is held by Amphion Group, and other stockholders are unlikely to have any ability to influence the governance or policies of our company.

As of December 31, 2007, Amphion Ventures LP and affiliates of Amphion Ventures LP, including Amphion Partners, Amphion Investments, Antiope Partners, Amphion Capital Partners, Amphion Capital Management LLC, Amphion Innovations plc, Amphion Innovations US and VennWorks LLC (collectively, the "Amphion Group") owns approximately 60% of our outstanding common stock. This level of ownership provides the Amphion Group with the power to determine the outcome of almost any matter submitted for the vote or consent of our stockholders. Additionally, two of our five directors are affiliates of the Amphion Group. *See* Security Ownership of Certain Beneficial Owners and Management.

The price of our common stock has been highly volatile and may continue to be highly volatile, which may adversely affect your ability to sell your shares and our ability to raise additional capital.

The price of our common stock has been highly volatile and may continue to be highly volatile. For instance, from November 1, 2002 through December 31, 2007, our common stock traded from a low of $.025 to a high of $3.60 per share. The price of our common stock has experienced, and may continue to experience, significant volatility in response to many factors, some of which are beyond our control and may not even be directly related to us, including:

- changes in financial estimates or recommendations by securities analysts regarding us or our common stock;
- our performance and the performance of our competitors and other companies in the technology or marketing sectors;
- quarterly fluctuations in our operating results or the operating results of other companies in the technology or marketing sectors;
- additions or departures of key personnel;
- the trading volume of our common stock;
- general economic conditions and their effect on the technology or advertising and marketing sectors, in general; and
- competition, natural disasters, acts of war or terrorism or other developments affecting us or our competitors.

In addition, in recent years, the stock market has experienced extreme price and volume fluctuations, which have often been unrelated or disproportionate to the operating performance of particular companies. This volatility has significantly affected and may continue to affect, the price of our common stock and may adversely affect your ability to sell your shares and our ability to raise additional capital. *See* Market and Common Equity and Related Stockholder Matters.

Our common stock may be subject to penny stock rules and regulations.

Federal rules and regulations under the Exchange Act regulate the trading of so-called penny stocks, which generally refers to low-priced (below $5.00), speculative securities of very small companies traded on the OTC Bulletin Board or in the Pink Sheets. Trading, if any, in shares of our common stock may be subject to the full range of penny stock rules. Before a broker/dealer can sell a penny stock, these rules require the broker/dealer to first approve the investor for the transaction and obtain from the investor a written agreement regarding the transaction. The broker/dealer must also furnish the investor with a document describing the risks of investing in penny stocks. The broker/dealer must also tell the investor the current market quotation, if any, for the penny stock and the compensation the broker/dealer will receive for the trade. Finally, the broker/dealer must send monthly account statements showing the market value of each penny stock held in the investor's account. If these rules are not followed by the broker/dealer, the investor may have no obligation to purchase the shares. Accordingly, these rules and regulations may make it more expensive and difficult for broker/dealers to sell shares of our common stock, and purchasers of our common stock may experience difficulty in selling such shares in secondary trading markets.

Item 2. DESCRIPTION OF PROPERTIES.

Axcess leases a 6,509 square foot facility in Carrollton, Texas, which is used for administrative, engineering and sales offices. This facility is rented on a month to month basis. The monthly rent is $5,000. We also lease 1,500 square feet in Costa Mesa, California, which is used for software engineering space. The lease will terminate in January 2009 and the monthly rent is $2,025. We believe these facilities are suitable and adequate to accommodate our operations. We consider each of these facilities to be in good condition and it is our opinion that the facilities are adequately covered by insurance.

Item 3. 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 $76,326. We are currently defending or seeking to settle each of the vendor’s claims. At December 31, 2007, we had accrued the delinquent amounts we expect to be liable for.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Axcess' common shares trade on the over-the-counter bulletin board under the symbol AXSI.OB. The table below sets forth high and low closing prices for our common stock during each of the periods indicated, as reported the over-the-counter bulletin board by NASDAQ. Such price quotations represent inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

	2007		2006	
QUARTER ENDED	LOW	HIGH	LOW	HIGH
March 31	$ 1.10	$ 1.77	$ 0.85	$ 1.12
June 30	1.15	1.54	0.90	1.45
September 30	1.16	1.80	0.87	1.27
December 31	1.26	1.95	0.92	1.25

As of December 31, 2007, we had approximately 684 holders of record of voting common stock.

Axcess has not paid dividends on our common stock and does not anticipate the payment of cash dividends in the foreseeable future, as we contemplate retaining all earnings to finance the continued growth of our business.

Equity Compensation Plans

Information concerning the 2005 Equity Incentive Plan, 2001 Equity Incentive Plan and the 1998 Directors Compensation Plan is presented in the table that follows. See “Note 12. Stock Options and Warrants” in the notes to the financial statements.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	5,550,973	$1.87	2,712,000
Equity compensation plans not approved by security holders	—	—	—
Total	5,550,973	$1.87	2,712,000

Recent Sale of Unregistered Securities

During 2007, we issued unregistered securities in connection with each of the transactions described below. The issuance of the Preferred Stock, common stock and promissory notes were exempt from the registration requirements of the Securities Act by virtue of Sections 4(2) and 4(6) thereof as a transaction not involving a public offering and made solely to accredited investors. An appropriate restrictive legend was affixed to the stock certificates and warrants.

Dividends Paid

On August 8, 2007, the Board elected to convert $222,796 of accrued and unpaid dividends for the current holders of the 2003B Preferred shares into 148,530 shares of Axcess common stock, which were issued during 2007. The Board also elected to convert $108,164 of accrued and unpaid dividends for the current holders of the 2004 Preferred shares into 72,110 shares of Axcess common stock, which were issued during 2007.

2003B Preferred Equity Offering

In November 2003, Axcess raised a net of approximately $2,500,000 of additional working capital through an exempt Section 4(6) and a Section 4(2) private offering of Preferred Stock to accredited institutional investors. The Preferred Stock is designated as 2003B Preferred and each $70,000 unit consists of 40,000 shares of Preferred Stock bearing a 7% dividend, 2,000 shares of common stock and 40,000 warrants to purchase Axcess' common stock exercisable for two years at $2.75 per share. Each share of Series 2003B Preferred Stock is automatically convertible into voting common stock on a share-for-share basis (i) when Axcess achieves a full quarter of positive earnings before interest, taxes depreciation and amortization or (ii) when the share price surpasses $3.75 based on the average closing per share price for the 20 trading days preceding. In connection with the 2003B Preferred Stock offering including commissions, Axcess issued 1,570,000 shares of the 2003B Preferred Stock, 157,000 shares of common stock and 1,695,000 warrants.

In December 2003, Axcess raised a net of approximately $362,250 of additional working capital through a second closing of the 2003B Preferred. In connection with the second close of the 2003B Preferred Stock offering including commissions, Axcess issued 220,000 shares of 2003B Preferred and 240,000 warrants.

During 2007 nine holders elected to convert 105,000 shares into 105,000 shares of Axcess common stock. These shares had been previously registered under an SB-2 registration statement.

2005 Preferred Equity Offering

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.

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.

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 least twenty (20) consecutive trading days.

During 2007 one holder elected to convert 58,824 shares into 58,824 shares of Axcess common stock. These shares had been previously registered under an SB-2 registration statement.

2006B Preferred Equity

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

During 2007 two holders elected to convert 50,000 shares into 50,000 shares of Axcess common stock. These shares had been previously registered under an SB-2 registration statement.

2006C Preferred Equity

In January 2007 the Company raised $2,000,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006C Preferred and consists of 200 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one basis at $1.00. In addition, the Company issued 1,000,000 warrants to purchase the Company's common stock exercisable for five years at $2.00 per share. 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.

2007 Preferred Equity

In August and September 2007 the Company raised $2,050,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2007 Preferred and consists of 205 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one basis at $1.00. In addition, the Company issued 1,025,000 warrants to purchase the Company's common stock exercisable for five years at $2.00 per share. 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.

During 2007 two holders elected to convert 15 shares into 150,000 shares of Axcess common stock. These shares had been previously registered under an SB-2 registration statement.

Warrant Exercised / Expire

During 2007 the Company issued an additional 2,090,490 warrants in conjunction with various exempt equity and debt offerings. The warrant price ranged from $1.43 to $2.00 and they expire between October 25, 2010 and December 12, 2012. During that same period the Company had 50,000 warrants exercised and 374,998 warrants expire without being exercised.

Warrants for Services Rendered

On October 25, 2007 we issued 50,000 warrants to purchase common shares to Stan Zaslow to compensate him for services provided to Axcess.

Common Stock

During 2007 we had three employees exercise 36,900 stock options with a strike price of $0.40 per share and one employee exercise 1,250 stock options with a strike price of $1.04.

SB-2 Registration Statement

On December 19, 2007 the SEC declared our SB-2 Registration statement effective which was originally filed on November 21, 2007. We registered a total of 16,248,109 common shares comprising 1,400,676 shares currently issued and held by certain selling stockholders, 8,708,550 shares to be issued upon the conversion of convertible preferred shares currently issued and 6,138,883 warrants. Proceeds from the sale of the 10,109,226 shares beneficially owned by the selling stockholders will inure solely to the benefit of the selling stockholders, as we will not receive any of the proceeds from such sales. If fully exercised the warrants would result in the issuance of 6,138,883 shares of our common stock and result in proceeds to us of $10,865,823, which would be used for working capital and to pay down any outstanding debt. There can be no assurance that any of the warrants will be exercised.

Other Matters relating to future amortizable charges

As of December 31, 2007 we have $30,421 of deferred debt issuance costs on our balance sheet, which will be amortized using the effective interest rate over lives of the related debt.

In connection with the issuance of the common shares and preferred shares, we recorded preferred stock dividend requirements that will be reflected as preferred stock dividends in the income statement as the underlying preferred stock converts to common stock. The following table provides the dividend expense recorded by offering:

		12 Months Ended December 31, 2007
2006C Preferred equity offering	$	2,000,000
2007 Preferred equity offering		2,050,000

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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, 2007. 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 December 31, 2007, we had working capital deficit of $1,212,351.

Our operations generated losses in 2007. Our cash decreased $288,272 during the year with operating activities using $3,590,379 of cash. We funded operations with cash from two equity offerings and revenues from the Barbados contract. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2008 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 2008.

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.

2007 Preferred Equity

During the third quarter of 2007, the Company raised $2,050,000 of additional working capital through exempt Preferred Stock offerings under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2007 Preferred and consists of 205 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one basis at $1.00. In addition, the Company issued 1,025,000 warrants to purchase the Company’s common stock exercisable for five years at $2.00 per share. 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.

2006C Preferred Equity

In January 2007 the Company raised $2,000,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006C Preferred and consists of 200 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a ten thousand (10,000) to one basis at $1.00. In addition, the Company issued 1,000,000 warrants to purchase the Company's common stock exercisable for five years at $2.00 per share. 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.

Barbados Port Inc.

During the first quarter of 2007, the Company announced a large order for a comprehensive enhanced port security solution for The Barbados Port Inc. It includes a personnel and vehicle tagging, distributed sensors and an integrated software system to expand and enhance the security of the Port while not impacting security labor resources. Axcess took total responsibility for its delivery including design, construction oversight, installation, training, operations support and maintenance. This is the first order of its size the Company has taken total implementation responsibility for and the results were exceptional. The entire project revenue was approximately $2,000,000.

Sales and Marketing Initiatives

In the past our sales volume has not been sufficient to sustain our operations. During 2006, we continued to see broad-based awareness and acceptance of RFID on a world-wide basis. Our approach for 2007 has been:

1. We continue to focus on replicating our past success;
2. We continue to add integrators and partners to our sales channel;
3. We continue to improve our professional skill sets and resources to grow the business.

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.

See "Risk Factors."

Results of Operations

Sales and Gross Profit. Sales for the year ending December 31, 2007 and 2006 were $3,412,484 and $1,501,296, respectively. We realized gross profits of 56% or $1,925,106 in 2007 and 44% or $656,843 in 2006. One customer accounted for 59% of total revenue in 2007 and no customers accounted for more than nine percent of the revenue in 2006. Cost of sales for the year ended December 31, 2007 and 2006 were $1,478,959 and $837,789, respectively. We also recorded a charge of $8,419 for inventory impairment during the year ended December 31, 2007 compared to $6,664 for the year ended December 31, 2006. The impairment was as a result of the change in strategy from self-manufacturing to contract manufacturing and the change from video products to RFID products. The amount reflects items that have not been able to be used by our contract manufacturers in the building of additional products. The majority of the increase in sales is a result of the Barbados contract, a large single order, awarded in January 2007. The increase in gross margin was partly due to the increased scope of the system installation with the Barbados contract and we continue to expect the margin will continue to be stable in the 40% to 50% range now that the entire Barbados contract has been completed.

Operating Expenses. Operating expenses were $6,566,689 and $4,366,182 in 2007 and 2006, respectively. The majority of the increase relates to the development of our next generation products and the increased selling expense related to the Barbados contract.

Research and development expenses were $3,167,736 in 2007 and $1,380,875 in 2006. The largest portion of the increase relates to the continued expensing of the development of the next generation RFID products that was announced during 2007. The remainder of the increase relates to increased salary and related expenses for additional headcount, expensing of stock compensation and increased contract labor.

Corporate general and administrative expenses were $1,773,678 and $1,795,479 in 2007 and 2006, respectively. The decrease was mainly related to lower insurance expense, reduced investor relation activity and lower salary expense. However, some of that savings was offset by an increase in legal expense as we ramp up our patent activity and an increase bad debt expense.

Selling and marketing expenses were $1,609,610 and $1,171,023 in 2007 and 2006, respectively. The majority of the increase relates to increased salary and related expenses as a result of improving the quality of our sales team, increased selling expense relating to the Barbados contract and increased advertising. However, we were able to offset some of the increase with reduced recruiting expense.

Depreciation and amortization expenses were $15,665 for 2007 compared to $18,805 for 2006. 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 ($305,099) for 2007 and $350,725 for 2006. Interest expense was $20,893 lower during 2007, compared to 2006, reflecting lower debt levels. We also recognized $25,799 during 2007 relating to the gain on vendor settlements, statuary write-off and other items compared to $102,516 during the same period of 2006. During 2006, we also sold a portion of our video patent portfolio for $600,000.

Net Loss. Net loss was $4,946,682 and $3,358,614 in 2007 and 2006, respectively. The increase in expense relates to the development of the Enterprise Dot, our next generation RFID product and selling expense relating to the Barbados contract, as well as the sale of the video patents during 2006, offset by an improvement to the gross margin by the contribution of the Barbados contract.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $4,368,357 for 2007 and $3,209,428 for 2006. During 2007, we expensed $2,050,000 related to the 2007 Preferred equity offering and $2,000,000 related to the 2006C Preferred equity offering compared to $645,020 related to the 2006 preferred equity offering and $1,489,245 related to the second close of the 2005 preferred equity during 2006. Recurring preferred Stock dividend requirements were $318,357 in 2007 and $325,163 in 2006.

Other Matters relating to future amortizable charges

As of December 31, 2007 we have $30,421 of debt discount and deferred debt issuance costs on our balance sheet, which will be amortized using the effective interest rate over lives of the related debt. In connection with the issuance of the 2003B Preferred Stock, we recorded preferred stock dividend requirements of $1,782,831 that will be reflected as preferred stock dividends in the income statement as the underlying preferred stock converts to common stock. In connection with the issuance of the 2004 Preferred Stock, we recorded preferred stock dividend requirements of $1,002,540 that will be reflected as preferred stock dividends in the income statement as the underlying preferred stock converts to common stock.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 had no material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115." This Standard allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS No. 159 is effective beginning on December 1, 2008. We are currently evaluating the impact this new Standard could have on our financial position and results of operations

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

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions are effective for our first quarter 2007 financial statements with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. The adoption of FIN 48 had no material effect on our consolidated financial statements.

Critical Accounting Policies

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States, we must make a variety of estimates that affect the reported amounts and related disclosures. The following accounting policies are currently considered most critical to the preparation of our financial statements. If actual results differ significantly from our estimates and projections, there could be a material effect on our financial statements.

Allowance for Doubtful Accounts

We continually evaluate the creditworthiness of our customers' financial condition and generally do not require collateral. We evaluate the collectability of our accounts based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific reserve for bad debts against amounts due. We have not experienced significant losses on uncollectible accounts receivable.

Inventory Valuation

Inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, or estimated realized value. Adjustments to reduce inventories to estimated realizable value, including allowances for excess and obsolete inventories, are determined quarterly by comparing inventory levels of individual materials and parts to historical usage rates, current backlog and estimated future sales. Actual amounts realized upon the sale of inventories may differ from estimates used to determine inventory valuation allowances due to changes in customer demand, technology changes and other factors.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets and identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets based on estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Revenues from the sale of products utilizing our purchased technologies have grown slowly. We believe that assumptions made in projecting future cash flows for this evaluation are reasonable. However, if future actual results do not meet our expectation, we may be required to record an additional impairment charge, the amount of which could be material to the results of its operations and financial position.

Revenue Recognition and Warranty Costs

We recognize revenue on sales of our products when the products are shipped from our facility in Carrollton, Texas. Our policy does not allow customers to return products for credit. We currently provide a one-year warranty on all products. Provision is made at the time the related revenue is recognized for estimated product repair costs.

Deferred Tax Valuation Allowance

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax expense is the total of tax payable for the period and the change during the period in deferred tax assets and liabilities.

Stock-Based Compensation Expense

As of January 1, 2006, we account for employee stock-based compensation costs in accordance with Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“SFAS 123R”). We utilize the Black-Scholes option pricing model to estimate the fair value of employee stock based compensation at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation.

Other

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

Seasonality. Seasonality has not had and is not expected to have a material impact on the operations and financial condition of Axcess.

Item 7. FINANCIAL STATEMENTS.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There were no reportable events of the type described in Item 304(a)(1)(iv) of Regulation S-B.

Item 8A. CONTROLS AND PROCEEDURES.

Under the supervision and with the participation of our management, including our principal executive officer and the principal financial officer, we conducted an evaluation of 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, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date, that our disclosure controls and procedures were not effective.

MANAGEMENTS' ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.

Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007 based on criteria established under the COSO framework, an integrated framework for evaluation of internal controls issued to identify the risks and control objectives related to the evaluation of the control environment by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation described above, management has concluded that our internal control over financial reporting was not effective as of December 31, 2007. Management has determined that (i) we are unable to maintain the proper segregation of various accounting and finance duties because of our small size and limited resources, (ii) much of the financial closing process is done off-line on electronic spreadsheets that are maintained on individual computers and are not backed up and (iii) based on our staffing we rely on our Chief Financial Officer to provide a significant amount of our compensating controls.

We intend to remediate these material weaknesses during 2008. Notwithstanding these material weaknesses, we believe that our financial conditions, results of operations and cash flows presented in this report of Form 10-KSB are fairly presented in all material respects.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 8B. OTHER INFORMATION.

Not applicable.

PART III

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Management of Axcess

The Board elects executive officers annually at its first meeting following the annual meeting of stockholders. The following table sets forth, as of March 1, 2007, Axcess' directors, executive officers and significant employees, their ages, and their positions within Axcess.

Name	Age	Position	Committee	Independent (1)
Richard C.E. Morgan	63	Chairman of the Board of Directors	(2*) (4*) (5)	
Allan Griebenow	55	Director, President and Chief Executive Officer	(2) (5)	
Allan L. Frank	44	Vice President, Secretary and Chief Financial Officer		
Robert J. Bertoldi	53	Directors	(3) (5)	
Paul J. Coleman, Jr.	75	Director	(3*) (5)	X
Robert F. Hussey	58	Director	(3) (4) (5)	X
Raj Bridgelall	40	Vice President of Engineering		
Ray Cavanagh	57	Vice President of Sales		
Benjamin Donohue	57	Vice President of Business Development		

(1) Indicates the board member is "Independent" as such term is defined under and required by the federal securities laws and the rules on the Nasdaq Stock Market.
(2) Executive Committee
(3) Audit Committee
(4) Compensation Committee
(5) Nominating and Governance Committee
* Indicates Chairman of the Committee

Richard C. E. Morgan has served as a director and Chairman of the Board of the company since 1985. Since 2003 Mr. Morgan has been Chief Executive Officer and is a director of Amphion Innovations plc, the successor to Amphion Capital Partners LLC a private equity and venture firm that he co-founded, of which he was Chairman and CEO. In November 1999, Mr. Morgan co-founded VennWorks LLC, a venture capital company and since then has served as its Chairman and Chief Executive Officer. In 1995, Mr. Morgan co-founded Amphion Capital Management, LLC, a private equity and venture capital firm, and since then has served as one of its Managing Members. From 1986 Mr. Morgan has been a Managing Member of Wolfensohn Partners, LP, (now known as Amphion Partners LLC), the General Partner of Wolfensohn Associates LP (known as Amphion Ventures LP) a technology and life science fund. Mr. Morgan serves on the Board of Directors of Celgene Corp., which develops and markets biotechnology products. Mr. Morgan is also a director of several private companies and is also a director of Orbis International, Inc., a non-profit organization dedicated to fighting blindness worldwide.

Allan Griebenow has served as a director, President and Chief Executive Officer of the Company since July 1999. He founded Prism Video, Inc. in 1993 and was Chief Executive Officer of Prism Video, Inc. from 1994 to July 1999. From 1989 to 1992, Mr. Griebenow was President, CEO and a Director of Vortech Data Inc., a pioneer in the medical imaging networking (PACS) space which was sold to Eastman Kodak and became Kodak Health Imaging Systems. Earlier he was with Satellite Systems Engineering, Ford Aerospace, and Satellite Business Systems. Mr. Griebenow has spent the past twenty five years in telecommunications-based advanced applications. He started his career in 1979 as a Presidential Management Intern with NASA's Office of Aeronautics and Space Technology. He holds a B.S. in Business Administration from the University of Maryland and an MBA from San Francisco State University.

Allan L. Frank has served as Vice President, Secretary and Chief Financial Officer of the Company since March 2002. From July 1999 through June 2001, Mr. Frank was Vice President, Chief Financial Officer and Secretary for Vast Solutions, Inc., a spin-off from Paging Network, Inc. ("PageNet"). Vast Solutions, Inc. filed for bankruptcy in April 2001. From September 1993 through July 1999, Mr. Frank served in numerous positions at PageNet, including as Vice President of Corporate Development and Director of Financial Analysis, and as Director of International Finance for Paging Network International, a subsidiary of PageNet. Prior to PageNet, Mr. Frank worked at FoxMeyer Corporation, OrNda HealthCare and Dalfort Aviation

Services. Mr. Frank holds a B.S. in Business Administration from The Ohio State University and an MBA from the University of North Texas.

Robert J. Bertoldi has been a director of the Company since June 2000. Since 2005 he has been the President and Chief Financial Officer of Amphion Innovations plc (AMP), a company listed on the AIM on the London Stock Exchange. Amphion develops and operates companies in the life sciences and medical technology sectors. Since 2003, Mr. Bertoldi has been the President of Amphion Capital Partners LLC, since 2000 Mr. Bertoldi has been the President of VennWorks, LLC, since 1995, Mr. Bertoldi has been a Managing Member of Amphion Capital Management, LLC, and of Amphion Partners LLC, the General Partner of Amphion Ventures LP. Prior to 1995 Mr. Bertoldi served as the Chief Financial Officer of James D. Wolfensohn Inc. and Hambro America Inc. In addition to being a member of the Board of Directors for Axcess, Mr. Bertoldi is the Chairman of the Board of m2m Inc, and is on the Board of WellGen Inc. Mr. Bertoldi received his B.A. in Accounting and Economic from Queens College in 1976 and became a Certified Public Accountant in 1978. He is a member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Paul J. Coleman, Jr. has served as a director of the Company since 1982. He is President and Chief Executive Officer of the Girvan Institute of Technology, a non-profit, public benefit corporation engaged in research, technology development, and education related to high-technology enterprise. Dr. Coleman is an emeritus professor of space physics at the University of California at Los Angeles ("UCLA"). He currently serves as a director of Knowledge Vector, Inc., Microtechnologies Ltd and the Girvan Institute. He is a former director of CACI International, Fairchild Space and Defense Corporation, the Universities Space Research Association (USRA) and others. He has held positions as assistant (managing) director of the Los Alamos National Laboratory; president and chief executive officer of USRA, (managing) director of the Institute of Geophysics and Planetary Physics at UCLA; and (managing) director of the National Institute for Global Environmental Change of the U.S. Department of Energy.

Robert F. Hussey has served on the Board since September 2002. Mr. Hussey is a private equity investor. Mr. Hussey currently serves as a Director of Digital Lightwave, Inc. Mr. Hussey also serves on the board of HC Wainwright & Co, DIRT Motorsports, Inc. and on the board of advisors for Argentum Capital Partners. From 1991 through 1996, Mr. Hussey served as President, CEO and Director of MetroVision of North America. From 1984 through 1991, Mr. Hussey was Founder, President, CEO and Director of POP Radio Corp. Prior to POP Radio, Mr. Hussey worked at Grey Advertising, Inc., E.F. Hutton and American Home Products, Inc. Mr. Hussey received a B.S. in Business Administration from Georgetown University and an MBA in International Business from George Washington University**.**

Raj Bridgelall has served as Vice President of Engineering of the Company since September 2006. From August 2004 through August 2006, Mr. Bridgelall was Vice President, R&D / Advanced Product Development for Alien Technology, Inc. From December 1990 through July 2004, Mr. Bridgelall served in numerous positions at Symbol Technologies, including as Chief Technologist and Advanced Product Development, RFID. Prior to Symbol Technologies, Mr. Bridgelall worked as a Communications Specialists in the United States Coast Guard. Mr. Bridgelall holds a Bachelors degree in Electrical Engineering from Stony Brook University and a Masters degree in Electrical Engineering from Stony Brook University.

Ray Cavanagh has served as Vice President of Sales of the Company since May 2006. From May 2004 through January 2006, Mr. Cavanagh was Senior Vice President, Worldwide Sales Operations for OpenService, Inc. From April 2002 through May 2004, Mr. Cavanagh served as Vice President, Worldwide Sales, Marketing and Business Development for Entegrity Solutions. From November 2000 through April 2002, Mr. Cavanagh served as Vice President of Worldwide Sales for First Virtual Communications, Inc. Prior to First Virtual Communications, Mr. Cavanagh ran Sales Operations at Aprisma Inc., Newpoint Technologies, Inc., PictureTel Corporation, Interleaf, Inc. and Wang Laboratories. Mr. Cavanagh holds an MBA from Northeastern University where he also completed his undergraduate studies.

Ben Donohue has served as Vice President of Business Development of Axcess International. He came to Axcess in 1999 when it acquired Prism Video where he was Director of Products since 1994. During his tenure with Prism Video, he managed the team that developed and marketed patented proprietary video compression technology in commercial products. In his current position, Donohue maintains strategic major accounts such as Honeywell, Tyco, ADT and Sonitrol.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, directors, certain officers and beneficial owners of 10% or more of the Company's Voting Common Stock are required from time to time to file with the Securities and Exchange Commission reports on Forms 3, 4 or 5, relating principally to transactions in Company securities by such persons. Based solely upon a review of Forms 3, 4 and 5 submitted to Axcess during and with respect to 2005, all of these individuals or entities timely filed their respective Forms 3, 4 or 5 required by Section 16(a) of the Exchange Act during 2007.

Code of Ethics

We have adopted our Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and any Principal Accounting Officer or Controller ("Senior Financial Officers") of Axcess International, Inc. (the "Company"). Its purpose is to promote honest and ethical conduct and compliance with the law, particularly as related to the maintenance of the Company's financial records and the preparation of financial statements filed with the Securities and Exchange Commission (the "SEC"). A copy of such code is attached as an exhibit to our annual report on Form 10-KSB for the ended December 31, 2006

Item 10. COMPENSATION DISCUSSION AND ANALYSIS

The Company's Board of Directors is responsible to oversee all of the executive compensation and equity plans and programs to ensure that its officers and senior staff are compensated in a manner that is consistent with its competitively based annual and long term performance goals.

Compensation Philosophy and Objectives

The Company's compensation programs are designed to attract, motivate, and retain talented executives while maintaining competitiveness within our industry. We face competition in the market for talented executives and employees and understands the need to offer competitive employment packages. Our compensation programs are designed to achieve this in a manner that still furthers the financial interest of its shareholders. The objectives of the compensation programs are:

- to provide levels of compensation that integrate with annual and long term performance goals for the Company
- to attract and retain top level executives
- to reflect individual job responsibilities and reward previous and expected future contributions to the Company
- to remain competitive with compensation programs offered in the market while allowing us to maintain competitive pricing
- to limit the use of perquisites to those that assist the executive officers in efficiently carrying out their responsibilities

Compensation Process and Components

The Board of Directors, acting as a whole, has primary responsibility for the determination of officers' salaries. Compensation for officers consists of base salaries plus bonuses designed to reward officers for achieving certain financial and business objectives. We generally establish the salaries for its officers in a range that is competitive within our industry.

Base Salaries

Salaries for the Company's officers (including the CEO) are determined by evaluating the officer's individual performance and contributions to the performance of the Company, the officer's responsibilities, experience, and any other data which may be available regarding competitive practices. Officers' salaries and merit adjustments are approved annually by the Board of Directors in January for the next 12 months. Based on this process, the Company's officers were provided a 6.6% increase for fiscal year 2007 (for the first time since 2001).

Bonus/Pay for Performance (update)

The Company utilizes a performance based compensation plan covering senior technical and management personnel called the Management Incentive Performance Plan (MIPP). The MIPP includes as participants all of the Company's officers. A bonus pool is established by the Board of Directors for the MIPP on an annual basis which is dependent upon several targets both financial (revenue, cash flow, margin) and non financial (patents, delivery schedules). The bonus pool amount has upward and downward adjustments if the specific goal is exceeded or not achieved, respectively. The bonus is paid using a combination of cash and the Company's common stock from the Company's 2005 Stock Award Plan. The Board of Directors determines the allocation between cash and stock awards. We established the MIPP program during 2007 and since the inception there has been no cash or stock issued. The allocation of the MIPP bonus pool is determined by the Board of Directors.

Retirement and Other Benefits

All officers and employees are entitled to participate in our fringe benefit programs, including the Company's 401(k) Plan, which is an IRS qualified plan, available to all eligible employees. The 401(k) Plan is a non employer contributory plan and the only contributions are employee 401(k) elective deferrals.

Perquisites and Other Personal Compensation

The Company believes that compensation for its executive officers and directors should be reasonable compared to the total staff. In keeping with this philosophy, the Company does not currently offer special benefits to its officers and directors, other than those available to the general staff. The Company has not entered into any employment agreement, other than with Allan Griebenow, and there is no special benefit or compensation paid to any of the named executive officers in the event of their termination (without cause or by death) or retirement that is not available to the general staff.

Summary Compensation Table

The following table summarizes the compensation earned by Axcess' Chief Executive Officer and Axcess' four other most highly compensated executive officers (whose annualized compensation exceeded $100,000) (collectively called the "named executive officers"), for services rendered in all capacities to Axcess during the fiscal years ended December 31, 2007 through 2005.

Summary Compensation Table

Name Principal Positions	Year Ended	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($) (A,1)	All Other Compensation ($) (B)	Total ($)
Allan Griebenow	2007	235,363	—	—	50,400	—	285,763
President and Chief Executive Officer	2006	230,009	—	—	243,880	—	479,889
	2005	230,946	—	—	—	—	230,946
Allan L. Frank	2007	183,810	—	—	35,400	—	219,210
Vice President, Secretary and Chief	2006	180,000	—	—	195,650	—	375,650
Financial Officer	2005	180,937	—	—	—	—	180,937
Raj Bridgelall	2007	172,599	—	—	60,000	12,021	244,620
Vice President, Engineering	2006 (2)	43,154	—	—	120,000	7,974	171,128
Ray Cavanagh	2007	151,610	—	—	24,000	—	175,610
Vice President, Sales	2006 (3)	93,750	—	—	144,000	—	237,750
Ben Donohue	2007	116,315	10,000	—	24,000	—	150,315
Vice President, Business Development	2006 (4)	115,837	—	—	97,370	—	213,207

(A) Reflects the grant date fair value calculated in accordance with FAS 123(R). See "Notes to Financial Statements – Summary of Significant Accounting Policies - Stock-Based Compensation Adoption of SFAS 123R" for a discussion of the relevant assumptions used in calculating the grant date fair value pursuant to FAS 123(R).

(B) Mr. Bridgelall "All Other Compensation" consists of reimbursement for moving expenses.

(1) Option awarded during 2007 have additional vesting requirements and the compensation expense is not defined until the criteria are determined; therefore, only the shares where the criteria are defined are shown as expense.

(2) Represents compensation earned from September 2006, when Mr. Bridgelall was hired by Axcess and he was elected as an officer at that time.

(3) Represents compensation earned from May 2006, when Mr. Cavanagh was hired by Axcess and he was elected as an officer in July 2006.

(4) Represents compensation earned for the full year 2006. However, Mr. Donohue was elected an officer in July 2006 but has been an employee of Axcess since July 1999

Stock Option Grants in 2007 to Named Executive Officers

During 2007, we granted awards to our CEO, CFO and other named executive officers pursuant to our 2005 Equity Incentive Plan. Information with respect to each of these awards, including estimates regarding future payouts under each of these awards on a grant by grant basis, is set forth in the table below.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock Or Units (#)	All Other Option Awards: Number of Securities Under-Lying Options (#)	Exercise or Base Price Of Option Awards ($ / Share)	Grant Date Fair Value Of Stock and Option Awards
Allan Griebenow	09/21/07	—	168,000	$ 1.50	$ 252,000
Allan L. Frank	09/21/07	—	118,000	1.50	177,000
Raj Bridgelall	09/21/07	—	200,000	1.50	300,000
Ray Cavanagh	09/21/07	—	80,000	1.50	120,000
Ben Donohue	09/21/07	—	80,000	1.50	120,000

Description	Total Number of Options (#)	Exercised Price ($ / Share)	Number Receiving Grants
Named Officers	646,000	$ 1.50	5
Directors	80,000	1.50	4
Other Employees	439,000	$1.45 - $1.50	15
Total	1,165,000	$1.45 - $1.50	24

During 2007 the board voted to issue a total of one million one hundred and sixty-five thousand options (1,165,000). Six hundred and forty-six thousand (646,000) to officers, eighty thousand (80,000) to directors and a total of four hundred and thirty-nine thousand to other employees other than named executives or directors. The exercise price was the closing price on the date of the grant and ranged from $1.45 to $1.50 per share. The options will vest in four equal installments beginning one year from the grant date and be subjected to certain earn out provisions. The options were granted to fifteen employees other than named officers. The grants ranged in size from 4,000 to 75,000 with the average being 29,267.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes equity awards granted to our CEO, CFO and other named executive officers that were outstanding as of December 31, 2007.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Options(#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options(#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Allan Griebenow (1)	1,263,072	302,000	—	$2.20	10 years from Grant	—	—	—	—
Allan Frank (2)	640,468	225,500	—	$1.71	10 years from Grant	—	—	—	—
Raj Bridgelall (3)	37,500	112,500	—	$1.24	10 years from Grant	—	—	—	—
Ray Cavanagh (4)	37,500	112,500	—	$1.26	10 years from Grant	—	—	—	—
Ben Donohue (5)	252,867	133,500	—	$1.34	10 years from Grant	—	—	—	—

(1) Includes a grant made on July 28, 1999 for 450,000 options at a strike price of $2.50; a grant made on February 2, 2000 for 124,112 options with a strike price of $5.50; a grant made on January 10, 2001 for 150,392 option at a strike price of $3.88; a grant made on June 5, 2002 for 85,000 options at a strike price of $1.70; a grant made on January 17, 2003 for 163,000 options at a strike price of $0.40; a grant made on March 16, 2004 for 156,568 options at a strike price of $2.00, a grant made on February 15, 2006 for 268,000 options with a strike price of $1.04 and a grant made September 21, 2007 for 168,000 options at a strike price of $1.50.

(2) Includes a grant made on March 20, 2002 for 200,000 option at a strike price of $3.00; a grant made on June 5, 2002 for 85,000 options at a strike price of $1.70; a grant made on January 17, 2003 for 100,000 options at a strike price of $0.40; a grant made on March 16, 2004 for 147,968 options at a strike price of $2.00, a grant made on February 15, 2006 for 215,000 options with a strike price of $1.04 and a grant made September 21, 2007 for 118,000 options at a strike price of $1.50.

(3) Includes a grant made on October 1, 2006 for 150,000 options at a strike price of $0.93 and a grant made September 21, 2007 for 200,000 options at a strike price of $1.50.

(4) Includes a grant made on May 16, 2006 for 150,000 options at a strike price of $1.10 and a grant made September 21, 2007 for 80,000 options at a strike price of $1.50.

(5) Includes a grant made on September 29, 1999 for 12,000 options at a strike price of $2.69; a grant made on February 2, 2000 for 3,308 options with a strike price of $5.50; a grant made on January 10, 2001 for 6,000 option at a strike price of $3.88; a grant made on June 5, 2002 for 65,000 options at a strike price of $1.70; a grant made on January

17, 2003 for 78,000 options at a strike price of $0.40; a grant made on March 16, 2004 for 35,059 options at a strike price of $2.00 and a grant made on February 15, 2006 for 107,000 options with a strike price of $1.04 and a grant made September 21, 2007 for 80,000 options at a strike price of $1.50.

Aggregate Option Exercises in 2007 by Executive Officers

The following table provides information as to options exercised, if any, by each of the named executive officers in 2007 and the value of options held by those officers at year-end measured in terms of the last reported sale price for the shares of our Voting Common Stock on December 31, 2007 ($1.28 as reported on the Over-The-Counter Bulletin Board).

	Shares Acquired On	Value	Number of Securities Underlying Unexercised Options at December 31, 2007		Value of Unexercised In-the-Money Options at December 31, 2007	
Name	Exercise	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Allan Griebenow	—	$ —	1,263,072	302,000	$ 175,600	$ 32,160
Allan L. Frank	—	$ —	640,468	225,500	$ 113,800	$ 25,800
Raj Bridgelall	—	$ —	37,500	112,500	$ 6,750	$ 39,375
Ray Cavanagh	—	$ —	37,500	112,500	$ 6,750	$ 20,250
Ben Donohue	—	$ —	252,867	133,500	$ 81,480	$ 12,840

Compensation of the Company's Directors

Starting in 2006, we pay cash compensation to each director who is not employed by us and who does not beneficially own more than five percent of the shares of common stock outstanding. We will pay five thousand dollars per quarter to each independent director and an additional twenty-five hundred dollars per quarter for an independent chairman of the audit or compensation committee. We will also pay one thousand dollars to each independent director for each meeting attended and five hundred dollars for each telephonic board meeting. The cash compensation is automatically suspended in the event that our cash balances is below $500,000 on the first day of the quarter. In addition to the compensation set forth above, each director shall receive an annual grant of options to acquire common stock at an exercise price equal to the fair market value per share of the common stock at the time the option is granted. The annual grant customarily takes place shortly after each annual meeting of our stockholders. All new board members receive 50,000 options to acquire common stock at an exercise price equal to the fair market value per share of the common stock on the date the board member is elected by our stockholders. All new board members will also be eligible to receive the annual grant. We also pay ordinary and necessary out-of-pocket expenses for directors to attend board and committee meetings. Directors who are officers or employees of Axcess receive no fees for service on the board or committees thereof.

The following table summarizes compensation paid to all of our non-employee directors:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Richard CE Morgan	$ —	$ —	$ 24,000	$ —	$ —	$ —	$ 24,000
Robert Bertoldi	—	—	24,000	—	—	—	24,000
Robert Hussey	9,500	—	24,000	—	—	—	33,500
Paul Coleman	6,500	—	24,000	—	—	—	30,500

Employment Agreement with Mr. Griebenow

On July 16, 1999, the Company entered into an agreement with Allan Griebenow, under which Mr. Griebenow agreed to be the Company's president and chief executive officer. The agreement provides that Mr. Griebenow will receive a salary equal to $17,917 per month, a bonus payable within 90 days after the end of the Company's fiscal year of up to 30% of his base salary, and option grants to acquire 450,000 shares of our common stock. Mr. Griebenow is essentially an "at will" employee of the Company and may be terminated upon thirty days' notice. If the Company terminates Mr. Griebenow's employment at any time without cause, as defined in the employment agreement, then Mr. Griebenow will be entitled to continue to receive his then current salary for the six-month period following his termination.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth the number of shares of each class of stock beneficially owned as of March 31, 2008, by each person known by Axcess to be the beneficial owner of more than five percent of any class of our voting securities as of March 31, 2008. Except as noted below, to our knowledge, each stockholder listed below has sole voting and investment power with respect to all shares of stock shown beneficially owned by the stockholder.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Owner		Percentage of Class	Percentage of Voting Power (1)
Amphion Group (2)	Voting Common Stock	20,243,563	(3)	48.8%	49.4%
330 Madison Avenue	Series 2005	1,770,024		65.3%	4.4%
New York, NY 10017	Series 2006B	450,000		64.3%	1.1%
	Series 2007	250,000	(4)	13.2%	0.6%

(1) Includes outstanding common and preferred shares outstanding. Excludes stock options and warrants.

(1) See the following table regarding the beneficial ownership of the Amphion Group.

(2) Includes 2,756,736 shares that the Amphion Group has the right to acquire pursuant to warrants and options that are exercisable within 60 days.

(3) 25 preferred shares that convert ten thousand to one.

The following table sets forth the number of shares beneficially owned by the Amphion Group, which is defined to include Mr. Richard C.E. Morgan, a British citizen and Chairman of the Board of Directors of the Company ("Mr. Morgan"), Mrs. Anna Morgan, a British citizen and wife of Richard C.E. Morgan ("Mrs. Morgan"), Robert J. Bertoldi, a U.S. citizen and Director of the Company ("Mr. Bertoldi"), Amphion Ventures, LP, a Delaware limited partnership ("Amphion Ventures"), Amphion Partners, LLC, a Delaware limited liability company ("Amphion Partners"), Amphion Investments, LLC, a Delaware limited liability company ("Amphion Investments"), Antiope Partners, LLC, a Delaware limited liability company ("Antiope Partners"), Amphion Capital Management, LLC, a Delaware limited liability company ("ACM"), NVW,LLC a Delaware limited liability company (NVW"), Amphion Innovations plc, an Isle of Man company (Innovations) and VennWorks, LLC, a Delaware limited liability company formerly known as incuVest, LLC, ("VennWorks").

The Amphion Group disclaims in its filings with the Securities and Exchange Commission that it holds any securities of the Company as a group, within the meaning of any applicable securities law or regulation. Amphion Partners is the sole general partner of Amphion Ventures. Messrs. Morgan and Bertoldi are the managing members of Amphion Partners, Antiope Partners and Amphion Investments. Mr. Morgan is the Chairman of the Board of Directors and Chief Executive Officer of VennWorks. Mr. Bertoldi is the President of VennWorks.

Based on amended Schedule 13D filed by certain members of the Amphion Group with the SEC on February 10, 2000, Amphion Ventures, Amphion Partners and Mr. Morgan share voting power with respect to certain of the shares owned by them. Also, based on the Schedule 13D, Mr. Morgan shares voting power for the shares held by Amphion Investments, Antiope Partners and certain other shares held by Amphion Partners. Mr. Morgan disclaims beneficial ownership of the shares held by each of the Amphion Group.

	Voting Common		Series 2005 Preferred	Series 2006B Preferred	Series 2007 Preferred		Warrants		Options		Total
Amphion Ventures LP	9,219,305		—	—	—		—		—		9,219,305
VennWorks LLC	5,677,006		—	—	—		—		—		5,677,006
Amphion Innovations plc	670,000		1,475,906	150,000	—		1,734,532	(1)			4,030,438
Mr. Morgan	722,509	(2)	294,118	300,000	250,000	(3)	739,118	(4)	94,293	(5)	2,400,038
Antiope Partners LLC	1,109,182		—	—	—		—		—		1,109,182
Mr. Bertoldi	—		—	—	—		—		188,793	(6)	188,793
Amphion Investments LLC	44,000		—	—	—		—		—		44,000
Amphion Partners LLC	28,125		—	—	—		—		—		28,125
Amhion Capital Management LLC	16,700		—	—	—		—		—		16,700
Total of Amphion Group	17,486,827		1,770,024	450,000	250,000		2,473,650		283,086		22,713,587

(1) Includes ten different grants ranging in price ($1.08 to $2.00) and expiration dates (January 28, 2010 to February 28, 2013).
(2) Includes 252,715 shares of common stock issued to Mrs. Morgan, the wife of Mr. Morgan.
(3) 25 preferred shares that convert ten thousand to one

(4) Includes three different grants ranging in price ($1.50 to $2.00) and expiration dates (January 28, 2010 to December 1, 2011).
(5) Options to purchase 94,293 shares of common stock that are exercisable within 60 days.
(6) Options to purchase 188,793 shares of common stock that are exercisable within 60 days. .

The following table sets forth the number of shares of each class of stock beneficially owned as of March 31, 2008, by each director who beneficially owns equity securities and the executive officers of Axcess, and all of our directors and executive officers as a group. The business address of each director and executive officer is c/o Axcess International, Inc., 3208 Commander Drive, Carrollton, Texas 75006. To Axcess' knowledge, each stockholder listed below has sole voting and investment power with respect to all shares of stock shown beneficially owned by the stockholder, except for Mr. Morgan's beneficial ownership, which is discussed in the introduction to the previous table above.

Name of Beneficial Owner	Title of Class		Amount and Nature of Beneficial Owner	Percentage of Class	Percentage of Common Voting Power
Richard C.E. Morgan	Voting Common Stock	(1)	17,486,827	59.6%	43.5%
	Series 2005 Preferred		1,770,024	66.8%	4.4%
	Series 2006B Preferred		450,000	64.3%	1.1%
	Series 2007 Preferred		25	13.2%	*
Robert J. Bertoldi	Voting Common Stock	(2)	16,764,318	57.2%	41.7%
	Series 2005 Preferred		1,475,906	55.7%	3.7%
	Series 2006B Preferred		150,000	21.4%	*
Allan Griebenow	Voting Common Stock	(3)	14,860	*	*
Paul J. Coleman, Jr.	Voting Common Stock	(4)	80	*	*
Allan L. Frank	Voting Common Stock	(5)	–	*	*
Robert F. Hussey	Voting Common Stock	(6)	–	*	*
Raj Bridgelall	Voting Common Stock	(7)	–	*	*
Raymond Cavanagh	Voting Common Stock	(8)	–	*	*
Benjamin Donohue	Voting Common Stock	(9)	–	*	*
All Directors, Director	Voting Common Stock		17,501,767	59.7%	43.5%
Nominees and	Series 2005 Preferred		1,770,024	66.8%	4.4%
Executive Officers as	Series 2006B Preferred		450,000	64.3%	1.1%
a group (10 individuals)	Series 2007 Preferred		25	13.2%	*

* Less than 1%.

(1) The number of shares of voting common stock includes 469,794 shares held directly, 16,764,318 shares held by other entities within the Amphion Group (defined in Note 1 to the immediately preceding table above), 252,715 shares owned by Mr. Morgan's wife. However, the number of shares of voting common stock excludes 833,411 shares that Mr. Morgan has the right to acquire pursuant to option and warrant agreements that are exercisable within 60 days, 1,802,022 shares that entities within the Amphion Group have the right to acquire pursuant to warrant agreements that are exercisable within 60 days. As detailed in Note 1 to the immediately preceding table above, Mr. Morgan disclaims beneficial ownership of all shares beneficially owned by entities within the Amphion Group.

(2) Includes 16,764,318 shares held by other entities within the Amphion Group (defined in Note 1 to the immediately preceding table above). However, excludes 188,793 shares that Mr. Bertoldi has the right to acquire pursuant to option and warrant agreements that are exercisable within 60 days and 1,802,022 shares that entities within the Amphion Group have the right to acquire pursuant to option and warrant agreements that are exercisable within 60 days. As detailed in Note 1 to the immediately preceding table above, Mr. Bertoldi disclaims beneficial ownership of all shares beneficially owned by entities within the Amphion Group.

(3) Includes 14,580 shares of common stock held directly by Mr. Griebenow and 280 shares owned jointly with his wife. Excludes 1,263,072 shares that Mr. Griebenow has the right to acquire pursuant to option agreements that are exercisable within 60 days.

(4) Includes 80 shares of common stock held directly by Mr. Coleman and excludes 216,793 shares that Mr. Coleman has the right to acquire pursuant to option agreements that are exercisable within 60 days.

(5) Excludes 640,468 shares that Mr. Frank has the right to acquire pursuant to options that are exercisable within 60 days.

(6) Excludes 178,793 shares that Mr. Hussey has the right to acquire pursuant to options that are exercisable within 60 days.

(7) Excludes 37,500 shares that Mr. Bridgelall has the right to acquire pursuant to options that are exercisable within 60 days.

(8) Excludes 37,500 shares that Mr. Cavanagh has the right to acquire pursuant to options that are exercisable within 60 days.

(9) Excludes 252,867 shares that Mr. Donohue has the right to acquire pursuant to options that are exercisable within 60 days.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Amphion Investment LLC

Axcess reached an agreement with Amphion Investment LLC with regards to the note executed between them for $393,787 of principal and accrued interest. Amphion Investment LLC consented to a five-year extension of the note with an interest rate of 5.5% per annum from January 1, 2008 payable in full at maturity of December 31, 2012.

PV Proceeds Holdings Inc.

Axcess reached an Agreement to Amend Purchase Note and Payment Term with PV Proceeds Holdings, Inc. the holders of a $4.0 million of non-interest bearing note that was due December 31, 2002 and was in default. PV Proceeds consented to a five-year extension of the note with an interest rate of 5% per annum from January 1, 2003 payable in full at maturity of December 31, 2007. As further consideration for entering into the agreement Axcess granted to PV Proceeds Holdings, Inc. a warrant to purchase up to 500,000 shares of common stock of Axcess. The warrants have an exercise price of two dollars ($2.00) per share and shall expire on the earlier of February 14, 2008 or forty-five days after the principal and all accrued interest are paid. Axcess has also agreed to certain provisions that would further reduce the principal amount over time.

PV Proceeds consented to a five-year extension of the note with an interest rate of 5.5% per annum from January 1, 2008 payable in full at maturity of December 31, 2012. The balance as of December 31, 2007 was $2,439,559.

Amphion Innovations plc

On December 17, 2007, Axcess entered into a convertible note with Amphion Innovations plc. The principal of One Hundred and Fifty Thousand Dollars ($150,000.00), plus simple interest, accrued on unpaid principal from December 17, 2007, until paid, at the rate of Five percent (5.00%) per annum (365-day year basis) payable on December 31, 2007 (the "***Maturity Date***"). If Axcess completes an offering of any of its securities and the aggregate proceeds to Axcess are at least $1,000,000 ("Transaction") prior to December 31, 2007, then Amphion would have had the option to convert this note on the same terms as the completed offering. If the loan is not repaid or converted prior to or on December 31, 2007 then Axcess shall issue to Amphion a warrant to purchase Axcess Common Shares at the closing price on December 31, 2007, equivalent to ten percent (10%) of the outstanding amount (i.e. amount outstanding divided by closing stock price on the 31st times 10%). If the amount is not repaid or converted prior to January 31, 2008 then Axcess will issue another warrant equal to an additional 10% and that will continue every thirty (30) days until Axcess has issued five warrants. As of December 31, 2007 the principal balance is $150,000 and accrued interest is $288.

Amphion Capital Partners LLC

In 2005, Axcess entered into a one year Borrowed Employees and Advisory Agreement with Amphion Capital Partners LLC ("ACP"), to assist us in a variety of areas relating to investor relations and technology research. ACP will provide Axcess with the use of employees who will be dedicated, on a part-time basis, to provide these services, in addition to the services of Robert Bertoldi and Richard Morgan. ACP will provide Axcess the following: (i) Identification, evaluation and advice on a variety of options the Axcess to undertake to enhance its current technology offering, including sources of complementary technology and technology partnering; (ii) Investor relations services, including becoming the initial point of contact for the Preferred Equity Investors, providing both materials and information to interested parties; (iii) Advice and assistance with strategies relating to asset enhancement and maximization of asset utilization, including those associated with and intellectual property assets. In return Axcess has agreed to pay ACP $7,500 per month in advance. During 2006, Axcess elected to renew the contract and the payment was raised to $10,000 per month in advance.

Other Matters

On July 30, 2002, the wife of Richard C.E. Morgan invested $100,000 in Axcess, pursuant to the terms of a bridge financing agreement. Mrs. Morgan acquired a convertible promissory note in the principal amount of $100,000 and 25,000 unregistered shares of Axcess' common stock. Axcess registered the common shares in December 2003, and Mrs. Morgan agreed not to sell more than one-third of the shares in any calendar month. Axcess and Mrs. Morgan made certain representations and warranties in the bridge financing agreement. The convertible promissory note bears interest at a rate of seven percent compounded annually. At each of July 30, 2003; July 30, 2004; and July 30, 2005, Mrs. Morgan may elect to convert one-third of the principal amount of the note (plus accrued interest thereon) into shares of the Axcess' common stock, provided that we have not, on or prior to each such conversion date, retired one-third of the principal amount of the Note. The conversion price initially is 65% of the average closing price of a share of our common stock for the twenty trading days preceding the given anniversary date, provided that the maximum conversion price shall be $4.00 per share and the minimum conversion price shall be $1.00 per share, and the conversion price is subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in Axcess' shares of common stock. Subject to Mrs. Morgan's right to convert the note in accordance with its terms, the note may be prepaid without penalty. On May 10, 2004 Mrs. Morgan elected to convert $33,333 of the principal and accrued interest into 33,412 shares of Axcess common stock. In February 2006, Mrs. Morgan elected to convert the remaining $66,667 of the principal plus accrued interest into 118,722 shares of Axcess common stock.

In January 2003, the wife of Richard C.E. Morgan invested an additional $20,000 in Axcess, pursuant to the terms of a bridge financing agreement. Mrs. Morgan acquired a convertible promissory note in the principal amount of $20,000 and 40,000 unregistered shares of Axcess' common stock. Axcess registered the common shares in December 2003, and Mrs. Morgan agreed not to sell more than one-third of the shares in any calendar month. Axcess and Mrs. Morgan made certain representations and warranties in the bridge financing agreement. The convertible promissory note bears interest at a rate of seven percent compounded annually. At each of January 31, 2004; January 31, 2005; and January 31, 2006, Mrs. Morgan may elect to convert one-third of the principal amount of the note (plus accrued interest thereon) into shares of the Axcess' common stock, provided that we have not, on or prior to each such conversion date, retired one-third of the principal amount of the Note. The conversion price initially is 65% of the average closing price of a share of our common stock for the twenty trading days preceding the given anniversary date, provided that the maximum conversion price shall be $4.00 per share and the minimum conversion price shall be $1.00 per share, and the conversion price is subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in Axcess' shares of common stock. Subject to Mrs. Morgan's right to convert the note in accordance with its terms, the note may be prepaid without penalty. On May 10, 2004 Mrs. Morgan elected to convert $6,667 of the principal or accrued interest into 6,172 shares of Axcess common stock. In February 2006, Mrs. Morgan elected to convert the remaining $13,333 of the principal plus accrued interest into 23,744 shares of Axcess common stock.

Richard C.E. Morgan, the Chairman of Axcess' Board of Directors, is the owner of 100.00% of Antiope Partners, LLC, 60.01% of Amphion Partners, LLC, 60.00% of Amphion Investments, LLC, 0.49% of Amphion Ventures LP, 60.00% of Amphion Capital Management LLC, 20.84% of Amphion Capital Partners LLC (formerly NVW LLC) and 9.80% of VennWorks, LLC. Mr. Morgan disclaims beneficial ownership of all of Axcess shares held by these entities.

Robert J. Bertoldi, a director of Axcess, is the owner of 12.79% of Amphion Capital Partners LLC (formerly NVW LLC), 33.98% of Amphion Partners, LLC, 40.00% of Amphion Investments, LLC, 40.00% of Amphion Capital Management LLC, 0.07% of Amphion Ventures LP, and 4.71% of VennWorks, LLC. Mr. Bertoldi disclaims beneficial ownership of all of Axcess shares held by these entities.

Item 13. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company. Incorporated herein by reference to Exhibit A to the Company's 2005 Definitive Proxy Statement filed June 2, 2006
3.2	By-laws of the Company. Incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 2-80946)
3.3	Certificate of Designations, Preferences, Powers and Rights of Series 2003B Preferred Stock, Series 2004 Preferred Stock and Series 2005 Preferred Stock of the Company. Incorporated herein by reference to Exhibit B to the Company's 2005 Definitive Proxy Statement filed June 2, 2006.
10.1 +	Employment Agreement dated July 16, 1999, by and between the Company and Allan Griebenow. Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999.
10.2 +	Axcess International Inc. 2005 Equity Incentive Plan. Incorporated herein by reference to Exhibit A to the

Company's 2005 Definitive Proxy Statement filed June 1, 2005.

10.3 Agreement to amend purchase note and payment terms as of December 12, 2003, executed by Axcess and PV Proceeds holdings, Inc. Incorporated herein by reference to Exhibit 10.1 on Form 8-K filed on December 16, 2003.

10.4 Amended demand note dated as of November 30, 2003, executed by Axcess payable to Amphion Investment LLC in the principal amount of $393,787. Incorporated herein by reference to Exhibit 10.4 on Form 8-K filed on December 16, 2003.

10.5 Form of Stock Purchase agreement for the 2004 Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2004 filed on May 14, 2004.

10.6 Form of Stock Purchase agreement for the 2005 Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-KSB for the period ended December 31, 2005 filed on March 31, 2005.

10.7 Form of Stock Purchase agreement for the 2006 Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.1 on Form 10-QSB filed on August 11, 2006.

10.8 Form of Stock Purchase agreement for the 2006B Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.1 on Form 8-K filed on December 4, 2006.

10.9 Form of Stock Purchase agreement for the 2006C Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.10 on Form 10-KSB filed on March 2, 2007

10.10 Form of Stock Purchase agreement for the 2007 Preferred Equity Offering. Incorporated herein by reference to Exhibit 10.13 on Form SB-2 filed on November 21, 2007

10.11 Form of Voting Common Stock Purchase Warrant between the Company and certain investors of the exempt 2005 Preferred Stock Offering. Incorporated herein by reference to Exhibit 10.11 on Form 10-KSB filed on March 2, 2007.

10.12 Form of Voting Common Stock Purchase Warrant between the Company and certain investors of the exempt 2006 Preferred Stock Offering. Incorporated herein by reference to Exhibit 10.12 on Form 10-KSB filed on March 2, 2007.

10.13 Form of Voting Common Stock Purchase Warrant between the Company and certain investors of the exempt 2006B Preferred Stock Offering. Incorporated herein by reference to Exhibit 10.13 on Form 10-KSB filed on March 2, 2007.

10.14 Form of Voting Common Stock Purchase Warrant between the Company and certain investors of the exempt 2006C Preferred Stock Offering. Incorporated herein by reference to Exhibit 10.14 on Form 10-KSB filed on March 2, 2007.

10.15 Form of Voting Common Stock Purchase Warrant between the Company and certain investors of the exempt 2007 Preferred Stock Offering. . Incorporated herein by reference to Exhibit 10.12 on Form 10-KSB filed on March 2, 2007.

10.16 Borrowed Employees and Advisory agreement between Amphion Innovations US Inc. and Axcess. Incorporated herein by reference to Exhibit 10.9 on Form 10-KSB for the period ended December 31, 2006 filed on March 2, 2007.

10.17 * Convertible Note dated December 17, 2007, executed by Axcess payable to Amphion Innovations plc. In the principal amount of $150,000. *

21.1 Subsidiaries of the Company. *

14.1 * Code of Ethics for Senior Financial Officers dated and approved by the Board of Directors on March 26, 2004. *

23.1 Consent of Hein & Associates LLP. *

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 *	Audit Committee charter. *
99.2 *	Nominating and Governance Committee charter. *
99.3 *	Whistleblower Policy. *

* Filed herewith

\+ Denotes management contract or compensatory plan.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table presents fees for professional audit services rendered by Hein & Associates LLP for the audit of Axcess International Inc.'s annual consolidated financial statements for the years ended December 31, 2007 and December 31, 2006 and fees billed for other services rendered by Hein & Associates LLP during those periods.

	December 31, 2007	December 31, 2006
Audit fees (1)	$ 65,458	$ 74,251
Audit related fees (2)	—	—
Tax fees (3)	10,000	10,000
All other fees (4)	—	—
Total	$ 75,458	$ 84,251

1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Hein & Associates LLP in connection with statutory and regulatory filings or engagements.

2) Audit-Related Fees would normally consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees."

(3) Tax Fees consist of fees billed for professional services rendered for federal and state tax compliance, tax advice and tax planning.

(4) All Other Fees would normally consist of fees for services other than the services reported above.

Axcess International, Inc.'s Audit Committee approves the engagement of an accountant to render all audit and non-audit services prior to the engagement of the accountant based upon a proposal by the accountant of estimated fees and scope of the engagement. Axcess International, Inc.'s Audit Committee has received the written disclosure and the letter from Hein & Associates LLP required by Independence Standards Board Standard No. 1, as currently in effect, and has discussed with Hein & Associates LLP their independence.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of April 2008.

AXCESS INTERNATIONAL INC.

By: /s/ Richard C.E. Morgan
Richard C.E. Morgan, Chairman of the Board

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated, on the 14th day of April 2008.

Signature	Capacity
/s/ Richard C.E. Morgan Richard C.E. Morgan	Chairman of the Board
/s/ Allan Griebenow Allan Griebenow	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Allan L. Frank Allan L. Frank	Chief Financial Officer (Principal Accounting and Financial Officer)
/s/ Paul J. Coleman, Jr. Paul J. Coleman, Jr.	Director
/s/ Robert J. Bertoldi Robert J. Bertoldi	Director
/s/ Robert F. Hussey Robert F. Hussey	Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Axcess International, Inc.

We have audited the consolidated balance sheets of Axcess International, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Axcess International, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations and resulting continued dependence upon access to additional external financing raise substantial doubt about its ability to continue as a going concern. If the Company is unable to generate profitable operations or raise additional capital it may be forced to seek protection under federal bankruptcy laws. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We were not engaged to examine management's assertion about the effectiveness of Axcess International, Inc.'s internal control over financial reporting as of December 31, 2007 included in the accompanying Management Report on Internal Controls over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/ HEIN & ASSOCIATES LLP

April 14, 2008
Dallas, Texas

AXCESS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,089	$ 347,361
Accounts receivable - trade, net of allowance for doubtful accounts of $32,363 and $16,868 for 2007 and 2006, respectively.	257,957	252,230
Inventory, net	193,405	396,305
Prepaid expenses and other	77,506	92,090
Total current assets	587,957	1,087,986
Property, plant and equipment, net	12,003	18,369
Deferred debt issuance costs	30,421	168,963
Other assets	56,438	2,934
Total assets	$ 686,819	$ 1,278,252
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 172,278	$ 101,261
Accrued liabilities	1,309,979	1,121,350
Deferred revenue	42,060	25,665
Notes payable:		
Notes payable (includes $150,000 and $393,787 with a related party in 2007 and 2006, respectively)	150,000	3,365,500
Dividends payable	125,991	138,594
Total current liabilities	1,800,308	4,752,370
Notes payable to stockholders (includes $393,787 with a related party in 2007)	2,858,346	—
Total liabilities	4,658,654	4,752,370
Commitments and contingencies (Notes 2, 8 and 13)		
Stockholders' deficit:		
Convertible preferred stock, 10,000,000 shares authorized in 2007 and 2006. Without liquidation preferences; $0.01 par value, 6,860,116 and 7,073,550 shares issued and outstanding in 2007 and 2006, respectively	68,601	70,735
Common stock, $.01 par value, 70,000,000 shares authorized in 2007 and 2006; 29,304,927 shares issued and outstanding in 2007 and 28,657,313 shares issued and outstanding in 2006.	293,050	286,573
Shares of common stock to be issued, 25,000 shares as of December 31, 2007	250	—
Additional paid-in capital	162,947,266	158,184,537
Accumulated deficit	(167,281,002)	(162,015,963)
Total stockholders' deficit	(3,971,835)	(3,474,118)
Total liabilities and stockholders' deficit	$ 686,819	$ 1,278,252

See accompanying notes.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2007 and 2006

	2007	2006
Sales	$ 3,412,484	$ 1,501,296
Cost of sales	1,478,959	837,789
Inventory impairment	8,419	6,664
Gross profit	1,925,106	656,843
Expenses:		
Research and development	3,167,736	1,380,875
General and administrative	1,773,678	1,795,479
Selling and marketing	1,609,610	1,171,023
Depreciation, amortization and impairment	15,665	18,805
Operating expenses	6,566,689	4,366,182
Loss from operations	(4,641,583)	(3,709,339)
Other income (expense):		
Interest expense	(330,898)	(351,791)
Gain on vendor settlements, statuary write-off and other	25,799	102,516
Gain on sale of intellectual property	—	600,000
Other income (expense), net	(305,099)	350,725
Net loss	(4,946,682)	(3,358,614)
Preferred stock dividend requirements		
Recurring	(318,357)	(325,163)
2005 Preferred equity offering	—	(1,489,245)
2006 Preferred equity offering	—	(645,020)
2006B Preferred equity offering	—	(750,000)
2006C Preferred equity offering	(2,000,000)	—
2007 Preferred equity offering	(2,050,000)	—
Preferred stock dividend requirements	(4,368,357)	(3,209,428)
Net loss applicable to common stock	$ (9,315,039)	$ (6,568,042)
Basic and diluted net loss per share	$ (0.32)	$ (0.23)
Weighted average shares of common stock outstanding	28,851,328	28,329,221

See accompanying notes.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
YEARS ENDED DECEMBER 31, 2007 and 2006

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK					
	NUMBER OF SHARES	PAR VALUE	NUMBER OF SHARES	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	COMMON STOCK ISSUABLE	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
Balance at December 31, 2005	3,371,495	$ 33,715	27,437,111	$ 274,371	$ 153,436,725	$ 53	$ (158,332,186)	$ (4,587,322)
Issuance of common stock upon exercise of warrants	--	--	55,333	553	32,000	(53)	--	32,500
Issuance of common stock upon exercise of stock options	--	--	19,200	192	7,488	--	--	7,680
Conversion of convertible note and accrued interest	--	--	706,394	7,064	409,712	--	--	416,776
Shares issued in conjunction with 2005 Preferred stock offering	1,752,055	17,520	--	--	1,446,724	--	--	1,464,244
Conversion of accrued dividends	--	--	439,275	4,393	390,956	--	--	395,349
Shares issued in conjunction with 2006 Preferred stock offering	1,200,000	12,000	--	--	1,008,000	--	--	1,020,000
Shares issued in conjunction with 2006B Preferred stock offering	750,000	7,500	--	--	742,500	--	--	750,000
Preferred stock dividends	--	--	--	--	--	--	(325,163)	(325,163)
Stock based compensation expense	--	--	--	--	710,432	--	--	710,432
Net Loss	--	--	--	--	--	--	(3,358,614)	(3,358,614)
Balance at December 31, 2006	7,073,550	$ 70,735	28,657,313	$ 286,573	$ 158,184,537	$ --	$ (162,015,963)	$ (3,474,118)
Shares issued in conjunction with 2006C Preferred stock offering	200	2	--	--	1,699,998	--	--	1,700,000
Shares issued in conjunction with 2007 Preferred stock offering	205	3	--	--	1,877,497	--	--	1,877,500
Conversion of 2003B convertible preferred shares	(105,000)	(1,050)	105,000	1,050	--	--	--	--
Conversion of accrued dividends	--	--	220,640	2,206	328,754	--	--	330,960
Issuance of common stock upon exercise of warrants	--	--	50,000	500	74,500	--	--	75,000
Conversion of 2005 convertible preferred shares	(58,824)	(588)	58,824	588	--	--	--	--
Conversion of 2006B convertible preferred shares	(50,000)	(500)	50,000	500	--	--	--	--
Conversion of 2007 convertible preferred shares	(15)	(1)	125,000	1,250	(1,499)	250	--	--
Issuance of common stock upon exercise of stock options	--	--	38,150	383	15,678	--	--	16,061
Warrants issued for services rendered	--	--	--	--	28,017	--	--	28,017
Warrants issued in conjunction with debt	--	--	--	--	10,842	--	--	10,842
Preferred stock dividends	--	--	--	--	--	--	(318,357)	(318,357)
Stock based compensation expense	--	--	--	--	728,942	--	--	728,942
Net Loss	--	--	--	--	--	--	(4,946,682)	(4,946,682)
Balance at December 31, 2007	6,860,116	$ 68,601	29,304,927	$ 293,050	$ 162,947,266	$ 250	$ (167,281,002)	$ (3,971,835)

See accompanying notes

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net loss	$ (4,946,682)	$ (3,358,614)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	15,665	18,805
Gain on vendor settlements and statutory write-off of payables	(2,857)	(102,516)
Amortization of financing discount and issuance costs	138,542	174,483
Stock based compensation expense	728,942	710,432
Gain on sale of intellectual property	—	(600,000)
Inventory impairment	8,419	6,664
Changes in operating assets and liabilities:		
Accounts receivable	(5,727)	(111,030)
Inventory	202,900	(290,699)
Prepaid expenses and other	14,584	(19,462)
Other assets	(53,504)	(235)
Accounts payable and accrued liabilities	309,338	159,598
Net cash used by operating activities	(3,590,380)	(3,412,574)
Cash flow from investing activities:		
Proceeds from sale of intellectual property	—	600,000
Capital expenditures	(9,299)	(7,787)
Net cash generated / (used) by investing activities	(9,299)	592,213
Cash flow from financing activities:		
Principal payments on financing agreements	(507,154)	(343,570)
Borrowings in financing agreements	150,000	—
Net proceeds from issuance of common stock from employee options	16,061	7,680
Net proceeds from issuance of common stock from exercised warrants	75,000	—
Net proceeds from issuance of common and preferred stock and exercise of warrants	3,577,500	3,266,743
Net cash provided by financing activities	3,311,407	2,930,853
Net increase / (decrease) in cash and cash equivalents	347,361	110,492
Cash and cash equivalents, beginning of year	(288,272)	236,869
Cash and cash equivalents, end of year	$ 59,089	$ 347,361
Supplemental information:		
Cash paid during the year for interest	$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:		
Conversions of notes payable into common stock	$ —	396,667
Conversions of accrued interest into common stock	—	20,109
Conversions of accrued dividends into common stock	330,960	395,349
Preferred stock dividends accrued	318,357	325,163
Conversion of preferred stock into common stock	2,139	—
Warrants issued with debt	10,842	—
Warrants issued for services rendered	28,017	—

See accompanying notes

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

The Company's business plan for 2007 is predicated principally upon the successful marketing of its RFID products. During 2007, operating activities utilized approximately $3.6 million of cash and approximately $3.4 million of cash during 2006. The Company raised $4.0 million of additional working capital during 2007 and $3.4 million of additional working capital during 2006 through Preferred Stock offerings, note payable, exercise of warrants and stock options. We closed five preferred stock offerings during 2006 and 2007 and raised approximately $7.5 million. The shares are designated 2005, 2006, 2006B, 2006C and 2007. The Company issued 3,702,460 shares of Preferred Stock bearing no dividend and 5,137,545 warrants to purchase the Company's common stock exercisable for five years at $1.43 - $2.00 per share. Some of the offerings also included a company call provision if the closing twenty-day average stock price is over $3.00 per share. However, even with the additional funding, the Company anticipates that its existing working capital resources and revenues from operations will not be adequate to satisfy its funding requirements through 2008.

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

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

(b) Company Organization and Basis of Presentation

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

The Company has received working capital in various forms from Amphion Ventures, L. P. and affiliates of Amphion Ventures, L. P. including Amphion Partners, Amphion Investments LLC, Antiope Partners LLC, VennWorks LLC, Amphion Capital Management LLC, and Amphion Innovations plc, NVW, LLC (collectively, the "Amphion Group"). The Amphion Group owns approximately 50% of the outstanding voting common stock of the Company.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(e) Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method. Inventory was comprised of the following at December 31, 2007 and December 31, 2006:

	December 31, 2007	December 31, 2006
Raw materials	$ 13,853	$ 31,344
Work-in-process	104	114
Finished goods	179,448	364,847
	$ 193,405	$ 396,305

The Company recorded charges of $8,419 and $6,664 for inventory impairment during the years ended December 31, 2007 and 2006, respectively. The amounts reflect items that have not been able to be used by the Company's contract manufacturers in the building of additional products mainly relating to the video products. The impairment charges were as a result of the change in strategy to contract manufacturing.

The components of cost of sales are summarized as follows:

	December 31, 2007	December 31, 2006
Product Cost	$ 1,477,204	$ 811,669
Warranty Expense	1,755	26,120
Inventory Impairment	8,419	6,664
Cost of Sales	$ 1,487,378	$ 844,453

(f) Warranty Reserve

The Company has established a warranty reserve for warranty costs. Reserves are estimated based on historical experience, current products being sold and management's estimates. The Company provides a standard one year warranty program for its products. The warranty reserve for warranty costs related to continuing operations was $30,213 and $30,026 at December 31, 2007 and 2006, respectively. The warranty reserve represents a significant estimate and actual results could differ from the estimates. The following table provides the activity through the warranty accounts as recorded and charged against the reserve for the years ended December 31, 2007 and 2006.

	December 31, 2007	December 31, 2006
Beginning accrued balance	$ 30,026	$ 21,605
Provision	1,754	26,109
Claims incurred	(1,567)	(17,688)
Ending accrued balance	$ 30,213	$ 30,026

(g) Advertising expense

Advertising expenses consists of the following for the years ended December 31, 2007 and 2006.

	December 31, 2007	December 31, 2006
Trade shows and media events	$ 90,261	$ 73,216
E-mail and marketing lists	40,309	22,039
Advertising and public relation fees	38,133	10,350
Joint marketing fees	25,000	—
Website and advertising design fees	14,595	4,740
Newswire costs	10,986	7,712
Other	2,747	2,441
Total	$ 222,031	$ 120,498

(h) Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The Company capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and management has authorized further funding for the project, which it deems completion to be probable, and that the project will be used to perform the function intended. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use. The Company currently has no capitalized software development on its books.

(i) Intangible Assets

Intangible assets, which consist primarily of patents and developed technologies, have been recorded as the result of acquisitions of business and developed technologies and are being amortized on the straight-line basis over five years. As of December 31, 2007 intangible assets are fully amortized.

(j) Impairment of Long-Lived Assets-and Long-Lived Assets to Be Disposed Of

Long-lived assets and identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated-by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets based on estimated future cash flows. Assets to be disposed of are reported at the lower of-the carrying amount or fair value less costs to sell. Revenues from the sale of products utilizing the Company's purchased technologies have not grown according to expectations and the Company has experienced operating losses since the respective dates of acquisition. The Company believes that assumptions made in projecting future cash flows for this evaluation are reasonable. However, if future actual results do not meet expectations, the Company may be required to record an additional impairment charge, the amount of which could be material to the results of its operations and financial position. During the years ended December 31, 2007 and 2006 the Company recorded no impairment charges for its long-lived assets.

(k) Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable and notes receivable. Products are sold to customers, including distributors and integrators, located principally in the United States. The Company continually evaluates the creditworthiness of its customers' financial condition and generally does not require collateral. The Company evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations to us, the Company records a specific reserve for bad debts against amounts due. The Company has not experienced significant losses on uncollectible accounts receivable.

The carrying amounts of cash equivalents, accounts receivable, accounts payable, accrued liabilities and notes payable approximate fair value because of the short-term maturity of these instruments.

(l) Revenue Recognition

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

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

We defer revenue for sales where we have not completed the earnings process in accordance with the applicable revenue recognition guidance. These deferred amounts are reflected as liabilities in our consolidated financial statements as deferred revenue. Deferred revenue was $42,060 as of December 31, 2007 and $25,665 as of December 31, 2006.

(m) Research and Development Costs

Research and development costs are expensed as incurred.

(n) Depreciation and Amortization

Depreciation of property and equipment is recorded using the straight-line method over the estimated useful lives of the respective assets. Internally developed software and purchased technologies are amortized over the estimated useful lives of the respective technology.

(o) Stock-Based Compensation

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 twelve months ended December 31, 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.

Stock based compensation expense under SFAS 123R for 2007 and 2006 was $728,942 and $710,432, respectively which was recorded in operating expenses. This expense increased net loss per share by $0.025 and $0.02 for 2007 and 2006, respectively. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The Black-Scholes option-pricing model was used to estimate the option fair value. The option pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, risk-free interest rate and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over the most recent periods at the time of the grants equal to the expected option term. The expected option term was calculated using the "simplified" method permitted by SAB 107. The chart below shows the weighted average black-scholes fair value assumptions used for the twelve months ended December 31, 2007 and 2006.

Weighted Average Black-Scholes Fair Value Assumptions	2007	2006
Risk free interest rate	4.48%	4.62%
Expected life	5 years	5 years
Expected volatility	109%	133%
Expected dividend yield	0.00%	0.00%
Number of options granted	1,165,000	1,683,000

The following table illustrates the effect on operating expenses:

	Twelve Months Ended December 31, 2007	Twelve Months Ended December 31, 2006
Research and development expense	$ 205,507	$ 152,391
General and administrative expense	401,926	417,889
Selling and marketing expense	121,509	140,152
Total	$ 728,942	$ 710,432

In October 2007, we issued a warrant to purchase fifty thousand common shares with a strike price of $1.50 and expire on October 25, 2010. These shares were issued to compensate this individual for services he provides us. The warrants are being expensed over the period of time the services are being performed based on the fair value of those options.

(p) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax expense is the total of tax payable for the period and the change during the period in deferred tax assets and liabilities.

(q) Net Loss Per Common Share

Basic loss per share data is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding during the year. Diluted earnings per share, which includes the dilutive effect of the conversion of convertible preferred stock and the convertible debt and exercise of options and warrants has not been presented because, due to the net losses recorded by the Company for all periods presented, their inclusion would be anti-dilutive. Conversion of convertible preferred stock, convertible debt and the exercise of options and warrants would result in 52,415,288 and 46,724,459 common shares outstanding at December 31, 2007 and 2006, respectively.

(r) Significant Customers

During the twelve months ended December 31, 2007, we had one customer who accounted for 59% of our overall revenue. During 2006, the Company had no customer that accounted for more than 9% of the Company's overall revenue.

(s) Recent Accounting Pronouncements

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

In September 2006, the SEC issued SAB 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The pronouncement prescribes an approach whereby the effect of all unrecorded identified errors should be considered on all of the financial statements rather than just either the effect on the balance sheet or the income statement. We adopted the provisions of SAB 108 as of December 31, 2006. The adoption of SAB 108 did not have a material impact on our consolidated financial statements.

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions are effective for our first quarter 2007 financial statements with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. The adoption of FIN 48 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 had no material impact on our consolidated financial statements.

(t) Accounting for Uncertainty in Income Taxes

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on derecognition, interest and penalties, accounting in interim periods, disclosure, and transition.

As a result of the implementation of FIN 48, we recognized no change in our recorded assets or liabilities for unrecognized income tax benefits. Based on our analysis of all material tax positions taken, management believes the technical merits of these positions are justified and expects that the full amount of the deductions taken and associated tax benefits will be allowed.

FIN 48 requires the evaluation of a tax position as a two-step process. We must determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the "more likely than not" recognition threshold, then the tax benefit is measured and recorded at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. The re-assessment of our tax positions in accordance with FIN 48 did not result in any material change to our financial condition, results of operations or cash flows.

We have also assessed the classification of interest and penalties, if any, related to income tax matters. Pursuant to the application of FIN 48, we have made an accounting election to treat interest and penalties related to income tax matters, if any, as a component of income tax expense rather than other operating expenses.

(2) Operations, Liquidity and Going Concern

Since inception, the Company has utilized the proceeds from a number of public and private sales of their equity securities, the exercise of options and warrants and more recently, convertible debt, short-term bridge loans from stockholders and preferred equity offerings to meet their working capital requirements. At December 31, 2007, the Company had a working capital deficit of $1,212,351.

Our operations generated losses in 2007. Our cash decreased $288,272 during 2007 with operating activities using $3,590,379 of cash. We funded operations through cash from two equity offerings, a short-term note and payment of the Barbados contract. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2008 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 2008.

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

The Company auditors have included an explanatory paragraph in their audit opinion with respect to the Company's consolidated financial statements at December 31, 2007. The paragraph states that the Company's recurring losses from operations and resulting continued dependence on access to external financing raise substantial doubts about the Company's ability to continue as a going concern. Furthermore, the factors leading to and the existence of the explanatory paragraph may adversely affect the Company's relationship with customers and suppliers and have an adverse effect on their ability to obtain financing.

If the Company losses continue, the Company will have to obtain funds to meet their 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 their 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.

(3) Prepaid Expenses and Other Current Assets

Prepaid expenses and other consists of the following:

	December 31, 2007	December 31, 2006
Prepaid insurance	$ 21,833	$ 58,571
Prepaid trade shows	11,000	6,800
Prepaid other	44,673	26,719
	$ 77,506	$ 92,090

During October 2007, the Company issued a warrant to purchase 50,000 common shares of Axcess to an individual to assist them in investor relation activities. The exercise price for the warrant is $1.50 and expires October 25, 2010. The Company estimates the fair value of warrant using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the warrant ($1.50), the expected option term (three years), the expected volatility of the Company's stock over the option's expected term (64%) and the risk-free interest rate (4.6%). The amount of the warrant will be amortized over the twelve months the services are expected to be performed.

(4) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2007	December 31, 2006	Amortization/ Depreciation Period
Leasehold improvements	$ 66,435	$ 66,435	Lease term
Machinery and equipment	1,810,042	1,800,742	5 years
Furniture and fixtures	128,675	128,675	5 to 10 years
	2,005,152	1,995,852	
Accumulated depreciation and amortization	(1,993,149)	(1,977,483)	
Property, plant and equipment, net	$ 12,003	$ 18,369	

Depreciation totaled $15,665 and $18,804 during 2007 and 2006, respectively.

(5) Intellectual property

Intellectual property consists of the following:

	December 31, 2007	December 31, 2006	Useful Lives	Weighted Average Remaining Useful Lives at December 31, 2006
Purchased RFID technology	$ 1,714,449	$ 1,714,449	5 years	—
Purchased video technology	5,087,483	5,087,483	5 years	—
Internally developed software	350,337	350,337	5 years	—
	7,152,269	7,152,269		
Accumulated amortization and impairment	(7,152,269)	(7,152,269)		
Intellectual property, net	$ —	$ —		

As of December 31, 2007 and 2006 intellectual property was fully amortized.

There was no amortization expense of intellectual property during 2007 and 2006, respectively.

(6) Gain on vendor settlements, statuary write-off and other

The Company recognized $25,799 and $102,516 during 2007 and 2006, respectively, relating to the expiration of the statue of limitations relating to trade accounts payables. Gain on vendor settlements, statutory write-off, prior year refunds and other consists of the following:

	December 31, 2007	December 31, 2006
Gain (loss) on settlements on vendor	$ —	$ (2,048)
Expiration of statuette of limitations	2,857	89,184
Prior year refunds	8,057	6,865
Other	14,885	8,515
	$ 25,799	$ 102,516

(7) Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2007	December 31, 2006
Accrued vacation	$ 210,984	$ 183,624
Accrued interest payable	919,803	763,288
Accrued professional fees, litigation settlements and other	179,192	174,438
	$ 1,309,979	$ 1,121,350

(8) Lease Obligations

The Company leases its office space and certain equipment under operating leases. Annual rental expense recorded for operating leases was $85,383 and $82,224 for the years ended December 31, 2007 and 2006, respectively. The Company's Carrollton, Texas facility's lease expired on October 31, 2007 and they are currently on a month to month lease and the California lease runs through January 2009.

The following table sets forth the future minimum lease payments on operating leases for the fiscal years ended December 31:

2008	$	24,300
2009		2,025
	$	26,325

(9) Notes Payable to Stockholders (including convertible notes payable)

Notes payable consist of the following:

	December 31, 2007		December 31, 2006	
Due to stockholders:				
5.00% PV Proceeds Holdings, Inc., due December 31, 2012	$	2,464,559	$	2,971,713
5.00% Amphion Investment LLC note, due December 31, 2012		393,787		393,787
5.00% Note payable, due January 15, 2008		150,000		—
		3,008,346		3,365,500
Less current maturities including discount amortization		(150,000)		(3,365,500)
Non-current notes payable to stockholders	$	2,858,346	$	—

The following table sets forth the maturities for notes payable for the fiscal years ended December 31:

2008	$	150,000
2009		—
2010		—
2011		—
2012		2,858,346
	$	3,008,346

PV Proceeds Holdings, Inc.

On July 28, 1999, the Company acquired substantially all of the assets of PV Proceeds Holdings, Inc. (formerly "Prism Video"), a privately held corporation, and agreed to pay $4,000,000 to PV Proceeds Holdings, Inc. on December 31, 2002. The balance of the indebtedness under the PV Proceeds Holdings, Inc. note issued was due in full by the Company on December 31, 2002 and was in default during 2003 until extended by PV Proceeds Holdings, Inc. The note payable had an original face amount of $4,000,000 and was collateralized by the Company's note receivable from Amphion Ventures, LP ("Amphion Ventures") (Note 7). Pursuant to the Asset Purchase Agreement between Axcess and PV Proceeds Holdings, Inc., Axcess assigned PV Proceeds Holdings, Inc. all payments of principal to be made by Amphion Ventures under the note receivable until the balance of the note receivable was paid in full or the balance due under the note payable to PV Proceeds Holdings, Inc. was paid in full, whichever occurred first. In addition, the shares of common stock, which PV Proceeds Holdings, Inc. may acquire upon conversion of preferred stock or by exercise of the warrant, were subject to a three-year lockup from the date of the closing, which could be reduced to two years upon the occurrence of certain events. The warrant was exercisable on or before July 28, 2004.

Axcess reached an Agreement to Amend Purchase Note and Payment Term with PV Proceeds Holdings, Inc. the holders of a $4.0 million non-interest bearing note that was due December 31, 2002 and was in default. PV Proceeds consented to a five-year extension of the note with an interest rate of 5% per annum from January 1, 2003 payable in full at maturity of December 31, 2007. As further consideration for entering into the agreement Axcess granted to PV Proceeds Holdings, Inc. a warrant to purchase up to 500,000 shares of common stock of Axcess. The warrants have an exercise price of $2.00 per share and shall expire on the earlier of February 14, 2008 or forty-five days after the principal and all accrued interest are paid. Axcess has also agreed to reduce the principal amount due first for 10% of equity proceeds and second 20% of proceeds from options exercised. Axcess also recorded deferred debt issuance costs of $689,932 for the value of the warrants, which will be amortized over the life of the loan. The deferred debt issuance costs were fully amortized as of December 31, 2007.

Axcess reached an Agreement with PV Proceeds Holdings, Inc. to extend the maturity of the note from December 31, 2007 to December 31, 2012. Axcess agreed to pay a $25,000 extension fee and to increase the interest rate from 5.0% to 5.5%.

Amphion Investment LLC

Axcess entered into a 6.75% convertible note with Amphion Investments, LLC, dated January 25, 2002. The principal outstanding under this note may be converted into securities of Axcess at the option of Amphion Investments on terms mutually acceptable to the Company and Amphion Investment. The borrowings are unsecured. The note was due December 31, 2007, Axcess reached an Agreement with Amphion Investments LLC to extend the maturity of the note to December 31, 2012. Axcess agreed to increase the interest rate from 5.0% to 5.5%.

Convertible Note

On December 17, 2007, Axcess entered into a convertible note with Amphion Innovations plc. The principal of One Hundred and Fifty Thousand Dollars ($150,000.00), plus simple interest, accrued on unpaid principal from December 17, 2007, until paid, at the rate of Five percent (5.00%) per annum (365-day year basis) payable on December 31, 2007 (the "***Maturity Date***"). If Axcess completes an offering of any of its securities and the aggregate proceeds to Axcess are at least $1,000,000 ("Transaction") prior to December 31, 2007, then Amphion would have had the option to convert this note on the same terms as the completed offering. If the loan is not repaid or converted prior to or on December 31, 2007 then Axcess shall issue to Amphion a warrant to purchase Axcess Common Shares at the closing price on December 31, 2007, equivalent to ten percent (10%) of the outstanding amount (i.e. amount outstanding divided by closing stock price on the 31st times 10%). If the amount is not repaid or converted prior to January 31, 2008 then Axcess will issue another warrant equal to an additional 10% and that will continue every thirty (30) days until Axcess has issued five warrants. The Company recorded $5,421 in additional interest expense in connection with the warrants issued effective December 31, 2007 as a result of not repaying the note on December 31, 2007. As of December 31, 2007 the outstanding principal balance is $150,000.

(10) Preferred Stock

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

	Series 2003B	**Series 2004**	**Series 2005**	**Series 2006**	**Series 2006B**	**Series 2006C**	**Series 2007**
Number of shares authorized	2,750,000	625,000	2,750,000	1,200,000	750,000	200	205
Stated value	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Number of shares issued and outstanding							
December 31, 2006	1,790,000	625,000	2,708,550	1,200,000	750,000	—	—
December 31, 2007	1,685,000	625,000	2,649,726	1,200,000	700,000	200	190
Conversion ratio (or conversion price) of preferred shares into common	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock	1 to 10,000 into voting common stock	1 to 10,000 into voting common stock
Liquidation preference	None	None	None	None	None	None	None
Dividend rights	7% per annum, cumulative	7% per annum, cumulative	None	None	None	None	None

(a) Series 2003B Preferred Stock

The Company completed a $3,132,500 exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors offering during the fourth quarter of 2003. The Preferred Stock is designated as 2003B Preferred and each $70,000 unit consisted of 40,000 shares of Preferred Stock bearing a 7% dividend, approximately 2,000 shares of common stock and 40,000 warrants to purchase the Company's common stock exercisable for two years at $2.75 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over $3.75.

During 2007, there were $213,070 of dividends expensed for Series 2003B Preferred Stock. On August 8, 2007, the Board elected to pay all accrued dividends with additional shares. Therefore, $222,796 of accrued dividends were paid by issuing 148,530 shares of restricted Axcess common shares. As of December 31, 2007 and December 31, 2006 dividends payable for the Series 2003B preferred stock were $83,991 and $93,717, respectively. During 2007 we had nine holders of the Series 2003B convert their 105,000 shares to common stock. As of December 31, 2007 and 2006, the Company had 1,685,000 and 1,790,000 shares of Series 2003B Preferred shares outstanding, respectively.

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 December 31, 2007 that amount is reflected in accumulated deficit on our 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 2007, there were $105,288 of dividends expensed for Series 2004 Preferred Stock. On August 8, 2007, the Board elected to pay all accrued dividends with additional shares. Therefore, $108,164 of accrued dividends were paid by issuing 72,110 shares of restricted Axcess common shares. As of December 31, 2007 and 2006 dividends payable for the Series 2004 preferred stock were $42,000 and $44,877, respectively. As of December 31, 2007 and 2006, 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 December 31, 2007 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 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.

During 2007 we had one holder of the Series 2005 convert their 58,824 shares to common stock. As of December 31, 2007 and 2006, the Company had 2,649,726 and 2,708,550 shares of Series 2005 Preferred shares outstanding, respectively.

(d) Series 2006 Preferred Stock

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

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.

As of December 31, 2007 and 2006, the Company had 1,200,000 shares of Series 2006 Preferred shares outstanding.

(e) Series 2006B Preferred Stock

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

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

The Company also recorded an additional preferred stock dividend of $750,000 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2006B Preferred Stock Equity closed during May 2006.

During 2007 we had two holders of the Series 2006B convert their 50,000 shares to common stock. As of December 31, 2007 and 2006, the Company had 700,000 and 750,000 shares of Series 2006B Preferred shares outstanding, respectively.

(f) Series 2006C Preferred Stock

On January 29, 2007, the Company raised $2,000,000 of additional working capital through an exempt Preferred Stock offering under the Securities Act of 1933 Section 4(6) private offering of preferred stock to accredited and institutional investors. The Preferred Stock is designated as 2006C Preferred and consists of 200 shares of Preferred Stock bearing no dividends. However, the shares are convertible into common stock on a one to ten thousand basis at $1.00. In addition, the Company issued 1,000,000 warrants to purchase the Company's common stock exercisable for five years at $2.00 per share. The Company will use the proceeds for general working capital.

The Company also recorded an additional preferred stock dividend of $2,000,000 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2006C Preferred Stock Equity closed during January 2007.

As of December 31, 2007 and 2006, the Company had 200 shares of Series 2006C Preferred shares outstanding.

(g) Series 2007 Preferred Stock

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

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

The Company also recorded an additional preferred stock dividend of $2,050,000 relating to the beneficial conversion feature and the warrants that were issued in connection with the 2007 Preferred Stock Equity closed during the quarter.

During 2007 we had two holders of the Series 2007 convert their 15 shares to common stock. As of December 31, 2007, the Company had 190 shares of Series 2007 Preferred shares outstanding, respectively.

(11) Related Party Advisory Fees

In 2005, Axcess entered into a one year Borrowed Employees and Advisory Agreement with Amphion Capital Partners LLC ("ACP"), to assist us in a variety of areas relating to investor relations and technology research. ACP will provide Axcess with the use of employees who will be dedicated, on a part-time basis, to provide these services, in addition to the services of Robert Bertoldi and Richard Morgan. ACP will provide Axcess the following: (i) Identification, evaluation and advice on a variety of options the Axcess to undertake to enhance its current technology offering, including sources of complementary technology and technology partnering; (ii) Investor relations services, including becoming the initial point of contact for the Preferred Equity

Investors, providing both materials and information to interested parties; (iii) Advice and assistance with strategies relating to asset enhancement and maximization of asset utilization, including those associated with and intellectual property assets. In return Axcess has agreed to pay ACP $7,500 per month in advance. During 2006, Axcess elected to renew the contract and the payment was raised to $10,000 per month in advance. The total amount paid under this agreement was $100,000 and $70,000 for the twelve months ended December 31, 2007 and 2006, respectively.

(12) Employee Benefit Plans

The Company sponsors a 401(k) retirement plan. The Company, at its discretion, matches a portion of the participant's contribution. Participants are vested in the Company's matching contribution after 4 years of full time service and may join the plan January or July of each year. The Company suspended its matching contribution on February 28, 2001.

(13) Stock Options and Warrants

Under the Company's 2005 Equity Incentive Plan, the Company may grant up to 5,000,000 shares of common stock to its employees. The exercise price of each option is not less than the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Options are generally granted each year and have various vesting requirements. Options granted typically vest over a four-year period. During 2007 and 2006, the Company made grants of 55,000 and 340,000, respectively, as inducements for the employment of certain officers of the Company, which does not reduce the 5,000,000 options available for grant under the stock option plan.

With the shareholders approval of the 2005 Equity Incentive Plan, the Company will not issue anymore options under the Company's 2001 Equity Incentive Plan or the Directors Compensation Plan.

The 2001 Equity Incentive Plan allowed for grants up to 2,000,000 shares of common stock to its employees. The exercise price of each option was not less than the market price of the Company's stock on the date of grant and an option's maximum term was ten years. The Company had issued stock options to various members of the Board of Directors and officers of the Company under this plan. Options were generally granted each year and had various vesting requirements. Options granted typically vest over a four-year period.

In 1998, the Company adopted a director compensation plan pursuant to which it paid each director who was not employed by the Company and who did not beneficially own more than 5% of the shares of common stock outstanding an annual grant of 5,000 options to acquire common stock of the Company at an exercise price equal to the fair market value per share of the common stock at the time the option is granted (the "Annual Grant"). The Annual Grant customarily occurs on the date of the Company's annual meeting. The director compensation plan also provided for a one-time initial grant of 15,000 to each director of the Company as of July 21, 1998, the date the director compensation plan was approved by the Company's stockholders (the "Initial Grant"). The Company has authorized 150,000 shares for issuance under this plan.

Stock option transactions for the years ended December 31, 2007 and 2006 are summarized below:

	2007		2006	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of year	4,616,873	$ 1.95	3,117,485	$ 2.40
Options granted	1,165,000	1.50	1,683,000	1.04
Options exercised	(38,150)	0.42	(19,200)	0.40
Options forfeited	(192,750)	1.69	(164,412)	1.47
Options outstanding at end of year	5,550,973	1.87	4,616,873	1.95
Options exercisable at end of year	3,383,596	1.98	2,647,869	2.19
Options available for grant at the end of the year	2,712,000		3,758,000	
Fair value of options granted during the year	1,398,550		1,531,730	

The options outstanding at December 31, 2007 have exercise prices as indicated in the table below.

Option Price	**Number of Options**	**Weighted Average Remaining Life**	**Intrinsic Value of Vested Unexercied Options**
$0.00 - $1.00	808,500	5.74	$ 632,080
$1.01 - $2.00	3,566,258	7.90	311,420
$2.01 – $3.00	714,375	2.30	
$3.01 - $4.00	193,840	2.83	
$4.01 - $5.00	20,000	3.42	
$5.01 - $6.25	248,000	2.22	
Total	5,550,973	6.42	$943,500

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

	2007		**2006**	
	WARRANTS	**WEIGHTED AVERAGE EXERCISE PRICE**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE**
Warrants outstanding at beginning of year	6,641,721	$ 2.10	4,184,474	$ 1.70
Warrants issued	2,090,490	1.99	3,102,055	2.75
Warrants exercised	(50,000)	1.50	(50,000)	0.65
Warrants expired unexercised	(374,998)	2.28	(594,808)	2.50
Warrants outstanding at end of year	8,307,213	1,73	6,641,721	2.10

The warrants outstanding at December 31, 2007 have exercise prices as indicated in the table below.

Strike Price	**Number of Warrants**	**Weighted Average Remaining Life**
$0.00 - $1.00	—	—
$1.01 - $2.00	8,307,213	3.13
Total	8,307,213	3.13

During the twelve months ended December 31, 2006 the Company issued an additional 3,102,055 warrants in conjunction with various exempt equity offerings. The warrant price ranged from $1.50 to $2.00 and they expire between January 28, 2010 and December 01, 2011. During that same period the Company had 50,000 warrants exercised and 594,808 warrants expire without being exercised.

During the twelve months ended December 31, 2007 the Company issued an additional 2,090,490 warrants in conjunction with various exempt equity offerings. The warrant price ranged from $1.43 to $2.00 and they expire between January 28, 2010 and December 17, 2012. During that same period the Company had 50,000 warrants exercised and 374,998 warrants expire without being exercised.

(14) Commitments and Contingencies

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

However, 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 $76,326. We are currently defending or seeking to settle each of the vendor's claims. At December 31, 2007, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

In 2005, Axcess entered into a one year Borrowed Employees and Advisory Agreement with Amphion Capital Partners LLC ("ACP"), an affiliate of Amphion Group, our major shareholder, to assist us in a variety of areas relating to investor relations and technology research. The contract was renewed in 2006 and 2007. Axcess paid ACP $75,000 during 2005, $70,000 during 2006 and $100,000 in 2007.

(15) Income Taxes

There was no provision for income taxes for the years ended December 31, 2007 and 2006 due to the net loss incurred for each year and the valuation established against the net deferred tax assets. The Company had no material deferred tax liabilities at December 31, 2007.

The provision for income taxes is reconciled with statutory rate for the year ended December 31, 2007 as follows:

	December 31, 2007
Provision computed at federal statutory rate	$ (1,681,872)
Permanent differences:	
Changes in prior year estimates	17,046
Research and development wages & expenses	36,294
Meals and entertainment	3,055
	56,395
State taxes	(148,205)
Changes in prior year estimates	(50,136)
Tax credits	(106,748)
Other	79,566
Change in valuation allowance	1,851,000
	$ —

The Company had the following deferred tax assets as of December 31, 2007 and 2006 as follows:

	December 31, 2007	December 31, 2006
Net operating loss	$ 20,377,000	$ 18,452,000
Property, equipment and intangibles	374,000	1,378,000
Other	1,015,000	85,000
Valuation allowance	(21,766,000)	(19,915,000)
	$ —	$ —

The valuation allowance increased by approximately $1,851,000 and $601,000 during the years ended December 31, 2007 and 2006, respectively.

At December 31, 2006 and 2005, the Company had a net operating loss carry forward of approximately $55,000,000 and $50,000,000, respectively for U.S. federal income tax purposes. The net operating loss will expire from 2008 through 2027.

A change in ownership, as defined for purposes of the Internal Revenue Code, occurred in 1996 and the Company believes that a subsequent ownership change occurred during 1998, each of which limit the annual utilization of the U.S. federal net operating loss carry forward under the applicable Internal Revenue Service. Other portions of the net operating loss may also be limited due to subsequent ownership changes.

(16) Subsequent Event (Unaudited)

During the first quarter of 2008, Axcess has continued to borrow money from Amphion Innovations plc. Axcess has entered into five additional simple interest convertible notes. The total additional borrowings are $478,000 for a total outstanding amount at March 31, 2008 of $628,000. In connection with the Amphion Innovations plc convertible notes, Axcess has issued a total of 121,891 warrants to purchase Axcess Common Shares. The warrants have a strike price of $1.13 - $1.30 and reflect the closing price on the date the warrants were issued. The expense associated with the warrants will be reflected in additional interest expense.

On March 31, 2008, Axcess entered into an agreement with the developer of the Dot whereby Axcess has agreed to pay a minimum commercialization fee of one million dollars over the next six years. The amount is still contingent on the supplier completing the testing and certifying the product is within all of the original specifications.

Axcess is in the final stages of negotiating a new building lease for its Texas headquarters. The new space is approximately 10,013 square feet. The new lease is anticipated to start during the second quarter of 2008. The total commitment of the new lease is $550,715.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT OR LAWS OR PURSUANT TO AN EXEMPTION THEREFROM.

AXCESS INTERNATIONAL, INC.
Convertible Note

$150,000 December 17, 2007

Subject to the terms and conditions of this Note, for good and valuable consideration received, Axcess International, Inc. ("Axcess") hereby promises to pay to the order of the Amphion Innovations plc ("Amphion") the principal amount of One Hundred and Fifty Thousand Dollars ($150,000.00), plus simple interest, accrued on unpaid principal from December 17, 2007, until paid, at the rate of Five percent (5.00%) per annum (365-day year basis) payable on December 31, 2007 (the "***Maturity Date***"). If Axcess completes an offering of any of its securities and the aggregate proceeds to Axcess are at least $1,000,000 ("Transaction") prior to December 31, 2007, then Amphion will have the option to convert this note on the same terms as the completed offering.

Upon the occurrence of the Transaction described above, the principal amount and all unpaid interest, of this Note shall convert on similar terms to the Transaction. This Note, including the principal amount and all accrued and unpaid interest hereunder, may otherwise be prepaid in whole or in part at any time at the option of Axcess, without premium or penalty.

Payment of the principal amount of this Note and any accrued and unpaid interest hereunder shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Any such payment shall be paid by wire transfer of federal funds in accordance with the written instructions of Amphion or, in the absence of current written instructions, by check mailed to Amphion at the address last given to Axcess by Amphion in writing for such purpose.

Except as otherwise expressly provided herein, Axcess hereby waives presentment for payment, demand for payment, notice of nonpayment, protest and notice of protest.

This Note is not assignable except by operation of law; provided, however, that Amphion may assign all or part of the Note to its stockholders in connection with the partial or complete liquidation of Amphion.

If the Company fails to pay the principal amount of this Note when due, , the entire unpaid principal of this Note shall forthwith become absolutely due and payable without any further notice, demand, protest or presentment whatsoever, all of which are hereby expressly waived. All expenses incurred by Amphion for the collection of the note will be paid for by Axcess.

If the loan is not repaid or converted prior to or on December 31, 2007 then Axcess shall issue to Amphion a warrant to purchase Axcess Common Shares at the closing price on December 31, 2007, equivalent to ten percent (10%) of the outstanding amount (i.e. amount outstanding divided by closing stock price on the 31^{st} times 10%). If the amount is not repaid or converted prior to January 31, 2008 then Axcess will issue another warrant equal to an additional 10% and that will continue every thirty (30) days until Axcess has issued five warrants.

This Note shall be governed by and construed in accordance with the laws of the State of New York, without reference to its or any other jurisdiction's rules as to conflicts of law. Any judicial proceeding brought against Axcess to enforce, or otherwise in connection with, this Note shall be brought in any court of competent jurisdiction in New York, and, by acceptance of this Note, Amphion (a) accepts, generally and unconditionally, the exclusive 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 Note and (b) 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. The prevailing party shall be entitled to collect from the nonprevailing party all reasonable attorneys fees incurred in connection with any action to enforce the terms of this Note.

Any provision of this Note may be amended or waived if, but only if, such amendment or waiver is in writing, signed by Axcess and Amphion.

IN WITNESS WHEREOF, Axcess has caused this Note to be signed by its duly authorized officer and has caused its corporate seal to be affixed and attested by its Secretary, as of the date first set forth above.

[Corporate Seal] Attested:	AXCESS INTERNATIONAL, INC.
By: /s/ Allan Frank	By: /s/ Allan Frank
Name: Allan Frank Title: Vice President & CFO	Name: Allan Frank Title: Vice President & CFO

AXCESS INTERNATIONAL, INC.
CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

This Code of Ethics applies to the Chief Executive Officer, Chief Financial Officer, and any Principal Accounting Officer or Controller ("Senior Financial Officers") of Axcess International, Inc. (the "Company"). Its purpose is to promote honest and ethical conduct and compliance with the law, particularly as related to the maintenance of the Company's financial records and the preparation of financial statements filed with the Securities and Exchange Commission (the "SEC").

General Principles

Senior Financial Officers are expected to carry out their responsibilities honestly and with integrity, exercising at all times their best independent judgment.

1. ***Conflict of Interests.*** Senior Financial Officers must avoid situations in which their own interests conflict, or may appear to conflict, with the interests of the Company. A conflict of interest can arise when a Senior Financial Officer takes actions or has interests that may make it difficult to perform his or her work objectively and effectively. Conflicts of interest also arise when a Senior Financial Officer, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company. In any case in which a Senior Financial Officer finds himself or herself with an actual or apparent material conflict of interest, he or she must properly disclose it to the Company's counsel, who will review the transaction or relationship. If Company's counsel determines that a material conflict does exist, he or she will refer the matter to the Audit Committee of the Board of Directors, which shall determine how the situation should be resolved. In furtherance of the foregoing, no Senior Financial Officer may:

   (a) compete, directly or indirectly, with or against the Company;

   (b) work for or receive payments for services from any competitor, customer, distributor or supplier of the Company;

   (c) receive compensation in connection with services performed relating to any transaction entered into by the Company, other than compensation received in the ordinary course of employment by the Company;

   (d) take or otherwise appropriate for his or her personal benefit, or for the benefit of any other person or enterprise, any opportunity or potential opportunity that arises or may arise in any line of business in which the Company or any Company subsidiary engages or is considering engaging, without first notifying and obtaining the written approval of the Audit Committee;

   (e) hold, or have any immediate family member who holds, any interest in any corporation or entity that directly or indirectly competes with the Company or any division or affiliate;

   (f) accept gifts of more than a nominal value from any customer or supplier; or

   (g) provide a gift to any person or entity that would violate any law.

2. ***Full, Fair, and Timely Disclosure.*** Senior Financial Officers are responsible for assuring full, fair, accurate, timely and understandable disclosure of relevant financial information to shareholders and investors. In particular, they are responsible for assuring that the Company complies with the federal securities laws governing disclosure of financial information, and for assuring that press releases and communications with investors and securities analysts are fair and accurate. Accordingly, it is the responsibility of each of the Senior Financial Officers to promptly bring to the attention of the Company's counsel and to the Audit Committee any credible information of which he or she becomes aware, that would place in doubt the accuracy or completeness, in any material respect, of any disclosures of which he or she is aware, that have been made or are to be made, whether directly or indirectly by the Company, in any public SEC filing or submission, or any other formal or informal public communication, whether written or oral (including but not limited to a press release).

   Additionally, each Senior Financial Officer is responsible for promptly bringing to the attention of the Company's counsel and the Audit Committee any credible information of which he or she becomes aware that indicates any deficiency in the Company's internal control over financial reporting within the meaning of Section 404 of the Sarbanes-Oxley Act and the SEC's implementing rules, and/or the Company's disclosure controls and procedures for preparing SEC reports or other public communications as mandated by Section 302 of the Sarbanes-Oxley Act and the SEC's implementing rules, even if a materially inaccurate or incomplete disclosure by or on behalf of the Company has not resulted or is not expected imminently to result from such deficiency.

Each Senior Financial Officer is reminded, moreover, that the Company is required by law and this Code of Ethics to keep books and records that accurately and fairly reflect its business operations, its acquisition and disposition of assets and its incurrence of liabilities, as part of a system of internal accounting controls that will ensure the reliability and adequacy of these books and records and that will ensure that access to Company assets is granted only as permitted by Company policies.

Among other things, Senior Financial Officers shall:

(a) establish and maintain internal controls and procedures and disclosure controls and procedures designed to assure that financial information is recorded, processed and transmitted to those responsible for preparing periodic reports and other public communications containing financial information so that they are complete, accurate and timely;

(b) oversee the appropriate personnel to help ensure that the internal controls and procedures and disclosure controls and procedures are being followed;

(c) carefully review each periodic report for accuracy and completeness before it is filed with the SEC and carefully review each public communication containing financial information before it is released;

(d) never create or maintain secret or unrecorded funds, assets, or accounts, or intentionally make a payment or approve an invoice, expense report or other document that is incorrect, misleading or inaccurate; and

(e) comply at all times with applicable government laws, rules and regulations.

3. **Compliance with the Code of Ethics.** Senior Financial Officers should promptly bring to the attention of the Audit Committee or the full Board of Directors:

(a) any matters that could compromise the integrity of the Company's financial reports;

(b) any disagreements with respect to any material accounting matter; and

(c) any violation of this Code of Ethics or of any law or regulation related to the Company's accounting or financial affairs.

4. **Whisleblowers.** No Senior Financial Officer may discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee in the terms and conditions of employment because of any lawful act done by the employee (1) to provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct that the employee reasonably believes constitutes a violation of law, including any rule or regulation of the SEC, or any provision of federal law relating to fraud against shareholders or (2) to file, cause to be filed, testify, participate in, or otherwise assist in a proceeding filed or about to be filed (with any knowledge of the employer) relating to an alleged violation of law, including any rule or regulation of the SEC, or any provision of federal law relating to fraud against shareholders.

5. **Independent Auditors.** Senior Financial Officers are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead the Company's independent public auditors for the purpose of rendering the financial statements of the Company misleading.

6. **Amendment or Waiver.** The Board of Directors shall approve any waiver of or amendment to this Code of Ethics, and any such waiver or amendment shall be disclosed promptly, as required by law or SEC regulation.

7. **Sanctions for Violoation.** A failure by any Senior Financial Officer to comply with the laws or regulations governing the Company's business, this Code of Ethics, or any other Company policy or requirement may result in disciplinary action, including immediate termination and, if warranted, legal proceedings. The Audit Committee will investigate violations and appropriate action will be taken in the event of any violations of this Code of Ethics.

Dated and approved by the Board of Directors on this 26th day of March 2004.

EXHIBIT 21.1

AXCESS INTERNATIONAL INC.
SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	State of Incorporation
Sandia Imaging Systems Corporation	Delaware

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements Nos. 33-42214, 33-98160, 33380857 and 333-80843 on Form S-8 of Axcess International, Inc. of our report dated April 14, 2008 relating to our audit of the consolidated financial statements, which appear in this Annual Report on Form 10-KSB of Axcess International, Inc. for the year ended December 31, 2007.

/s/ Hein & Associates LLP

April 14, 2008
Dallas, TX

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 annual report on Form 10-KSB of Axcess International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and
    c) presented in this annual 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 annual 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: April 14, 2008

/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 annual report on Form 10-KSB of Axcess International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and
    c) presented in this annual 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 annual 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: April 14, 2008

/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 Annual Report of Axcess International Inc. (the "***Company***") on Form 10-KSB for the period ended December 31, 2007, 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: April 14, 2008

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 Annual Report of Axcess Inc. (the "***Company***") on Form 10-KSB for the period ended December 31, 2007, 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: April 14, 2008

EXHIBIT 99.1

AXCESS INTERNATIONAL, INC.
AUDIT COMMITTEE CHARTER

Organization

This charter governs the operations of the audit committee. The committee shall review and reassess the charter at least annually and obtain the approval of the board of directors. The committee shall be appointed by the board of directors and shall comprise at least three directors, each of whom are independent of management and the Company. Members of the committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company. All committee members shall be financially literate, [or shall become financially literate within a reasonable period of time after appointment to the committee,] and at least one member shall have accounting or related financial management expertise.

Statement of Policy

The audit committee shall provide assistance to the board of directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of the Company's financial statements, and the legal compliance and ethics programs as established by management and the board. In so doing, it is the responsibility of the committee to maintain free and open communication between the committee, independent auditors, the internal auditors and management of the Company. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose.

Responsibilities and Processes

The primary responsibility of the audit committee is to oversee the Company's financial reporting process on behalf of the board and report the results of their activities to the board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. The committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal recurring processes of the audit committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the committee may supplement them as appropriate.

- The committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the board and the audit committee, as representatives of the Company's shareholders. The committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, recommend the replacement of the independent auditors. The committee shall discuss with the auditors their independence from management and the Company and the matters included in the written disclosures required by the Independence Standards Board. Annually, the committee shall review and recommend to the board the selection of the Company's independent auditors, subject to shareholders' approval.

- The committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation. Also, the committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the committee shall meet separately with the internal auditors and the independent auditors, with and without management present, to discuss the results of their examinations.

- The committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards. The chair of the committee may represent the entire committee for the purposes of this review.

- The committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards.

EXHIBIT 99.2

AXCESS INTERNATIONAL, INC.
NOMINATING AND GOVERNANCE COMMITTEE CHARTER

Purpose

The Nominating and Governance Committee of the Board of Directors will monitor the composition of the Board and, when appropriate, seek, screen and recommend for nomination qualified candidates for election to the Board of Directors at the Corporation's Annual Meeting of Stockholders. In addition, the Nominating and Governance Committee will seek qualified candidates to fill vacancies on the Board of Directors subject to appointment by the Board of Directors. The Nominating and Governance Committee will also evaluate the Board's structure and practices and, when appropriate, recommend new policies to the full Board. Finally, the Nominating and Governance Committee will periodically review succession planning with respect to the Chief Executive Officer and other key executive officers.

Membership

The Nominating and Governance Committee shall be elected by the Board of Directors and may be removed by the Board of Directors. The Nominating and Governance Committee will consist of a minimum of two members of the Board of Directors, each of whom shall be an "independent director." Members of the committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company.

Role and Responsibilities

The responsibilities of the Nominating and Governance Committee include:

1. Reviewing Board structure, composition, and practices, and making recommendations on these matters to the Board.
2. Reviewing, soliciting and making recommendations to the Board of Directors and stockholders of the Corporation with respect to candidates for election to the Board of Directors.
3. Reviewing Board Committee composition and practices and making recommendations on these matters to the Board.
4. Reviewing succession planning for the Chief Executive Officer and other key executive officers.
5. Performing such other tasks as may be authorized by the Board of Directors.

The Nominating and Governance Committee shall have the sole authority to retain special legal, accounting or other consultants, including search firms, to advise the Nominating and Governance Committee. The Nominating and Governance Committee may request any officer or employee of the Company or the Company's outside counsel to attend a meeting of the Nominating and Governance Committee or to meet with any members of, or consultants to, the Nominating and Governance Committee.

Meetings

The Nominating and Governance Committee will meet as often as the members shall determine to be necessary or appropriate but at least one time during each year. Reports of meetings of the Nominating and Governance Committee shall be made to the Board of Directors at its next regularly scheduled meeting following the Nominating and Governance Committee meeting, accompanied by any recommendations to the Board of Directors approved by the Nominating and Governance Committee.

Dated and approved by the Board of Directors on this 22nd day of February 2005.

EXHIBIT 99.3

AXCESS INTERNATIONAL, INC.
WHISTLEBLOWER POLICY

Purpose

This policy establishes standards and procedures to ensure that complaints and concerns (each an "Allegation") regarding the Axcess International Inc. (“Company”) operations, conduct and reporting are handled in a manner that complies with management's and the Audit Committee's objectives. In addition, this policy:

- establishes guidance for the receipt, retention, and treatment of verbal or written reports received by the Company regarding accounting, internal controls, auditing matters, disclosure, fraud and unethical business practices, whether submitted by Company employees or third parties ("Allegation"), and
- establishes guidance for providing Company employees a means to make Reports in a confidential and anonymous manner, and
- makes clear the Company's intention to discipline, up to and including termination of employment, any person determined to have engaged in retaliatory behavior,

pursuant to Section 301 of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Securities Exchange Act of 1934.

Receipt

This policy and information regarding problem resolution resources shall be provided to the Company's employees and made generally available through the Company website and / or intranet. The Company has designated the Chairman of the Audit Committee of the Board of Directors to be the recipients of all the Allegations. Any Allegation received by a Company officer, director, or employee from a Company or non-Company source should be immediately forwarded to Chairman of the Audit Committee.

Procedures

The Audit Committee shall receive, retain, investigate, document and act on all Allegations concerning accounting, internal accounting controls and auditing matters and other unethical or illegal business conduct. In addition the Audit Committee shall receive and oversee the handling and disposition of all Allegations regarding improper conduct towards employees and violations of Company policies, laws or regulations regarding harassment, discrimination, affirmative action and health and safety issues.

The Audit Committee shall determine whether the Audit Committee, the Company's Outside Counsel or management should investigate an Allegation, taking into account the following considerations, in addition to any other factors that the Audit Committee deems appropriate under the circumstances:

i. Who is the alleged wrongdoer?
ii. How serious is the alleged wrongdoing?
iii. How credible is the allegation of wrongdoing?

If the Audit Committee determines that management should investigate the Allegation, the Audit Committee will notify the Chief Executive Officer in writing of that conclusion. Management, under the guidance of the CEO, shall promptly thereafter investigate the Allegation and shall report the results of its investigation, in writing, to the Audit Committee. Management shall be free in its discretion to engage outside auditors, counsel or other experts to assist in the investigation and in the analysis of results.

If the Audit Committee determines that Outside Counsel should investigate the Allegation, the Audit Committee will notify the Outside Counsel in writing of that conclusion. The Outside Counsel shall promptly thereafter investigate the Allegation and shall report the results of the investigation, in writing, to the Audit Committee. The Outside Counsel shall be free in his or her discretion to engage outside auditors, counsel or other experts to assist in the investigation and in the analysis of results.

If the Audit Committee determines that it should investigate the Allegation, the Audit Committee shall promptly determine what professional assistance, if any, it needs in order to conduct the investigation. The Audit Committee shall be free in its discretion to engage outside auditors, counsel or other experts to assist in the investigation and in the analysis of results. The

Audit Committee shall investigate and document the Allegation with the assistance of the Company's Chief Financial Officer, if any, who shall report to and be solely under the direction of the Audit Committee.

Prompt and corrective action will be taken when and as warranted in the judgment of the Audit Committee.

Delegation of Authority With In the Audit Committee

At the discretion of the Audit Committee, responsibilities of the Audit Committee created by these procedures may be delegated to any member of the Audit Committee or to a subcommittee of the Audit Committee and / or Board.

Interpretation

The Audit Committee, in consultation with outside counsel shall have the authority to make interpretations regarding the operation of this Policy.

Retaliation

Retaliation against any employee that files a Report or voices a concern under this policy is strictly prohibited. Employees determined to have engaged in retaliatory behavior or who fail to maintain an employee's anonymity if requested may be subject to discipline, which could include termination of employment. Any employee who feels that he or she has been subjected to any behavior that violates this policy should immediately report such behavior to his or her supervisor, Chief Executive Officer, Chief Financial Officer or the Chairman of the Audit Committee. Please note however, that employees who knowingly file misleading or false reports, or without a reasonable belief as to truth or accuracy, will not be protected by this policy and may be subject to discipline, including termination of employment.

Audit Committee Review of Reports

A summary of reports received under this policy will be communicated to the Board on a quarterly basis (or a more frequent basis should conditions warrant more timely action).

Reporting Allegations

Anyone may forward Allegations on a confidential or anonymous basis to the Audit Committee by writing to the Audit Committee c/o Axcess International Inc., 3208 Commander Drive, Carrollton, Texas 75006 or by calling the following hotline: 972-407-6080 ext. 237. The Audit Committee, in its discretion, may appoint a representative to monitor receipt of Allegations.

Dated and approved by the Board of Directors on this 22nd day of February 2005.