SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. 0001104659-04-024011

(HTML Version on secdatabase.com)

FILER

AXCESS INTERNATIONAL INC/TX
CIK:**710597**| IRS No.: **850294536** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-11933** | Film No.: **04969114**
SIC: **7373** Computer integrated systems design

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

or

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

COMMISSION FILE NUMBER: 0-11933

AXCESS INTERNATIONAL INC.

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

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

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

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

Number of shares of common stock outstanding on August 14, 2004: 24,632,626

Transitional Small Business Disclosure Format: Yes ☐ No ☒

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

AXCESS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,749,239	$ 2,163,977
Accounts receivable - trade, net of allowance for doubtful accounts	77,669	85,248
Inventory	116,374	131,515
Prepaid expenses and other	144,990	148,490
Total current assets	2,088,272	2,529,230
Property, plant and equipment, net	58,050	61,756
Intellectual property, net	933	149,704

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Deferred debt issuance costs	591,371	675,852
Other assets	595	595
Total assets	$ 2,739,221	$ 3,417,137
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 490,896	$ 813,976
Other accrued liabilities	752,414	802,355
Dividends payable	152,592	125,999
Total current liabilities	1,395,902	1,742,330
Note payable to stockholder	3,936,332	4,058,956
Convertible notes payable (includes $116,000 and $120,000 with related party in 2004 and 2003, respectively)	903,333	1,288,333
Discount on convertible debt	(242,369)	(680,457)
Total liabilities	5,993,198	6,409,162
Stockholders' deficit:		
Convertible preferred stock, 7,000,000 shares authorized		
With liquidation preference; 54 shares issued and outstanding in 2003	–	536,623
Without liquidation preference; $0.01 par value, 2,415,000 and 1,790,000 shares issued and outstanding in 2004 and 2003, respectively	24,150	17,900
Common stock, $0.01 par value, 50,000,000 shares authorized in 2004 and 2003; 24,607,626 shares issued and outstanding in 2004 and 19,446,028 shares issued and outstanding in 2003	246,076	194,461
Shares of common stock to be issued, 25,000 and 4,529,345 shares in 2003 and 2004, respectively	250	45,293
Non-voting convertible common stock, $0.01 par value, 2,250,000 shares authorized; no shares issued and outstanding in 2004 or 2003	–	–
Additional paid-in capital	149,683,433	146,246,094
Accumulated deficit	(153,207,886)	(150,032,396)
Total stockholders' deficit	(3,253,977)	(2,992,025)
Total liabilities and stockholders' deficit	$ 2,739,221	$ 3,417,137

See accompanying notes to unaudited financial statements.

AXCESS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003

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Sales	$ 225,129	$ 245,427	$ 431,807	$ 535,991
Cost of sales	124,787	160,278	223,673	334,990
Gross profit	100,342	85,149	208,134	201,001
Expenses:				
Research and development	166,534	157,753	351,892	294,146
General and administrative	461,863	331,902	866,079	590,469
Selling and marketing	172,162	49,937	346,745	138,534
Depreciation and amortization	88,434	113,789	182,065	232,951
Operating expenses	888,993	653,381	1,746,781	1,256,100
Loss from operations	(788,651)	(568,232)	(1,538,647)	(1,055,099)
Other income (expense):				
Interest expense	(334,830)	(306,353)	(657,553)	(525,993)
Gain in vendor settlements	64,509	137,299	152,751	140,091
Other	–	–	6,509	–
Other expense, net	(270,321)	(169,054)	(498,293)	(385,902)
Net loss	(1,058,972)	(737,286)	(2,036,940)	(1,441,001)
Preferred stock dividend requirements	(70,490)	(575,153)	(136,011)	(674,349)
Net loss applicable to common stock	$ (1,129,462)	$ (1,312,439)	$ (2,172,951)	$ (2,115,350)
Basic and diluted net loss per share	$ (0.05)	$ (0.07)	$ (0.09)	$ (0.12)
Weighted average shares of common stock outstanding	24,303,151	17,698,593	22,951,611	17,224,325

See accompanying notes to unaudited financial statements.

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

	Six Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$ (2,036,940)	$ (1,441,001)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	182,065	232,951
Amortization of financing discount and issuance costs	522,570	211,097
Shares issued for services rendered	65,000	80,000
Gain on vendor settlements	(152,751)	–

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Loss on disposal of assets	–	13,139
Changes in operating assets and liabilities:		
Accounts receivable	7,579	15,093
Inventory	15,141	(24,935)
Prepaid expenses and other	3,500	20,236
Other assets	–	29,384
Accounts payable	(170,329)	(182,113)
Other liabilities	88,520	351,121
Net cash used by operating activities	(1,475,645)	(695,028)
Cash flow from investing activities:		
Capital expenditures	(29,589)	–
Net cash used by investing activities	(29,589)	–
Cash flow from financing activities:		
Borrowings under financing agreements	–	305,000
Principal payments on financing agreements	(122,624)	(50,590)
Net proceeds from issuance of common stock from employees options	13,120	–
Net proceeds from issuance of common and preferred stock	1,200,000	1,460,625
Net cash provided by financing activities	1,090,496	1,715,035
Net increase (decrease) in cash and cash equivalents	(414,738)	1,020,007
Cash and cash equivalents, beginning of period	2,163,977	33,249
Cash and cash equivalents, end of period	$ 1,749,239	1,053,256
Supplemental information:		
Cash paid during the period for interest	$ –	$ –
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Conversions of notes payable into common stock	$ 384,999	–
Conversions of accrued interest into common stock	138,461	–
Conversions of preferred stock into common stock	536,623	–
Conversion of accrued dividends into common stock	109,417	–
Preferred stock dividends accrued	136,011	674,349

See accompanying notes to unaudited financial statements.

AXCESS
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Company provides advanced security and asset management systems, which locate, identify, track, monitor and protect assets. The main applications of the Company' s systems are security video through closed circuit television (called CCTV), personnel and vehicle

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access control, and automatic asset tracking and protection. The Company provides solutions in the recently identified homeland security markets such as air and ground transportation, water treatment facilities, oil and gas, power plants, as well as in the markets for data centers, retail / convenience stores, education, healthcare, and corporate offices. AXCESS utilizes two patented and integrated technologies: network-based radio frequency identification (RFID) and tagging and streaming video. Both application and browser-based software options deliver critical real-time information tailored to each end user via the enterprise network or Internet, also providing custom alerts in the form of streaming video, e-mail, or messages delivered to wireless devices.

The Company' s business plan for 2004 is predicated principally upon the successful marketing of its RFID and digital video products. During the first half of 2004, operating activities utilized approximately $1.5 million of cash. During 2003 and the second quarter of 2004 we raised a net of $4.4 million and $1.2 million, respectively, for additional working capital through three exempt Preferred Stock offering.

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

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

(b) Company Organization and Basis of Presentation

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

The Company has received working capital in various forms from Amphion Ventures, L. P. and affiliates of Amphion Ventures, L. P. including Amphion Partners, Amphion Investments LLC, Antiope Partners, VennWorks LLC (formerly incuVest LLC), Amphion Capital Management, and NVW, LLC (collectively, the "Amphion Group"). Following the conversion of the 2003 preferred stock held by the Amphion Group into common stock in 2003, the Amphion Group owns approximately 69% of the outstanding voting stock of the Company.

(c) Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method. Inventory was comprised of the following at June 30, 2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Raw materials	$ 62,672	$ 36,682
Work-in-process	–	10,513
Finished goods	53,702	84,320
	$ 116,374	$ 131,515

(d) Stock Options

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The Company accounts for its stock-based compensation plan under Accounting Principles Board ("ABP") Opinion No. 25, Accounting for Stock Issued to Employees. The pro forma information below is based on provisions of Statement of Financial Accounting Standard ("FAS") No. 123, Accounting for Stock-Based Compensation, as amended by FAS 148, Accounting for Stock-Based Compensation−Transition and Disclosure, issued in December 2002.

The Company does not have a history of paying cash dividends and none have been assumed in estimating the fair value of its options.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because, among other things, changes in the subjective input assumptions can materially affect the fair value estimate, in management' s opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Pro forma impact of fair value method (FAS 148)				
Reported net loss attributed to common stock	$ (1,129,462)	$ (1,312,439)	$ (2,172,951)	$ (2,115,350)
Less: fair value of employee stock compensation	(136,629)	(105,206)	(217,053)	(224,628)
Pro forma net loss attributed to common stock	(1,266,091)	(1,417,645)	(2,390,004)	(2,339,978)
Loss per common share				
Basic and diluted net loss per share – as reported	$ (0.05)	$ (0.05)	$ (0.09)	$ (0.12)
Basic and diluted net loss per share – pro forma	$ (0.05)	$ (0.06)	$ (0.10)	$ (0.14)
Weighted average Black-Scholes fair value assumptions				
Risk free interest rate	4.25%	5.00%	4.25%	5.00%
Expected life	2 years	10 years	2 years	10 years
Expected volatility	175%	88% - 92%	175%	88% - 92%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

(e) Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46"), which was revised and superceded by FASB Interpretation No. 46R in December 2003 (FIN 46R). FIN 46R requires the consolidation of certain variable interest entities, as defined. FIN 46R is effective immediately for special purpose entities and variable interest entities created after December 31, 2003, and must be applied to other variable interest entities no later than December 31, 2004. The Company believes it has no such variable interest entities and as a result FIN No. 46R will have no impact on its results of operations, financial position or cash flows.

(2) Contingencies

Axcess is engaged in a number of lawsuits with approximately eight vendors who claim they are owed amounts from $500 to $45,000, which aggregates in total $117,330. We are currently defending or seeking to settle each of the vendor' s claims. At June 30, 2004, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

(3) Preferred Stock

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The Company has authorized 7,000,000 shares of convertible preferred stock, of which shares designated in five series have been issued. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	Series I	Series J	2003B Series	2004 Series
Number of shares authorized	2,500	2,500	2,750,000	625,000
Stated value	$ 10,000	$ 10,000	$ 0.01	$ 0.01
Number of shares issued and outstanding:				
December 31, 2003	52	2	1,790,000	–
June 30, 2004	–	–	1,790,000	625,000
Conversion ratio (or conversion price) of preferred shares into common	$ 2.51 into voting common stock	$ 2.51 into non-voting common stock	1 to 1 into voting common stock	1 to 1 into voting common stock
Liquidation preference	Stated value plus accrued dividends	Stated value plus accrued dividends	Stated value plus accrued dividends	Stated value plus accrued dividends
Dividend rights	8% per annum, cumulative	8% per annum, cumulative	7% per annum, cumulative	7% per annum, cumulative

(a) Series I and Series J Preferred Stock

The holders of Series I Preferred Stock and Series J Preferred Stock are entitled to receive semi-annual dividends on each such share at the annual rate of 8% of the original issue price of each share payable in arrears, when, as and if declared by the Company' s board of directors, in cash or additional shares of preferred stock. Shares of Series I Preferred Stock and Series J Preferred Stock are convertible into shares of common stock at a conversion price of $2.51 per share. During the three months ended June 30, 2004 there were no of dividends accrued for Series I Preferred Stock and Series J Preferred Stock, respectively. Dividends payable were $0 and $95,182 for Series I Preferred Stock at June 30, 2004 and December 31, 2003, respectively. Dividends payable were $0 and $3,384 of dividends payable for Series J Preferred Stock at June 30, 2004 and December 31, 2003, respectively.

During the first quarter of 2004 all shares of the Series of Series I and Series J preferred stock were retired or converted and there are currently no shares outstanding.

(b) Series 2003B Preferred Stock

We completed a $3,132,500 exempt Preferred Stock Offering during the fourth quarter of 2003. The Preferred Stock is designated as 2003B Preferred and each $70,000 unit consisted of 40,000 shares of Preferred Stock bearing a 7% dividend, approximately 2,000 shares of common stock and 40,000 warrants to purchase Axess' 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.

The holders of the Series 2003B Preferred Stock are entitled to receive annual dividends on each share held at the annual rate of 7% of the original issue price of each share payable in arrears, when, as and if declared by the our board of directors, paid in cash of common shares at our option. During the three months ended June 30, 2004 there were $54,669 of dividends accrued. We have also accrued $136,770 and

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$27,433 of dividends payable for Series 2003B Preferred Stock at June 30, 2004 and December 31, 2003, respectively. As of June 30, 2004 and December 31, 2003, we had 1,790,000 shares of Series 2003B Preferred shares outstanding.

In connection with the issuance of the 2003B Preferred Stock, the Company recorded preferred stock dividend requirements of $1,782,831 that will be reflected as preferred stock dividends as the underlying preferred stock converts to common stock. As of June 30, 2004 and December 31, 2003 that amount is reflected in accumulated deficit on the balance sheet.

(c) Series 2004 Preferred Stock

During the second quarter of 2004 we raised a net of $1,200,000 of additional working capital through an exempt Preferred Stock offering. The Preferred Stock is designated as 2004 Preferred and consisted of 625,000 shares of Preferred Stock bearing a 7% dividend and 357,142 warrants to purchase our common stock exercisable for two years at $3.20 per share. The offering also includes an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over $4.00 or when we achieve a full quarter of profitability.

The holders of the Series 2004 Preferred Stock are entitled to receive annual dividends on each share held at the annual rate of 7% of the original issue price of each share payable in arrears, when, as and if declared by our board of directors, paid in cash of common shares at our option. During the three months ended June 30, 2004 there were $15,822 of dividends accrued and payable as of June 30, 2004 for Series 2004 Preferred Stock. As of June 30, 2004 we have 625,000 shares of Series 2004 Preferred shares outstanding.

In connection with the issuance of the 2004 Preferred Stock, we recorded preferred stock dividend requirements of approximately $1,002,540 that will be reflected as preferred stock dividends as the underlying preferred stock converts to common stock.

(4) Convertible Notes Payable

On July 30, 2002, the Company entered into a bridge financing agreement with ten accredited investors for the sale and issuance of 10 “units” to the investors for an aggregate purchase price of $1,000,000. Each unit consists of a convertible promissory note in the amount of $100,000 and 25,000 shares of the Company’ s common stock. Each investor has agreed to not sell more than one-third of the common stock comprising the units during any calendar month. The convertible promissory notes comprising the units bear interest at an annual rate of 7% and mature on July 30, 2005. On each of July 30, 2003, July 30, 2004 and July 30, 2005, the investors have the option to convert one-third of the principal amount of the notes into common stock of the Company. The conversion price of the notes is initially 65% of the average closing price of a share of the Company’ s common stock for the 20 trading days preceding the given anniversary date of the notes. The maximum conversion price shall be $4.00 per share and the minimum conversion price shall be $1.00 per share. The conversion price will be subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in the Company’ s shares of common stock. The Company without premium or penalty may prepay the notes in whole or in part.

During the three months ended June 30, 2004, seven holders elected to convert $116,667 of their notes plus $43,011 of accrued interest into 103,005 shares of Axcess common stock. In connection with this conversion, we recorded $62,163 of additional debt discount amortization.

On January 17, 2003, Axcess entered into a bridge financing agreement with ten accredited investors for the sale and issuance of 3.05 “units” to the investors for an aggregate purchase price of $305,000. Each unit consists of a convertible promissory note in the amount of $100,000 and 50,000 shares of our common stock. By agreement, each investor may not sell more than one-third of the common stock comprising the units during any calendar month. The convertible promissory notes comprising the units bear interest at an annual rate of 7% and mature on January 31, 2006. On each of January 31, 2004, January 31, 2005 and January 31, 2006, the investors have the option to convert one-third of the principal amount of the notes into common stock of Axcess. The conversion price of the notes is initially 65% of the average closing price of a share of our common stock for the twenty (20) trading days preceding the given anniversary date of the notes. The

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maximum conversion price shall be $2.00 per share and the minimum conversion price shall be $0.50 per share. The conversion price will be subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in our shares of common stock. The notes may be prepaid in whole or in part by us without premium or penalty.

During the three months ended June 30, 2004, eight holders elected to convert $61,667 of their note plus $16,345 of accrued interest into 56,945 shares of Axcess common stock. During the three months ended June 30, 2004 the board elected to convert $9,018 of accrued and unpaid dividends into 3,681 shares of Axcess common stock.

(5) Significant Customers

During the three months ended June 30, 2004 we had no single customers that accounted for more than 10% of the overall revenue or RFID product sales. However, we had two customers account for 72% of the digital video product sales. During the three months ended June 30, 2003 the Company had three customers that accounted for

37% of the overall revenue, three customers accounted for 83% of the digital video product sales and one customer accounted for 18% of the RFID product sales.

During the six months ended June 30, 2004 we had one customer that account for 14% of the overall revenue, two customers account for 52% of the digital video product sales and two customers account for 26% of the RFID product sales. During the six months ended June 30, 2003 we had two customers that accounted for 29% of the overall revenue, three customers accounted for 76% of the digital video product sales and two customers accounted for 22% of the RFID product sales.

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

Forward-Looking Statements

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

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

A variety of factors could cause actual results to differ materially from those anticipated in the Company' s forward-looking statements, including the following factors: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents, technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company' s product, and the ability of the Company to meet its stated business goals. For a detailed discussion of these and other cautionary statements and factors that could cause actual results to differ from the Company' s forward-looking statements, please refer to the Company' s filings with the Securities and Exchange Commission, especially "Item 1. Description of Business" (including the "Risk Factors" section of Item 1) and "Item 6. Management' s Discussion and Analysis or Plan of Operation" of the Company' s 2003 Annual Report on Form 10-KSB.

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Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management' s analysis only as of the date hereof. The Company does not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Recent Developments: Going Concern and Liquidity Problems

Our auditors have included an explanatory paragraph in their audit opinion with respect to our consolidated financial statements at December 31, 2003. 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 and warrants and more recently, convertible debt, short-term bridge loans from

stockholders and preferred equity offerings to meet our working capital requirements. At June 30, 2004, we had working capital of $692,370.

Our operations generated losses in 2003 and continue to generate losses in 2004. Our cash decreased $414,738 during the six months ended June 30, 2004 with operating activities using $1,475,645 of cash. We funded operations primarily through cash on hand from borrowings and equity offerings over the last two years. No assurance can be given that such activities will continue to be available to provide funding to us. Our business plan for 2004 is predicated principally upon the successful marketing of our RFID and digital video products. We anticipate that our existing working capital resources and revenues from operations will not be adequate to satisfy our funding requirements in 2004.

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 makes 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.

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Sales and Marketing Initiatives

In the past our sales volume has not been sufficient to sustain our operations. During the six months ended June 30, 2004 we were able, through the recent financing, to initiate a new marketing emphasis, which is intended by us to build sales, primarily of our RFID products. Our marketing team has implemented the following sales strategies:

1. A marketing communications program to create brand awareness in the security systems integration space;
2. The hiring of two additional sales personnel and one marketing administrative assistant;
3. An assessment of the non-security market for active RFID.

While there can be no assurance that our efforts will be successful, we believe that these strategies will assist us in our goal of becoming profitable.

Results of Operations

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Sales and Gross Profit. Sales for the three months ended June 30, 2004 were $225,129 and for the three months ended June 30, 2003 were $245,427. Cost of sales for the three months ended June 30, 2004 were $124,787 and for the three months ended June 30, 2003 were $160,278. The gross profit for the three months ended June 30, 2004 was $100,342 and $85,149 for the three months ended June 30, 2003. The decrease in sales was due to a large order for the video product in 2003 that was not duplicated in 2004. The margin improvement is driven by a shift in the product mix and continued improvement in margins based on the shift to contract manufacturers.

Radio frequency identification (RFID) product sales were $195,300 for the three months ended June 30, 2004 and $158,658 for the three months ended June 30, 2003. Cost of sales was $107,979 for the three months ended June 30, 2004 and $111,311 for the three months ended June 30, 2003. As a result, gross profits from RFID products were $87,321 for the three months ended June 30, 2004 and $47,347 for the three months ended June 30, 2003. Sales are continuing to increase based on the increased exposure in the marketplace. The margin improvement is a result of the product mix shift and continued improvement based on the shift to contract manufacturers.

Digital video product sales were $29,829 for the three months ended June 30, 2004 and $86,769 for the three months ended June 30, 2003. Cost of sales was $16,808 for the three months ended June 30, 2004 and $48,967 for the three months ended June 30, 2003. As a result, gross profits from digital video products were $13,021 for the three months ended June 30, 2004 and $37,802 for the three months ended June 30, 2003. The decrease in sales is a result of one large order during 2003 that was not duplicated in 2004. The margin has been steady as a result of the product mix.

Operating Expenses. Operating expenses were $888,993 for the three months ended June 30, 2004 and $653,381 for the three months ended June 30, 2003. This increase was due to increased salaries, increased advertising, additional research and development, higher insurance and the hiring of outside professional services companies.

Research and development expenses were $166,534 for the three months ended June 30, 2004 and $157,753 for the three months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003 and some additional contract labor relating to certain RFID software development offset by the downsizing of the California facility and a decrease in prototyping of additional tag form factors.

Corporate general and administrative expenses were $461,863 for the three months ended June 30, 2004 and $331,902 for the three months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003, increased spending on an investor relations firms, increased director' s and officer' s insurance and an increase in professional services expenses relating to the filing of a registration statement.

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Selling and marketing expenses were $172,162 for the three months ended June 30, 2004 and $49,937 for the three months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003, increased headcount and an increase in advertising. We attended several trade shows during the quarter as well as placed several advertisements. We are attempting to reestablish our place in the market.

Depreciation and amortization expenses were $88,434 for the three months ended June 30, 2004 and $113,789 for the three months ended June 30, 2003. The decrease is related to lower depreciation expense as a result of the age of the equipment, the closing of the Georgia facility and the downsizing of the California facility.

Other expenses, net. Other expenses, net, were $270,321 for the three months ended June 30, 2004 and $169,054 for the three months ended June 30, 2003. Interest expense was $28,477 higher during the three months ended June 30, 2004, compared to the three months ended June 30, 2003, reflecting an increase in the amortization of the debt discount related to the convertible notes that converted during the quarter offset by the lower debt balance and lower rate. We also were able to settle some accounts payable issues relating to prior periods at a discount from the accrued amounts, which resulted in a $64,509 gain on settlements.

Net Loss. Net loss was $1,058,972 for the three months ended June 30, 2004, compared to a loss of $737,286 for the three months ended June 30, 2003. The increase is mainly relating to the increased salary expense, increased marketing activity and the hiring of certain professional service firms.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $70,490 for the three months ended June 30, 2004 and $575,153 for the three months ended June 30, 2003. This decrease was due to a beneficial conversion discount of $474,855 for the 2003 preferred stock converted during 2003.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Sales and Gross Profit. Sales for the six months ended June 30, 2004 were $431,807 and for the six months ended June 30, 2003 were $535,991. Cost of sales for the six months ended June 30, 2004 were $223,673 and for the six months ended June 30, 2003 were $334,990. The gross profit for the six months ended June 30, 2004 was $208,134 and $201,001 for the six months ended June 30, 2003. The decrease in sales was due to a large order for the video product in 2003 that was not duplicated in 2004. The margin improvement is driven by a shift in the product mix and continued improvement in margins based on the shift to contract manufacturers.

Radio frequency identification (RFID) product sales were $369,607 for the six months ended June 30, 2004 and $284,658 for the six months ended June 30, 2003. Cost of sales was $193,477 for the six months ended June 30, 2004 and $192,246 for the six months ended June 30, 2003. As a result, gross profits from RFID products were $176,130 for the six months ended June 30, 2004 and $92,412 for the six months ended June 30, 2003. Sales are continuing to increase based on the increased exposure in the marketplace. The margin improvement is a result of the product mix shift and continued improvement based on the shift to contract manufacturers.

Digital video product sales were $62,200 for the six months ended June 30, 2004 and $251,333 for the six months ended June 30, 2003. Cost of sales was $30,196 for the six months ended June 30, 2004 and $142,744 for the six months ended June 30, 2003. As a result, gross profits from digital video products were $32,004 for the six months ended June 30, 2004 and $108,589 for the six months ended June 30, 2003. The decrease in sales is a result of one large order during 2003 that was not duplicated in 2004. The margin improvement is a result of the product mix shift and continued improvement based on the shift to contract manufacturers.

Operating Expenses. Operating expenses were $1,746,781 for the six months ended June 30, 2004 and $1,256,100 for the six months ended June 30, 2003. This increase was due to increased salaries, increased advertising, additional research and development, higher insurance and the hiring of outside professional services companies.

Research and development expenses were $351,892 for the six months ended June 30, 2004 and $294,146 for the six months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003, increase in contract labor for a software development project and some additional development relating to certain RFID products offset by the downsizing of the California facility.

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Corporate general and administrative expenses were $866,079 for the six months ended June 30, 2004 and $590,469 for the six months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003, increased spending on an investor relations firms, increased director' s and officer' s insurance and an increase in professional services expenses relating to the filing of a registration statement. However, we were able to offset some of that increase with a reduction in bad debt expense.

Selling and marketing expenses were $346,745 for the six months ended June 30, 2004 and $138,534 for the six months ended June 30, 2003. The increase is a result of increased salaries from the recession of the pay reduction implemented during 2003, increased headcount and an increase in advertising. We attended several trade shows during the period as well as placed several advertisements. We are attempting to reestablish our place in the market.

Depreciation and amortization expenses were $182,065 for the six months ended June 30, 2004 and $232,951 for the six months ended June 30, 2003. The decrease is related to lower depreciation expense as a result of the age of the equipment, the closing of the Georgia facility and the downsizing of the California facility.

Other expenses, net. Other expenses, net, were $498,293 for the six months ended June 30, 2004 and $385,902 for the six months ended June 30, 2003. Interest expense was $131,560 higher during the six months ended June 30, 2004, compared to the six months ended June 30, 2003, reflecting an increase in the amortization of the debt discount related to the convertible notes that converted during the period. We also were able to settle some accounts payable issues relating to prior periods at a discount from the accrued amounts, which resulted in a $152,751 gain on settlements.

Net Loss. Net loss was $2,036,940 for the six months ended June 30, 2004, compared to a loss of $1,441,001 for the six months ended June 30, 2003. The increase is mainly relating to the increased salary expense, increased marketing activity and the hiring of certain professional service firms.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were $136,011 for the six months ended June 30, 2004 and $674,349 for the six months ended June 30, 2003. This decrease was due to a beneficial conversion discount of $474,855 for the 2003 preferred stock converted during 2003.

Other

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

Item 3. Controls and Procedures

Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-QSB, the Company' s principal executive officer and principal financial officer have concluded that the Company' s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Controls. During the period covered by this report, there were no significant changes in the Company' s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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Axcess is engaged in a number of lawsuits with approximately eight vendors who claim they are owed amounts from $500 to $45,000, which aggregates in total $117,330. We are currently defending or seeking to settle each of the vendor' s claims. At June 30, 2004, we had accrued the delinquent amounts we expect to be liable for, for the claims described in this paragraph.

Item 2. Changes in Securities.

During the three months ended June 30, 2004, we issued unregistered securities in connection with the transactions described below. The issuance of stock was exempt from the registration requirements of the Securities Act, as amended by virtue of Section 4(2) thereof, as transactions not involving a public offering and an appropriate restrictive legend was affixed to the stock certificates.

Convertible Note

During the three months ended June 30, 2004 seven of the holders of the July 2002 Convertible debt elected to convert $116,667 of their $350,000 note plus $43,011 of accrued interest into 103,005 of unregistered common stock. We reissued the notes for $233,333.

During the three months ended June 30, 2004 eight of the holders of the January 2003 Convertible debt elected to convert $61,667 of their $185,000 note plus $16,345 of accrued interest into 56,945 of unregistered common stock. We reissued the note for $123,333. During the three months ended June 30, 2004 the board elected to convert $9,018 of accrued and unpaid dividends into 3,681 shares of Axcess common stock.

2004 Preferred Equity Offering

During the second quarter of 2004 the Company raised a net of approximately $1,200,000 of additional working capital through an exempt Preferred Stock offering. The Preferred Stock is designated as 2004 Preferred and consists 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 per share.

Stock Options

During the three months ended June 30, 2004 four employees exercised 32,800 stock options.

Common Stock for Services Rendered

During the three months ended June 30, 2004 we issued 25,000 restricted common shares to Equitis, Inc. to compensate them for services provided to Axcess.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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

(a) Exhibits:

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Exhibit No.	Description
31.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *

* Filed herewith

(b) Reports on Form 8-K:

Date	Description
July 19, 2004	On July 19, 2004, Axcess International Inc. filed an 8-K announcing they had entered into an Exclusive License Agreement with TechSearch LLC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AXCESS INTERNATIONAL INC.,
Registrant

/s/ ALLAN GRIEBENOW

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

/s/ ALLAN L. FRANK

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

August 12, 2004

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Exhibit 31.1

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

I, Allan Griebenow, certify that:

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

Date: August 12, 2004

/s/ ALLAN GRIEBENOW
Allan Griebenow, President and Chief Executive Officer
(Principal Executive Officer)

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Exhibit 31.2

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

I, Allan Frank, certify that:

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

Date: August 12, 2004

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

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Exhibit 32.1

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

In connection with the Quarterly Report of AXCESS International Inc. (the "***Company***") on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Allan Griebenow, President, Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/S/ ALLAN GRIEBENOW
Allan Griebenow
President, Chief Executive Officer and Principal Executive Officer

Dated: August 12, 2004

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Exhibit 32.2

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

In connection with the Quarterly Report of AXCESS Inc. (the "***Company***") on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Allan L. Frank, Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/S/ ALLAN L. FRANK
Allan L. Frank
Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer

Dated: August 12, 2004

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