

NAVIDEA BIOPHARMACEUTICALS, INC.

Form 8-K

November 01, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 30, 2012

NAVIDEA BIOPHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware 001-35076 31-1080091
(State or other jurisdiction (Commission (IRS Employer
of incorporation) File Number) Identification No.)

425 Metro Place North, Suite 450, Dublin, Ohio 43017
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (614) 793-7500

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

“ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On October 31, 2012, Navidea Biopharmaceuticals, Inc. (the “Company”) issued a press release announcing that on October 30, 2012, the Company filed the resubmission of its new drug application for Lymphoseek® to the U.S. Food and Drug Administration in response to the complete response letter received by the Company in September 2012. Lymphoseek (technetium Tc 99m tilmanocept) Injection is a novel, receptor-targeted, small-molecule, investigational radiopharmaceutical used in lymphatic mapping procedures that are performed to help stage cancer. Lymphoseek is designed to identify the lymph nodes that drain from a primary tumor, which have the highest probability of harboring cancer.

A copy of the complete text of the Company’s October 31, 2012, press release is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Statements contained or incorporated by reference in this Current Report on Form 8-K which relate to other than strictly historical facts, such as statements about the Company’s plans and strategies, expectations for future financial performance, new and existing products and technologies, anticipated clinical and regulatory pathways and markets for the Company’s products, are forward-looking statements. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” and similar expressions identify forward-looking statements that speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors including, but not limited to, the Company’s continuing operating losses, uncertainty of market acceptance of its products, reliance on third party manufacturers, accumulated deficit, future capital needs, uncertainty of capital funding, dependence on limited product line and distribution channels, competition, limited marketing and manufacturing experience, risks of development of new products, regulatory risks and other risks detailed in the Company’s most recent Annual Report on Form 10-K and other Securities and Exchange Commission filings. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit

Number Exhibit Description

99.1 Navidea Biopharmaceuticals, Inc. press release, dated October 31, 2012, entitled “Navidea Biopharmaceuticals Resubmits New Drug Application for Lymphoseek to FDA”

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 hereunto duly authorized.

Navidea Biopharmaceuticals, Inc.

Date: November 1, 2012 By: /s/ Brent L. Larson
Brent L. Larson, Senior Vice President and
Chief Financial Officer

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invalid or unenforceable;

-The License Agreement is terminable at-will by the Company, in whole or as to any portion of the patent rights, by giving 90 days notice in writing to Regents.

Our current daylight harvesting system does not utilize the SDHT technology. Royalty payments would begin when, and if, we begin selling ballasts equipped with the SDHT technology. The Company is currently evaluating the possibility of integrating the SDHT technology into its ballasts. There are no assurances, however, that the Company will move forward with designing and implementing this integration or choose to use the SDHT technology in its ballast at all.

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Axis Joint Venture Agreement

On April 22, 2010, the Company, IRC - Interstate Realty Corporation (“IRC”), and DHAB, LLC (“DHAB”) entered into an Axis Joint Venture Agreement (the “JV Agreement”), thereby forming a Tennessee joint venture/general partnership between the Company and IRC. The joint venture is named the Axis Joint Venture (the “Joint Venture”). The primary purpose of the Joint Venture is to facilitate and make funds available for the Company to acquire inventory and sell such inventory to customers on a temporary basis until the contemplated equity transaction, as further described below, is completed in its entirety. This joint venture structure is being set up only to secure IRC’s interest for their willingness to advance funds to Axis for inventory purchases. Specifically, IRC will advance funds up to \$778,000 to purchase inventory from manufacturers, which inventory will be delivered to customers of the Company in connection with two separate purchase orders for 12,000 units of inventory, each. Payments made by customers for the units will be deposited in a bank account from which IRC will be promptly repaid for all sums advanced by IRC for the purchase of the inventory from manufacturers and for related reasonable costs and expenses incurred by IRC. IRC will also receive a fee of \$50,000 as consideration for providing or arranging for the inventory purchases. IRC will hold a security interest in the bank account, thereby securing repayment by the Company of the amounts IRC advances and is owed, pursuant to the Deposit Account Security Agreement entered into by the Company and IRC. Repayment of the amounts advanced by IRC is also secured by a first lien on all of the Company’s personal property, including its inventory, pursuant to a Security Agreement entered into by IRC and the Company.

Pursuant to the JV Agreement, the Company issued DHAB an aggregate of 163,192,720 shares (the “DHAB Stock”) of its common stock in return for a Promissory Note from DHAB in the principal amount of \$6,000,000 and the execution by DHAB of a Stock Pledge and Security Agreement (the “DHAB Security Agreement”). The Promissory Note bears no interest and is due on July 1, 2010. If an event of default occurs under the Promissory Note, the Company’s sole remedy is to exercise its rights under the DHAB Security Agreement (“to cancel the shares”). Pursuant to the DHAB Security Agreement, DHAB pledged to the Company a continuing security interest in the DHAB Stock as collateral for DHAB’s \$6,000,000 obligation to the Company under the Promissory Note. All certificates representing the DHAB Stock are to be delivered to and retained by the Company until payment of the \$6,000,000 is received. As DHAB pays such obligation to the Company (either in the form of monies or other consideration performed by DHAB), the Company will release the equivalent number of shares of the DHAB Stock on a prorated basis as is represented by the sums so paid on a \$0.04 per share basis. DHAB will not have any voting rights pertaining to the DHAB Stock, other than to shares that the Company has released as security. The JV Agreement provides that the Company will not issue or agree to issue any additional shares of its common stock prior to July 20, 2010, and IRC intends to invest in DHAB and to be a member thereof.

In connection with the JV Agreement, on April 22, 2010, the Company and its wholly-owned subsidiary, Axis Technologies, Inc., entered into an Amendment Agreement with Gemini Strategies, LLC and Gemini Master Fund, Ltd. (collectively with Gemini Strategies, LLC and individually, “Gemini”). The Amendment Agreement provides for the extension of the maturity date of the Amended and Restated 10% Senior Secured Convertible Note, restated as of December 30, 2009, with a principal amount as of such date of \$1,884,097.22 (the “Gemini Note”). The maturity date of the Gemini Note is extended to July 1, 2010, provided that upon the Company receiving funds in connection with the \$6,000,000 Promissory Note with DHAB, the Gemini Note is to be repaid with the proceeds from such funds. Ten percent of all proceeds received from the sale of units of the inventory to customers is also to be paid to Gemini as partial repayment of the Gemini Note. The Amendment Agreement further provides for the consent by Gemini to the transactions contemplated by the JV Agreement (which consent was received), and subordination of Gemini’s existing lien on the Company’s inventory and other collateral.

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OTHER MATTERS

Employees

Including our executive officers, the Company currently has three full-time employees and no part-time employees. We also engage consultants periodically in connection with various aspects of our business. We believe our relationship with our employees is good. Currently, we do not have any full-time employees devoted only to research and development.

Research and Development

During the last two full fiscal years, we have been involved in the process of developing and introducing a line of dimming and daylight harvesting ballasts with the same control system as the present T8 ballasts which utilizes 54 watt High Output lamps (as described in more detail above under the section titled "T5HO Ballasts"). We have also commenced development work on a new line of wireless addressable, load shedding ballasts (as described in more detail under the section titled "Status of New Products"). Additionally, we have contracted to license Regents' Simplified Daylight Harvesting photosensor technology. Moving forward, we may work with them in the integration of the technology, internal product testing, and public program testing for technology demonstration, of which there can be no assurances. In addition, we have active discussions in methods to accelerate the deployment of the daylight harvesting technology into the lighting industry through private industry and utility rebate programs. Future research and development programs will integrate more government and energy industry sponsorship through private or governmental sponsored grants.

Expenses for research and development over the last two years have been minimal, as our existing products were developed prior to that period and we have had limited operating funds.

Intellectual Property

As previously mentioned, we have commenced development work on a new line of wireless addressable, load shedding ballasts. Provisional Patents for this new ballast line were submitted on May 4, 2010. We are limited in expanding our disclosure on the capabilities of this ballast line due to our filing of the aforementioned Provisional Patents.

In November 2005, we were issued a patent (Patent #6,969,955) for a term of 20 years from the date of issuance that covers North America (expires November 2025) to protect the ATI ballast and its unique control system, which utilizes a 7-position dipswitch to provide pre-set fixed output from 100% to 40% in approximately 10% increments; and an integral photo sensor which further dims the fixture to as much as an 80% reduction depending on available daylight. The ATI ballast is an apparatus and method for providing dimming control of an electronic ballast circuit that includes an electronic ballast circuit that is electrically connected to a plurality of input voltage terminals that can receive alternating current, and the electronic ballast circuit is electrically connected to the plurality of fluorescent lamp terminals. The technology for our patent primarily involves the dimming control settings of the tuning dip-switch function, the dip switch and photosensor housings, and the integration of controls with the ballast circuit board. Alternatively, the intellectual property relating to the license with the CLTC is for a programming algorithm, used for the control and function of the photosensor. The CLTC intellectual property involves software to further control lighting through a building management system. For example, the CLTC software might use input from a photocell mounted outside the building. The Axis ballast system looks at interior light conditions.

In September 2005, the Company trademarked our slogan "The Future of Fluorescent Lighting" (under trademark # 78437293).

Environmental Matters

We currently do not manufacture any product or conduct any activity that is subject to environmental laws. All manufacturing is undertaken by a third party. Nevertheless, it is possible that our activities could fall within the ambit of environmental regulation in the future.

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ITEM 1A.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before deciding to purchase shares of our common stock. If any of the events, contingencies, circumstances or conditions described in the risks below actually occurs, our business, financial condition or results of operations could be seriously harmed. The trading price of our common stock could, in turn, decline, and you could lose all or part of your investment.

RISK FACTORS CONCERNING OUR BUSINESS AND OPERATIONS:

WE HAVE A LIMITED OPERATING HISTORY, WHICH MAY MAKE IT DIFFICULT FOR INVESTORS TO PREDICT OUR FUTURE PERFORMANCE BASED ON OUR CURRENT OPERATIONS.

We have a limited operating history upon which investors may base an evaluation of our potential future performance. As a result, there can be no assurance that we will be able to develop consistent revenue sources, or that our operations will be profitable. Our prospects must be considered in light of the risks, expense and difficulties frequently encountered by companies in an early stage of development.

We must, among other things, determine appropriate risks, rewards and level of investment in each project, respond to economic and market variables outside of our control, respond to competitive developments and continue to attract, retain and motivate qualified employees. There can be no assurance that we will be successful in meeting these challenges and addressing such risks and the failure to do so could have a materially adverse effect on our business, results of operations and financial condition.

WE HAVE EXPERIENCED SUBSTANTIAL OPERATING LOSSES AND MAY INCUR ADDITIONAL OPERATION LOSSES IN THE FUTURE.

During the twelve month period ended December 31, 2009, we have incurred a net loss of \$2,272,239, and have not generated significant revenues to date. We may continue to incur losses until we are able to generate sufficient revenues and cash flows from our marketing and distribution of ballasts in the commercial lighting market discussed herein. If we are unable to generate sufficient revenues and cash flows to meet our costs of operations, we could be forced to curtail or cease our business operations without obtaining additional financing.

WE COULD CEASE TO OPERATE AS A GOING CONCERN.

We have had and could have in the future losses, deficits and deficiencies in liquidity, which could impair our ability to continue as a going concern.

In Note #2 to our consolidated financial statements, our independent auditors have indicated that certain factors raise substantial doubt about our ability to continue as a going concern. During our periods of operation, we have suffered recurring losses from operations and have been dependent on existing stockholders and new investors to provide the cash resources to sustain our operations. At December 31, 2009, we had a negative working capital position of \$2,459,405, an accumulated deficit of \$6,164,479, and a stockholder's deficit of \$2,410,890. For the year ended December 31, 2009, we had a net loss of \$2,272,239.

Our long-term viability as a going concern is dependent on certain key factors, as follows:

--Our ability to continue to obtain sources of outside financing that will supplement current revenue and allow us to continue to develop and market our products.

--Our ability to increase profitability and sustain a cash flow level that will ensure support for continuing operations as well as to continue to develop and market our products.

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WE MAY NEED ADDITIONAL FINANCING WHICH WE MAY NOT BE ABLE TO OBTAIN ON ACCEPTABLE TERMS. IF WE ARE UNABLE TO RAISE ADDITIONAL CAPITAL, AS NEEDED, THE FUTURE GROWTH OF OUR BUSINESS AND OPERATIONS WOULD BE SEVERELY LIMITED.

A limiting factor on our growth, including its ability to penetrate new markets, attract new customers, and deliver products and services in the commercial lighting market, is our limited capitalization compared to other companies in the industry. We will require additional funding in the future to achieve all of our proposed objectives. We anticipate our joint venture agreement with DHAB, LLC will provide us with the resources needed for the short-term. However, the Company is uncertain such financing and related equity placement will be available to the Company if at all.

If we raise additional capital through the issuance of debt, this will result in increased interest expense. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of the Company held by existing shareholders will be reduced and our shareholders may experience significant dilution. In addition, new securities may contain rights, preferences or privileges that are senior to those of our common stock. If additional funds are raised by the issuance of debt or other equity instruments, we may become subject to certain operational limitations (for example, negative operating covenants). There can be no assurance that acceptable financing necessary to further implement our plan of operation can be obtained on suitable terms, if at all. Our ability to develop our business, fund expansion, develop or enhance products or respond to competitive pressures, could suffer if we are unable to raise the additional funds on acceptable terms, which would have the effect of limiting our ability to increase our revenues or possibly attain profitable operations in the future.

THE TERMS OF OUR FUNDING WITH GEMINI MAY LIMIT OUR ABILITY TO OBTAIN FUNDING ON ACCEPTABLE TERMS.

The existing terms under the April 2008 financing with Gemini Master Fund LTD (“Gemini”), the terms of which were amended in December 2009 and in April 2010 (as described in more detail below under “Liquidity and Capital Resources”), make it less likely that the Company will be able to obtain future financing or financing on acceptable terms. In connection with the Gemini financing, the Company entered into a Securities Purchase Agreement and various related agreements with Gemini Master Fund, Ltd. (“Gemini”), including certain security documents. These security documents include a Security Agreement and an Intellectual Property Security Agreement. The Security Agreement grants to Gemini a first priority security interest in and to, a lien upon and a right of set-off against all of the Company’s assets (subject to subordination of the security interest on the Company’s inventory and other collateral in connection with the Axis Joint Venture Agreement described above), and the Intellectual Property Security Agreement grants to Gemini a first priority security interest in all of the Company’s intellectual property. As such, any future obligations that the Company may enter into to obtain additional financing may only be secured by a security interest in the Company’s assets that is junior to the outstanding security interests, and such potential investors may be less willing to provide funding under such terms, or at all.

Additionally, the terms of the Securities Purchase Agreement may limit the Company’s ability to obtain future funding through the sale of equity securities. Specifically, the Securities Purchase Agreement provides that until such time as Gemini no longer holds any of the securities or underlying securities purchased, the Company cannot issue shares of common stock, securities convertible into common stock, or debt obligations involving a variable rate transaction (meaning there is a conversion, exercise or exchange price that is contingent on trading prices or other factors) or a transaction where a purchaser of securities is granted the right to received additional securities in the future on terms better than those presently being granted to the purchaser. Further, until such time as Gemini no longer holds any of the securities or underlying securities purchased, if the Company issues common stock or securities convertible into common stock on terms that Gemini deems to be more favorable than the terms received by Gemini, Gemini may require the Company to amend the Securities Purchase Agreement and related documents to give Gemini the benefit of the more favorable terms. As such, the Company is materially limited in its ability to effect future equity funding

transactions.

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WE DEPEND ON KEY EMPLOYEES AND PERSONNEL TO OPERATE OUR BUSINESS, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO OPERATE IF WE ARE UNABLE TO RETAIN OR REPLACE THESE PERSONS.

Our future success is largely dependent upon its existing management team, including Kipton P. Hirschbach, our Chief Executive Officer, and Jim Erickson, our President. The loss of either of these officers or directors through injury, death or termination of employment could result in the investment of significant time and resources for recruiting and replacement. We do not have employment agreements with our executive officers and do not maintain any key man insurance on their lives for our benefit. Additionally, the loss of the services of our executive officers could have a serious and adverse effect on our business, financial condition and results of operations. There is also no assurance that as we grow, the existing team can successfully manage our growth or that we can attract the new talent that will be necessary to run the Company at a high level. Our success will also depend upon our ability to recruit and retain additional qualified senior management personnel. Competition is intense for highly skilled personnel in our industry and, accordingly, no assurance can be given that we will be able to hire or retain sufficient personnel.

WE FACE COMPETITION FROM SEVERAL SOURCES, WHICH MAY MAKE IT MORE DIFFICULT TO INTRODUCE NEW PRODUCTS INTO THE COMMERCIAL LIGHTING MARKET.

The market segments in which the Company competes are rapidly evolving and intensely competitive, and have many competitors in different industries, including both lighting and energy industries. These competitors include market-specific retailers and specialty retailers. Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. They may be able to operate with a lower cost structure, and may be able to adopt more aggressive pricing policies. Competitors in both the retail lighting and energy industries also may be able to devote more resources to technology development and marketing than the Company

WE MAY ISSUE ADDITIONAL SHARES OF COMMON STOCK IN THE FUTURE, WHICH COULD CAUSE DILUTION TO ALL SHAREHOLDERS.

We may seek to raise additional equity capital in the future. Any issuance of additional shares of our common stock will dilute the percentage ownership interest of all shareholders and may dilute the book value per share of our common stock.

WE RELY ON THIRD PARTY INDUSTRY VENDORS FOR MANUFACTURING SERVICES AND PROCESSING FACILITIES.

At this time, we primarily depend on DuroPower, Inc., headquartered in Los Angeles, California for merchandise, manufacturing and equipment produced and sold by us. Should we cease to do business with our sole manufacturer or should DuroPower cease to do business and is unable to provide their services to us, our business may be disrupted because a suitable replacement may be difficult to retain. While we believe that DuroPower's facilities have the capacity to meet our current production needs and our current demands, we cannot be certain that these facilities will continue to meet our needs or future demands. In addition, these facilities are subject to certain risks of damage, including fire that would disrupt production of our products. To the extent we are forced to find alternate facilities, it would likely involve delays in manufacturing and potentially significant costs.

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WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR A SIGNIFICANT PERCENTAGE OF OUR REVENUES, AND ANY LOSS, CANCELLATION, REDUCTION OR DELAY IN PURCHASES BY THESE CUSTOMERS COULD HARM OUR BUSINESS.

A limited number of customers have, historically, consistently accounted for a significant portion of our revenues. For the fiscal year ended December 31, 2009, one customer accounted for 41% of sales and two customers accounted for 62% of outstanding accounts receivable. At December 31, 2008, one customer accounted for 48% of sales and 45% of outstanding accounts receivable. Revenues from our major customer may decline or fluctuate significantly in the future. We are attempting to expand our customer base by entering into working agreements with large wholesale distributors and manufacturers. Accordingly, our success will depend on our ability to develop and manage relationships with our distributors and utility companies who market and utilize our ballasts, and we expect that the majority of our revenues will continue to depend on sales of our products to a limited number of customers for the foreseeable future. We may not be able to offset any decline in revenues from our existing major customer with revenues from new customers or other existing customers. Because of our reliance on a limited number of customers, any decrease in revenues from, or loss of, one or more of these customers without a corresponding increase in revenues from other customers would harm our business, operating results and financial condition. In addition, any negative developments in the business of our existing significant customers could result in significantly decreased sales to these customers, which could seriously harm our business, operating results and financial condition.

RISK FACTORS CONCERNING INVESTMENT IN OUR COMPANY:

THERE IS ONLY A LIMITED PUBLIC MARKET FOR OUR SHARES, AND IF AN ACTIVE MARKET DOES NOT DEVELOP, INVESTORS MAY HAVE DIFFICULTY SELLING THEIR SHARES.

There is a limited public market for our common stock. We cannot predict the extent to which investor interest in the Company will lead to the development of an active trading market or how liquid that trading market might become. If a trading market does not develop or is not sustained, it may be difficult for investors to sell shares of our common stock at a price that is attractive. As a result, an investment in our common stock may be illiquid and investors may not be able to liquidate their investment readily or at all when he/she desires to sell.

OUR COMMON STOCK IS DEEMED TO BE A "PENNY STOCK," WHICH MAY MAKE IT MORE DIFFICULT FOR INVESTORS TO SELL THEIR SHARES DUE TO SUITABILITY REQUIREMENTS.

The SEC has adopted regulations that define a "penny stock", generally, to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock has been less than \$5.00 per share. This designation requires any broker or dealer selling our securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of stockholders to sell their shares. In addition, since our common stock is currently quoted on the Pink Sheets, stockholders may find it difficult to obtain accurate quotations of our common stock, may experience a lack of buyers to purchase our shares or a lack of market makers to support the stock price.

FUTURE SALES BY OUR STOCKHOLDERS MAY ADVERSELY AFFECT OUR STOCK PRICE AND OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS.

Sales of our common stock in the public market could lower our market price for our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that management deems acceptable or at all.

THERE IS LIMITED LIQUIDITY IN OUR SHARES.

Historically, the volume of trading in our common stock has been low. A more active public market for our common stock may not develop or, even if it does in fact develop, may not be sustainable. The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control. These factors include:

- the announcement of new products or product enhancements by us or our competitors;

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- developments concerning intellectual property rights and regulatory approvals;
- quarterly variations in our results of operations or the results of operations of our competitors;
- developments in our industry; and
- general market conditions and other factors, including factors unrelated to our own operating performance.

Recently, the stock market in general has experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of shares of our common stock, which could cause a decline in the value of our shares. Price volatility may be worse if the trading volume of our common stock is low.

THE CONCENTRATED OWNERSHIP OF OUR CAPITAL STOCK MAY BE AT ODDS WITH YOUR INTERESTS, AND HAVE THE EFFECT OF DELAYING OR PREVENTING A CHANGE IN CONTROL OF OUR COMPANY.

Our common stock ownership is highly concentrated. Our directors, officers, key personnel and their affiliates as a group beneficially own or control the vote of approximately 65% of our outstanding capital stock, and control the Company. They will be able to continue to exercise significant influence over all matters affecting the Company, including the election of directors, formation and execution of business strategy and approval of mergers, acquisitions and other significant corporate transactions, which may have an adverse effect on the stock price. They may have conflicts of interest and interests that are not aligned with yours in all respects. As a result of the concentrated ownership of our stock, a relatively small number of shareholders, acting together, will be able to control all matters requiring shareholder approval. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company. It may affect the market price of our common stock.

ITEM 2. **PROPERTIES**

The Company currently has one (1) office located in Lincoln, Nebraska. The address is as follows:

2055 South Folsom
Lincoln, NE 68522

On March 1, 2003, the Company leased the office warehouse location, comprised of approximately 2,800 square feet of space which is held under a 36 month lease at a rate of approximately \$1,300 per month (with payments started in March 2003). The Company currently leases this office warehouse location on a month-to-month basis at a current rate of \$1,302 per month. The Company uses 1,000 square feet as their corporate office and 1,800 square feet as warehouse with additional square footage as needed. The Company believes that these properties are adequate for its corporate office and operational needs at this time.

ITEM 3. **LEGAL PROCEEDINGS**

The Company is not currently a party to any material legal proceedings.

PART II

ITEM 5. **MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is currently quoted on the Pink Sheets Electronic Interdealer Quotation and Trading System under the symbol "AXTG."

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For the periods indicated, the following table sets forth the high and low closing prices per share of common stock, as reported by www.pinksheets.com. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

Quarter	High	Low
1st Quarter 2008	\$0.53	\$0.28
2nd Quarter 2008	\$0.76	\$0.31
3rd Quarter 2008	\$0.65	\$0.45
4th Quarter 2008	\$0.47	\$0.18
1st Quarter 2009	\$0.38	\$0.19
2nd Quarter 2009	\$0.27	\$0.14
3rd Quarter 2009	\$0.24	\$0.13
4th Quarter 2009	\$0.16	\$0.09

Record Holders

As of December 31, 2009 we had approximately 70 holders of record of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

No prediction can be made as to the effect, if any, that future sales of shares of our common stock or the availability of our common stock for future sale will have on the market price of our common stock prevailing from time-to-time. The additional registration of our common stock and the sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock.

Transfer Agent

The transfer agent and registrar for our common stock is:

Holladay Stock Transfer, Inc.
2939 N. 67th Place
Scottsdale, AZ 85251

Dividend Policy

The holders of the common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. We have not issued any dividends on our common stock to date, and do not intend to issue any dividends on our common stock in the near future. We currently intend to retain earnings, if any, to further the growth and development of the Company.

Therefore, prospective investors who anticipate the need for immediate income by way of cash dividends from their investment should not purchase our shares of common stock.

Recent Sales of Unregistered Securities

1. On May 1, 2009, the Company issued 250,000 shares at an estimated fair value of \$0.19 per share valued in total at \$47,500 as compensation for marketing services performed. This issuance was completed in accordance with Section 4(2) of the Act in an offering without any public offering, advertising or general solicitation. These shares are restricted securities and include an appropriate restrictive legend.

2. On May 1 and June 1, 2009, the Company issued 964,506 on each date in lieu of cash payments due to Gemini Master Fund, Ltd. The total shares of 1,929,012 were issued to pay \$231,482 of debt payments due. The shares were issued at a variable conversion price per the debt agreement and, thus, a beneficial conversion charge of \$135,030 was recorded to interest expense. This issuance was completed in accordance with Section 4(2) of the Act in an offering without any public offering, advertising or general solicitation. These shares are restricted securities and include an appropriate restrictive legend.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS

Forward Looking Statements and Information

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of management and information currently available to management. The use of words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely" or similar expressions, indicates a forward-looking statement.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in the forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Stockholders are cautioned not to put undue reliance on any forward-looking statements, which speak only to the date made

Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events, or performance and underlying assumptions and other statements, which are other than statements of historical facts. These statements are subject to uncertainties and risks including, but not limited to, product and service demands and acceptance, changes in technology, economic conditions, the impact of competition and pricing, and government regulation and approvals. The Company cautions that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors which could cause actual results to vary from those the Company expects include changes in product prices, the timing of planned capital expenditures, availability of acquisitions, operational factors, the condition of the capital markets generally, as well as our ability to access them, and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business.

Our expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties. There can be no assurance, however, that our expectations, beliefs or projections will result, be achieved, or be accomplished. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no duty to update these forward-looking statements.

Results of Operation

Year Ended December 31, 2009:

Consolidated net sales for the years ended December 31, 2009 and 2008 totaled \$429,243 and \$686,528, respectively, for an decrease of \$257,285. We believe the decrease is due to us having very limited operating funds to adequately procure product inventory and market and sell those products. We also believe the decrease is due to customers waiting to purchase in hopes of acquiring Federal Stimulus money to invest in products like those of the Company. We believe customers are beginning to invest in 2010 based on our shipments in 2010 year to date through June 21, 2010 and with back purchase orders received for over \$1,600,000 to be filled yet in 2010. Cost of goods sold for the years ended December 31, 2009 and 2008 was \$329,730 and \$566,694, respectively, a decrease of \$236,964. The decrease is primarily due to our decrease in sales volume although, we have increased our product pricing during 2009. After deducting costs of goods sold, including warehouse salaries and allocated overhead, we finished the year ended December 31, 2009 with \$99,513 in gross profit, compared to a gross profit of \$119,834 for the year ended December 31, 2008, a decrease of \$20,321. Gross profit as a percentage of sales for the year ended December 31, 2009 was 23.2%, compared to 17.4% for the year ended December 31, 2008, a 5.8% increase in gross profit as a

percentage of sales. This increase in gross profit as a percentage of sales is primarily attributable to an increase in sales unit price that was in excess of a decrease in sales volume to cover fixed overhead costs in 2009.

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For the year ended December 31, 2009, operating expenses totaled \$797,359 compared to \$924,608 for the year ended December 31, 2008, a decrease of \$127,249. The operating expenses were lower due to a decrease in personnel costs as the Company has been monitoring expenses and having reduced professional fees associated with accounting and related regulatory needs in 2009.

For the year ended December 31, 2009, interest expense was \$1,574,421 compared to \$843,543 for the year ended December 31, 2008, an increase of \$730,878. This increase was the result of the Company issuing a convertible note payable in April 2008 that had significant transaction costs and debt discounts related to an original issue discount, warrants issued and a beneficial conversion feature that is being accreted over the term of the debt to interest expense. There was a full year of these costs in 2009 compared to 2008. In addition, we incurred default charges totaling \$384,723 for the year ended December 31, 2009. Also, when the default occurred on July 1, 2009, the note interest rate increased to 24% from 10%. Additional details of this note are listed in Notes 5 and 6 to the consolidated financial statements of the Company and below in "Liquidity and Capital Resources."

For the year ended December 31, 2009, the net loss was \$2,272,239 compared to a net loss of \$1,644,296 for the year ended December 31, 2008, an increase of \$627,943. This increase in net loss is attributable to the significant increase in interest expense, partially offset by the increase in gross profit as a percentage of sales and a decrease in operating expenses, as described above.

Assets, Liabilities and Employees; Research and Development

As of December 31, 2009, the Company has total current assets of \$362,887, which includes \$11,488 of cash, \$32,136 of accounts receivable, \$226,412 of inventory, \$89,878 of inventory deposits and \$2,973 of prepaid expenses. As of December 31, 2009, the Company also has \$18,667 of property and equipment, less accumulated depreciation of \$15,191, and total other assets of \$45,039, consisting primarily of debt financing costs.

As of December 31, 2009, the Company has total liabilities, consisting entirely of current liabilities, of \$2,822,292, including \$162,209 of accounts payable, \$120,915 of accrued expenses, \$107,167 of note payable, \$1,746,459 of convertible note payable and \$685,542 of accrued salary due to officers/stockholders.

As of December 31, 2009, the Company has a working capital deficit of \$2,459,405.

At December 31, 2009, our ballast inventory represented 55.0% of our assets. Inventory is manufactured in China by our manufacturer (whose corporate offices are located in the Los Angeles, California area) and is shipped to our warehouse in Lincoln, Nebraska. The time from ordering the product to receipt of the product can exceed 90 days. We are currently working to reduce this turnaround time to 60 days. We try to maintain our inventory at levels that are deemed reasonable based upon projected sales, but the recent liquidity problems has prevented us from having the desired amount of inventory to effectively operate our business.

At this time, we do not anticipate purchasing or selling any significant equipment or other assets in the near term. Neither do we anticipate any imminent or significant changes in the number of our employees. We may, however, increase the number of independent sales representatives in the event that we expand into other markets or our current market significantly increases.

We expect that we will invest time, effort, and expense in the continued development and refinement of our current and next generation ballasts, through our relationship with CLTC and the power companies.

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Liquidity and Capital Resources; Anticipated Financing Needs

For the year ended December 31, 2009, we incurred net operating losses aggregating \$697,846 which was the result of funding, marketing and advertising, business development and other activities as discussed above.

Net cash of \$257,405 was used in operating activities during the year ended December 31, 2009, compared to \$820,582 in cash used for the year ended December 31, 2008. Net cash used in operating activities for the year ended December 31, 2009 is primarily attributable to \$2,272,239 of net loss which was partially offset by non-cash items such as \$65,065 of amortization of original issue discount, \$148,819 of amortization of debt issuance costs, \$720,615 of non-cash interest expense related to issuance of warrants and beneficial conversion feature, and \$384,723 of default interest charges added to notes payable. Additionally, we had significant changes in various operating assets and liabilities that helped offset the loss. The primary items were: 1) decrease in inventory of \$79,773, 2) increase in accrued expenses of \$220,829 and 3) increase in accrued salary to officers/stockholders of \$199,905.

Net cash used in investing activities for the year ended December 31, 2009 totaled \$479, compared to \$1,095 used for the year ended December 31, 2008.

Net cash of \$257,167 was provided by financing activities during the year ended December 31, 2009, compared to \$819,354 in cash provided for the year ended December 31, 2008. Cash flows from financing activities for the year ended December 31, 2009 included principal payments on notes payable of \$43,833, offset by cash proceeds from short-term debt issuance of \$300,000.

On April 25, 2008, the Company issued a convertible debt instrument generating net cash proceeds of \$1,218,000 for working capital purposes and to pay off the Company's bank note which was due on June 10, 2008. The convertible note payable (the "Note") is a 10% Senior Secured Convertible Promissory Note in the principal amount of \$1,388,889. The face amount of the Note of \$1,388,889 was reduced by an original issue discount of \$138,889 and other issuance costs of \$32,000 to arrive at net proceeds of \$1,218,000. The Note has been amended to provide a maturity date of July 1, 2010 and is secured by all assets of the Company. The Note originally accrued interest at a rate of 10% per annum, due to the default, the interest rate changed to 24% for the period from July 1, 2009 to December 30, 2009. The Note was originally convertible at the option of the holder at any time into shares of the Company's common stock at an initial conversion price of \$0.26 per share. After the note was amended on December 30, 2009, the conversion price was changed to \$0.10 and was not convertible until after February 1, 2010. Additionally, the interest rate reverted back to 10%.

Under the terms of the note and as additional consideration for the loan, the Company issued a five-year warrant to purchase up to 5,341,880 shares of its common stock at an exercise price of \$0.26 per share which was deemed to have a fair value of \$861,778. The Company calculated the intrinsic value of the beneficial conversion feature embedded in the note. As the amount of the beneficial conversion feature exceeded the fair value allocated to the note, the amount of the beneficial conversion feature to be recorded was limited to the proceeds allocated to the note. Accordingly, the beneficial conversion feature was calculated to be \$388,222 and was recorded as an additional discount on the note.

Non-cash interest expense related to this note for the year ended December 31, 2009 included \$934,499 attributable to the amortization of the original issue discount, beneficial conversion feature, debt issuance costs and warrant discounts. In 2009, there was also default interest charges of \$347,223 recorded against the Note. As of December 31, 2009, the total note balance owed was \$1,884,097 which included the March 25, 2009 bridge note noted below.

On March 25, 2009, the Company entered into a debt instrument security agreement with Gemini Master Fund, Ltd. ("Gemini"), pursuant to which the Company issued a 10% Senior Secured Note in the principal amount of \$150,000 (the

“Note”) for working capital funds. The note has a mandatory default amount where the principal of the obligation increases 25% and the stated interest rate increases to 24% if the note is in default. The note was deemed in default in July 2009 and a default interest charge of \$37,500 was recorded. The note balance increased to \$187,500. The note was refinanced on December 30, 2009 by adding the obligation plus accrued interest of \$20,250 with the convertible note payable as discussed above.

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On May 20, 2009, the Company issued a promissory note with Mid-America Funding Company generating net cash proceeds of \$150,000 for working capital purposes. In connection with the note payable, the Company issued 1,000,000 shares of its common stock to be held in escrow as collateral for the loan. Additionally, the Company assigned a customer purchase order totaling \$247,500 to the issuer as additional collateral on the note. The note bears interest at a monthly rate of 2% of the outstanding balance. The note is past due and demand can be made for payment in full. The note has a balance of \$107,167 at December 31, 2009.

On April 22, 2010, the Company, IRC - Interstate Realty Corporation (“IRC”), and DHAB, LLC (“DHAB”) entered into an Axis Joint Venture Agreement (the “JV Agreement”), thereby forming a joint venture partnership between the Company and IRC. The primary purpose of the Joint Venture is to facilitate and make funds available for the Company to acquire inventory and sell such inventory to customers on a temporary basis until the contemplated equity transaction, as further described below, is completed in its entirety. This joint venture structure is being set up only to secure IRC’s interest for their willingness to advance funds to the Company to purchase inventory. Specifically, IRC will advance funds up to \$778,000 for the purchase of inventory from the manufacturer, which inventory will be delivered to customers of the Company in connection with two separate purchase orders for 12,000 units of inventory, each. Payments made by customers for the units will be deposited in a bank account from which IRC will be promptly repaid for all sums advanced by IRC for the purchase of the inventory from manufacturers and for related reasonable costs and expenses incurred by IRC. IRC will also receive a fee of \$50,000 as consideration for providing or arranging for the inventory purchases. In connection with the JV Agreement, the Company issued DHAB an aggregate of 163,192,720 shares of its common stock in return for a Promissory Note from DHAB in the principal amount of \$6,000,000. The issued DHAB shares are being held by the Company until payment on the obligation is received. The Promissory Note bears no interest and is due on July 1, 2010. If an event of default occurs under the Promissory Note, the Company’s sole remedy is to cancel the shares. As DHAB pays such obligation to the Company, the Company will release the equivalent number of shares of the DHAB stock on a prorated basis as is represented by the sums so paid on a \$0.04 per share basis. This equity transaction will have a significant dilution to the Company’s existing shareholders and this will result in a change in control. DHAB will not have any voting rights pertaining to the DHAB stock, other than to shares that the Company has released as security. The JV Agreement provides that the Company will not issue or agree to issue any additional shares of its common stock prior to July 20, 2010. Any proceeds received on the promissory note, must be used to repay the note payable to Gemini (see Notes 5 and 6 to the Company’s consolidated financial statements) in full, prior to any other use.

Assuming that we successfully obtain the funding outlined in the Axis Joint Venture Agreement, of which there can be no assurances, we believe that such funding will be sufficient to finance our operations for the foreseeable future. Thereafter, we believe that revenues from our current and next generation products will be sufficient to fund operations, of which there can be no assurances.

If additional financing is required, it may not be available on terms favorable to us, especially in light of current debt and equity markets. If additional funds are raised by the issuance of our equity securities, such as through the issuance and/or exercise of common stock warrants, then existing stockholders will experience dilution of their ownership interest. If additional funds are raised by the issuance of debt or other types of (typically preferred) equity instruments, then we may be subject to certain limitations in our operations, and issuance of such securities may have rights senior to those of the then existing holders of our common stock. If adequate funds are not available or not available on acceptable terms, we may be unable to fund expansion, develop or enhance products or respond to competitive pressures.

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Table of Contractual Obligations

The following table details the timing and total amounts payable by us as of December 31, 2009 under our various contracts:

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible note payable (1)	\$ 1,884,097	\$ 1,884,097	\$ -	\$ -	\$ --
Estimated Interest Payments (2)	120,000	120,000	-	-	-
Short-term note payable (3)	107,167	107,167	-	-	-
Other Long-Term Liabilities	-	-	-	-	-
Total	\$ 2,111,264	\$ 2,111,264	\$ -	\$ -	\$ -

(1) Convertible note payable to Gemini Master Fund, LTD with a maturity date of July 1, 2010.

(2) Estimated interest payments represent an amount calculated for expected interest payments due under our outstanding convertible note payable and short-term note payable obligations at December 31, 2009. Assumptions used to calculate these amounts were based upon current interest rates and maturity of our debt per our contractual agreements.

(3) Note Payable to Mid-America Funding Company which is due upon demand. .

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based on its financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. Management reviews its estimates on an on going basis. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. While the Company's significant accounting policies are described in more detail in Note 1 to its consolidated financial statements, management believes the following accounting policies to be critical to the judgments and estimates used in the preparation of its financial statements:

Revenue Recognition: We recognize revenue when persuasive evidence of an arrangement exists, transfer of title has occurred, the selling price is fixed or determinable, collectability is reasonably assured and delivery has occurred per the contract terms.

Warranty and return costs are estimated and accrued based on historical rates.

Accounts Receivable and Allowance for Doubtful Accounts and Sales Returns: Accounts receivable arise in the normal course of business of selling product to our customers. Accounts are written-off as they are deemed uncollectible based upon a periodic review of the accounts. As of December 31, 2009 and 2008, we have estimated that accounts receivable is fully collectible, and thus, have not established an allowance for doubtful accounts. The Company has established a reserve for sales returns of \$36,660 at December 31, 2009. The reserve is based on returns expected in 2010 for sales in 2009. There was no sales returns reserve at December 31, 2008.

Supplier Concentrations and Inventory: We maintain our inventory on a perpetual basis utilizing the first-in first-out (FIFO) method. Inventories have been valued at the lower of cost or market. We have not recorded an obsolescence reserve for inventory at December 31, 2009 and 2008 as all inventory is considered usable and market value is above cost.

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The Company purchases 100% of its inventory from one supplier based in California with manufacturing facilities in China.

Deferred Financing Costs: Costs and discounts related to the convertible note payable issued by the Company on April 25, 2008, are being amortized and accreted using the effective interest method over the term of the debt instrument to April 2010 (see Note 6 of the consolidated financial statements).

Income Taxes: The Company accounts for deferred tax assets and liabilities under the liability method. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income and records a valuation allowance to reduce deferred tax assets to the amounts believed to be realizable. The Company concluded that a full valuation allowance against its U.S. deferred tax assets was appropriate as of December 31, 2009 and 2008.

The Company accounts for income taxes pursuant to Financial Accounting Standards Board (“FASB”) guidance which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. The Company believes its income tax filing positions and deductions will be sustained upon examination and, accordingly, no reserves, or related accruals for interest and penalties has been recorded at December 31, 2009 and 2008. In accordance with the guidance, the Company has adopted a policy under which, if required to be recognized in the future, interest related to the underpayment of income taxes will be classified as a component of interest expense and any related penalties will be classified in operating expenses in the statements of operations. The Company’s remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2006 through 2009.

Recently Issued Accounting Pronouncements

Effective September 15, 2009, the Company adopted a new accounting standard that establishes the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) as the exclusive reference to be applied in the preparation of financial statements in conformity with GAAP. Accordingly, all references to legacy guidance issued under previously recognized authoritative literature have been removed in the third quarter of fiscal 2009. As the ASC was not intended to change or alter existing GAAP, it did not have any impact on the Company’s results of consolidated operations or financial position.

In June 2009, the FASB issued authoritative guidance that eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires on-going qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance is not anticipated to have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued guidance on the accounting for multiple-deliverable revenue arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable; eliminates the residual method of allocation and requires arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method; and requires a vendor to determine its best estimate of selling price in a manner consistent with that used to determine the selling price of the deliverable on a stand-alone basis. This guidance also expands the required disclosures related to a vendor’s multiple-deliverable revenue arrangements. The guidance is effective beginning February 1, 2011 with early adoption permitted. The Company does not believe

the adoption of this standard will have a material impact on our consolidated results of operations, financial condition, cash flows, or disclosures.

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OFF BALANCE SHEET ARRANGEMENTS

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is included in this report beginning on page 34.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

ITEM 9AT. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in its reports filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

The Company's Chief Executive Officer and Principal Financial Officer performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are not effective as of December 31, 2009, because of the identification of material weaknesses in internal control over financial reporting described below. Notwithstanding the material weaknesses that existed as of December 31, 2009, our Chief Executive Officer and Principal Financial Officer have each concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company and its subsidiaries in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We are currently looking into cost effective steps to potentially remediate such material weaknesses as described below.

Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a set of processes designed by, or under the supervision of, the Company's Chief Executive Officer / Principal Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Principal Financial Officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), as of December 31, 2009.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, management identified the following control deficiencies that represent material weaknesses at December 31, 2009:

- We do not currently have an audit committee or board of directors that are actively involved with the financial reporting process and thus we lack the board oversight role within the financial reporting process.
- Our small size and lack of accounting department prohibit segregation of duties and the timely review of financial data and banking information. We have limited review procedures in place.
- There was a lack of internal financial expertise within our financial accounting and reporting function as numerous GAAP audit adjustments were made to the financial statements for the year ended December 31, 2009.

As a result of these material weaknesses described above, management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was not effective based on the criteria in "Internal Control-Integrated Framework" issued by COSO. This annual filing 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 by the Company's 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 filing.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the fourth quarter of 2009 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B.

OTHER INFORMATION

None

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following table sets forth the names, ages, and positions of our current directors and executive officers. Our Board of Directors elects our executive officers annually. Our directors serve three-year staggered terms or until their successors are elected, qualified and accept their positions. The executive officers serve terms of one year or until their death, resignation or removal by the Board of Directors. We do not have employment agreements with our executive officers. There are no family relationships or understandings between any of the directors and executive officers. In addition, there was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

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The following table sets forth our directors and executive officers as of December 31, 2009.

Name	Age	Position
Kipton P. Hirschbach	65	Director, Chief Executive Officer
Jim Erickson	46	Director, President, Principal Financial Officer

Mr. Kipton P. Hirschbach serves and has served as the CEO, Secretary/Treasurer and director of Axis Technologies, Inc. since February 2003 and of Axis Technologies Group, Inc. since October 2006. Prior to joining Axis, Mr. Hirschbach was operations and later general manager of Gillette Dairy, Inc., a manufacturer of dairy products, for approximately 23 years. Mr. Hirschbach is knowledgeable of manufacturing, sales, warehousing, and distribution where he has experience in commercial and industrial processes, and energy saving measures. Mr. Hirschbach is a graduate of the University of Nebraska with a Chemistry major.

Mr. Jim Erickson serves as the Company's Director, President and Principal Financial Officer. Mr. Erickson has served as President and Director for Axis Technologies, Inc. since February 2003 and as President and Director for Axis Technologies Group, Inc. since October 2006. Mr. Erickson is a 15-year veteran of the automotive industry, where he served in roles of sales, finance and insurance. Prior to joining Axis Technologies, Inc. in February of 2003, for approximately one year, Mr. Erickson served as an administrator of an electronic ballast company, where he gained knowledge of the lighting industry, especially in the energy saving arena.

Our Board of Directors does not currently have a nominating committee or compensation committee. Our entire Board of Directors is currently acting as the Company's audit committee as specified in section 3(a)(58)(B) of the Exchange Act.

Director Independence

The Board of Directors determines the independence of each director in accordance with guidelines it has adopted, which include all elements of independence set forth in applicable NASDAQ Marketplace Rules. Based on these standards, there are currently no independent members of the Board of Directors.

Family Relationships

There are no family relationships amongst our directors and officers.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company, the Company is aware of two people who, during the fiscal year ended December 31, 2009 were directors, officers, or beneficial owners of more than ten percent of the common stock of the Company, and who failed to file, on a timely basis, reports required by Section 16(a) of the Securities Exchange Act of 1934 as follows:

John Hanson failed to file a report required by Section 16(a) when he resigned as Director of the Company on August 25, 2009, which report has not been filed to date.

David Petersen failed to file a report required by Section 16(a) when he resigned as Director of the Company on August 26, 2009, which report has not been filed to date.

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CODE OF ETHICS

The Company is currently in the process of drafting a code of ethics that will apply to its principal executive officer and principal financial officer. We expect to have a finalized version of our code of ethics within the next few months, which we will include as an exhibit in a SEC filing upon its completion.

SECURITY HOLDERS RECOMMENDATIONS TO BOARD OF DIRECTORS

We do not currently have a process for security holders to recommend nominees to the Company's Board of Directors. However, we welcome comments and questions from our shareholders. Shareholders can direct communications to our Chief Executive Officer, Kipton Hirschbach, at our executive offices at 2055 S. Folsom, Lincoln, Nebraska 68522. While we appreciate all comments from shareholders, we may not be able to individually respond to all communications. We attempt to address shareholder questions and concerns in our press releases and documents filed with the SEC so that all shareholders have access to information about us at the same time. Mr. Hirschbach collects and evaluates all shareholder communications. If the communication is directed to the Board of Directors generally or to a specific director, Mr. Hirschbach will disseminate the communications to the appropriate party at the next scheduled Board of Directors meeting. If the communication requires a more urgent response, Mr. Hirschbach will direct that communication to the appropriate executive officer. All communications addressed to our Directors and executive officers will be reviewed by those parties unless the communication is clearly frivolous.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Objectives and Philosophy of our Executive Compensation Program

We do not have a standing compensation committee. Our board of directors as a whole makes the decisions as to employee benefit programs and officer and employee compensation. The primary objectives of our executive compensation programs are to:

- attract, retain and motivate skilled and knowledgeable individuals;
- ensure that compensation is aligned with our corporate strategies and business objectives;
- promote the achievement of key strategic and financial performance measures by linking short-term and long-term cash and equity incentives to the achievement of measurable corporate and individual performance goals; and
- align executives' incentives with the creation of stockholder value.

To achieve these objectives, our Board of Directors evaluates our executive compensation program with the objective of setting compensation at levels they believe will allow us to attract and retain qualified executives. In addition, a portion of each executive's overall compensation is tied to key strategic, financial and operational goals set by our board of directors.

Compensation Policies and Practices as they Relate to Risk Management

The Company does not currently believe that any risks arising from its compensation policies and practices for its employees are reasonably likely to have a material adverse effect on the Company. As of the time of the date of this proxy statement, however, the Company is still in the process of evaluating its compensation policies and practices as they relate to the Company's risk management. Upon completion of this evaluation, the Company's assessment of the potential effects of risks arising from its compensation policies may change.

Named Executive Officers

The following table identifies our principal executive officer, our principal financial officer and our most highly paid executive officers, who, for purposes of this Compensation Disclosure and Analysis only, are referred to herein as the "named executive officers."

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Name	Corporate Office
Kipton P. Hirschbach	Chief Executive Officer
James Erickson	President and Principal Financial Officer

Components of Our Executive Compensation Program

At this time, the primary elements of our executive compensation program are base salaries, although the Board of Directors has the authority to award cash bonuses, benefits and other forms of compensation as it sees fit.

We do not have any formal or informal policy or target for allocating compensation between short-term and long-term compensation, between cash and non-cash compensation or among the different forms of non-cash compensation. Instead, we have determined subjectively on a case-by-case basis the appropriate level and mix of the various compensation components. Similarly, we do not rely on benchmarking against our competitors in making compensation related decisions.

Base Salaries

Base salaries are established based on the experience, skills, knowledge and responsibilities required of our named executive officers. Base salary, and other components of compensation, may be evaluated by our board of directors for adjustment based on an assessment of the individual's performance and compensation trends in our industry.

Cash Bonuses

Our Board of Directors has the discretion to award cash bonuses based on our financial performance and individual objectives. The corporate financial performance measures (revenues and profits) will be given the greatest weight in this bonus analysis. We have not yet granted any cash bonuses to any named executive officer nor have we yet developed any specific individual objectives while we wait to attain revenue and profitability levels sufficient to undertake any such bonuses.

Benefits and Other Compensation

Our named executive officers are not currently receiving any health care, disability insurance, bonus or other employee benefits plans. As of the date of this Report, we have not implemented any such employee benefit plans. Mr. Hirschbach's and Mr. Erickson's health care costs are not paid by the Company.

CURRENT LEVELS OF EXECUTIVE COMPENSATION

Summary Annual Salary

As discussed above, we have agreed to pay Messrs. Hirschbach and Erickson an annual salary. Base salary may be increased from time to time with the approval of the Board of Directors. The following table summarizes the agreed annual salary of each of the named executive officers.

Name	Annual Salary
Kipton P. Hirschbach	\$ 150,000
James Erickson	\$ 150,000

SUMMARY COMPENSATION TABLE

The following information is provided concerning the compensation of the named executive officers for the last two fiscal years ended December 31, 2009 and December 31, 2008:

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Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation	Other Compensation	Total
Kipton P. Hirschbach (1)	2009	\$ 150,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 150,000
CEO/Director	2008	150,000	0	0	0	0	0	0	150,000
James A. Erickson (2)	2009	150,000	0	0	0	0	0	0	150,000
President/Director	2008	150,000	0	0	0	0	0	0	150,000

(1) Mr. Hirschbach has elected to defer a certain portion of his salary and unreimbursed expenses due to limited operating funds over the past few years. The total balance of this deferred compensation owed as of December 31, 2009 was \$340,409. On April 22, 2010, the Company issued 4,723,863 shares of common stock to Mr. Hirschbach in conversion of \$377,909 of deferred compensation as of March 31, 2010.

(2) Mr. Erickson elected to defer a certain portion of his salary and unreimbursed expenses due to limited operating funds over the past few years. The total balance of this deferred compensation owed as of December 31, 2009 is \$312,212. On April 22, 2010, the Company issued 4,371,400 shares of common stock to Mr. Erickson in conversion of \$347,712 of deferred compensation as of March 31, 2010.

Outstanding Equity Awards at Fiscal Year End

As of December 31, 2009, we had no options, warrants, unvested stock awards or equity incentive plan awards issued and outstanding in the name of any of the Company's named executive officers.

Compensation of Directors

We do not compensate directors for their services at the present time. We have not provided any compensation to any member of our Board of Directors for the latest fiscal year ended December 31, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows the beneficial ownership of our common stock as of June 10, 2010. The table shows the amount of shares owned by:

- (1) each person known to us who owns beneficially more than five percent of the outstanding shares of any class of the Company's stock, based on the number of shares outstanding as of June 10, 2010;
- (2) each of the Company's Directors and Executive Officers; and

(3) all of its Directors and Executive Officers as a group.

The percentage of shares owned is based on 74,980,181 shares being outstanding as of June 10, 2010. Where the beneficially owned shares of any individual or group in the following table includes any options, warrants, or other rights to purchase shares in the Company's stock, the percentage of shares owned includes such shares as if the right to purchase had been duly exercised.

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Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Common	Kipton P. Hirschbach Director/CEO 2055 South Folsom Lincoln, NE 68522	15,387,370	20.52%
Common	Jim Erickson Director/President/Principal Financial Officer 2055 South Folsom Lincoln, NE 68522	14,534,907	19.38%
Common	All Directors and Officers as a Group (a total of 2)	29,922,277	39.90%
Common	John F. Hanson 3410 N. 140th Street Omaha, NE 68154	10,643,407	14.19%
Common	Mark B. Gruenewald 4215 So. 147th Plaza, #102 Omaha, NE 68137	11,271,333	15.03%

(1) In connection with Axis Joint Venture Agreement described in Item 1 of this Report, the Company issued 163,192,720 shares of common stock to DHAB, LLC (“DHAB”). DHAB is not included in this chart, however, because, as of June 10, 2010, all 163,192,720 shares of this stock are pledged to the Company, and DHAB may not exercise any voting and other consensual rights pertaining to such stock. Accordingly, as of June 10, 2010, we do not deem DHAB to be a beneficial owner of such stock because it does not hold any voting power or investment power with regards to such stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Except as set forth below, none of the following persons has any direct or indirect material interest in any transaction to which we were or are a party since the beginning of our last fiscal year and the preceding fiscal year, or in any proposed transaction to which we propose to be a party:

- (A) any of our directors or executive officers;
- (B) any nominee for election as one of our directors;
- (C) any person who is known by us to beneficially own, directly or indirectly, shares carrying more than 5% of the voting rights attached to our common stock; or
- (D) any member of the immediate family (including spouse, parents, children, siblings and in-laws) of any of the foregoing persons named in paragraph (A), (B) or (C) above.

MPC Capital Funding, Inc. in which David Petersen, one of our former Directors, owns a 50% interest, received \$33,000 and is entitled to receive 60,000 shares of our restricted common stock (valued at \$22,200) as compensation for introducing Gemini Master Fund, Ltd. to us and for assisting in the negotiation and completion of the financing

transaction which resulted in the issuance of our Convertible Note in April, 2008, to Gemini Master Fund, Ltd. We issued these shares on April 22, 2010. In addition, MPC Capital received \$30,750 as a fee in connection with the issuance of our restricted common stock in November and December, 2006.

Our Board of Directors has adopted a policy that our business affairs will be conducted in all respects by standards applicable to publicly held corporations and that we will not enter into any future transactions between us and our officers, directors and 5% shareholders unless the terms are no less favorable than could be obtained from independent, third parties and will be approved by a majority of our independent and/or disinterested directors. In our view, any of the transactions that we enter into, if any, will meet this standard.

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Director Independence

As of December 31, 2009, we have no independent members of our Board of Directors. Mr. John F. Hanson and Mr. David P. Petersen, were former independent Board members whom resigned in 2009.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees paid or accrued for professional services rendered by Moquist Thorvilson Kaufmann Kennedy & Pieper LLC (formerly known as Carver Moquist & O'Connor, LLC) for the audit of our annual financial statements for fiscal year 2009 and fiscal year 2008 and the aggregate fees paid or accrued for audit-related services and all other services rendered by Moquist Thorvilson Kaufmann Kennedy & Pieper LLC for fiscal year 2009 and fiscal year 2008.

	2009	2008
Audit fees	\$ 47,100	\$ 70,238
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
Totals	\$ 47,100	\$ 70,238

The category of "Audit fees" includes fees for our annual audit, quarterly reviews and services rendered in connection with regulatory filings with the SEC, such as the issuance of comfort letters and consents.

The category of "Audit-related fees" includes employee benefit plan audits, internal control reviews and accounting consultation.

The category of "Tax fees" includes consultation related to corporate development activities.

All above audit services, audit-related services and tax services were pre-approved by the Board of Directors, which concluded that the provision of such services by Moquist Thorvilson Kaufmann Kennedy & Pieper LLC was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

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ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibit

Number	Description
3.1	Certificate of Incorporation of Axis Technologies Group, Inc.(1)
3.1(a)	Certificate of Amendment of Certificate of Incorporation, dated September 19, 2006(2)
3.2	Bylaws of Axis Technologies Group, Inc. (1)
4.1	Securities Purchase Agreement dated April 25, 2008 with Gemini Master Fund, Ltd. (1)
4.2	10% Senior Secured Convertible Note dated April 25, 2008 with Gemini Master Fund, Ltd. (1)
4.3	Common Stock Purchase Warrant dated April 25, 2008 with Gemini Master Fund, Ltd. (1)
10.1	Security Agreement dated April 25, 2008 with Gemini Master Fund, Ltd. (1)
10.2	Intellectual Property Security Agreement dated April 25, 2008 by and between Axis Technologies, Inc. and Gemini Master Fund, Ltd. (1)
10.3	Guarantee Agreement dated April 25, 2008 by Axis Technologies, Inc., as Guarantor, in favor of Gemini Master Fund, Ltd. (1)
10.4	Co-Exclusive License Agreement for Simplified Daylight Harvesting Technology dated January 1, 2008 with The Regents of the University of California, a California Corporation(1)
10.5	Manufacturing Agreement with Shanghai Lighting and Gold, Inc. dated August 22, 2003 (1)
10.6	United States Patent (No. U.S. 6,969,955) for a “Method and Apparatus for Dimming Control of Electronic Ballasts” dated November 29, 2005(1)
10.7	United States Trademark (Reg No. 3,001,445) for “The Future of Fluorescent Lighting” dated September 27, 2005(1)
10.8	Form of Lock-Up Agreement(1)
10.9	Fluorescent Lamp Ballast: First Quarter 2006(2)
10.10	Letter of Understanding with Merritt Media, Inc., dated March 16, 2005(2)
10.11	Promissory Note, dated May 20, 2009 with MidAmerica Funding Co., Inc. (3)
10.12	Amendment Agreement, dated December 30, 2009 with Gemini Master Fund, Ltd. (3)
10.13	Amended and Restated 10% Senior Secured Convertible Note, dated December 30, 2009 with Gemini Master Fund, Ltd. (3)
10.14	Axis Joint Venture Agreement, dated April 22, 2010. (4)
10.15	Promissory Note from DHAB, LLC, dated April 22, 2010. (4)
10.16	Stock Pledge and Security Agreement by DHAB, LLC in favor of the Company, dated April 22, 2010. (4)
10.17	Security Agreement by the Company in favor of IRC – Interstate Realty Corporation, dated April 22, 2010. (4)
10.18	Amendment Agreement with Gemini Strategies, LLC and Gemini Master Fund, Ltd., dated April 22, 2010. (5)
21	List of Subsidiaries (1)
<u>31.1</u>	Certification of Chief Executive Officer of Axis Technologies Group, Inc. required by Rule 13a-14(1) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
<u>31.2</u>	Certification of Principal Financial Officer of Axis Technologies Group, Inc. required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Certification of Chief Executive Officer of Axis Technologies Group, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.*
<u>32.2</u>	Certification of Principal Financial Officer of Axis Technologies Group, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.*

(1) Previously filed with our Registration Statement on Form 10, dated July 24, 2008

- (2) Previously filed with our Registration Statement on Form 10, dated October 9, 2008
- (3) Previously filed with our Form 10-Q, dated April 30, 2010.
- (4) Previously filed with our Form 8-K, dated May 3, 2010.
- (5) Previously filed with our Form 8-K/A, dated June 21, 2010.

* Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AXIS TECHNOLOGIES GROUP, INC.

By /s/ Kipton Hirschbach
Kipton Hirschbach
President and Chief Executive Officer

Date: June 21, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kipton Hirschbach
Kipton Hirschbach
Chief Executive Officer and Director

Date: June 21, 2010

By: /s/ James Erickson
James Erickson
Chief Accounting Officer,
Principal Financial Officer and Director

Date: June 21, 2010

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Axis Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of Axis Technologies Group, Inc. (the "Company") as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. 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 standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Axis Technologies Group, Inc. as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered losses from operations and its total liabilities exceed its total assets. These factors raise substantial doubt about its ability to continue as a going concern. 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.

/s/ Moquist Thorvilson Kaufmann Kennedy & Pieper LLC

Edina, Minnesota
June 21, 2010

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Axis Technologies Group, Inc.
Consolidated Balance Sheets
December 31, 2009 and 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash	\$ 11,488	\$ 12,205
Accounts receivable, net of returns allowance of \$36,660 and \$0, respectively	32,136	150,609
Inventory	226,412	337,566
Inventory deposits	89,878	58,497
Prepaid expenses	2,973	3,412
Total Current Assets	362,887	562,289
PROPERTY AND EQUIPMENT		
Property and equipment	18,667	18,188
Less: accumulated depreciation	(15,191)	(12,899)
Net Property and Equipment	3,476	5,289
OTHER ASSETS		
Patents, net of accumulated amortization of \$3,479 and \$2,627, respectively	13,558	14,410
Deferred financing costs, net	31,481	180,300
Total Other Assets	45,039	194,710
TOTAL ASSETS	\$ 411,402	\$ 762,288
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 162,209	\$ 145,108
Accrued expenses	120,915	92,053
Short-term note payable	107,167	-
Convertible note payable, net of discounts \$137,638 and \$788,288, respectively	1,746,459	600,601
Accrued salary - officers/stockholders	685,542	485,637
Total Current Liabilities	2,822,292	1,323,399
STOCKHOLDERS' DEFICIT		
Common stock, \$0.001 par value, 500,000,000 shares authorized, 64,446,779 and 62,267,767 shares issued and outstanding, respectively	64,447	62,268
Additional paid-in capital	3,622,542	3,202,261
Stock issuable	66,600	66,600
Accumulated deficit	(6,164,479)	(3,892,240)
Total Stockholders' Deficit	(2,410,890)	(561,111)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 411,402	\$ 762,288

The accompanying notes are an integral part of these consolidated financial statements.

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Axis Technologies Group, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2009 and 2008

	2009	2008
Sales, net	\$ 429,243	\$ 686,528
Cost of goods sold	329,730	566,694
Gross profit	99,513	119,834
Operating expenses	797,359	924,608
Loss from operations	(697,846)	(804,774)
Other income (expense):		
Interest income	28	4,021
Interest expense	(1,574,421)	(843,543)
Total other income (expense)	(1,574,393)	(839,522)
Net loss before income taxes	(2,272,239)	(1,644,296)
Income tax provision	-	-
Net loss	\$ (2,272,239)	\$ (1,644,296)
Net loss per common share (basic and diluted)	\$ (0.036)	\$ (0.026)
Weighted average shares outstanding:		
Basic and diluted	63,573,800	62,226,178

The accompanying notes are an integral part of these consolidated financial statements.

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Axis Technologies Group, Inc.
 Consolidated Statements of Changes in Stockholders' Deficit
 For the Years Ended December 31, 2009 and 2008

	Common Stock		Additional	Shares	Accumulated	Total
	Shares	Amount	Paid-in	Issuable	Deficit	Stockholders'
	Issued and		Capital			Deficit
	Outstanding	\$		\$	\$	\$
Balance, December 31, 2007	62,037,767	\$ 62,038	\$ 1,908,239	\$ -	\$ (2,247,944)	\$ (277,667)
Restricted common stock awards - no immediate vesting	60,000	60	(60)	-	-	-
Compensation related to vesting of restricted common stock awards		-	10,152	-	-	10,152
Issuance of common stock for compensation related to equity raised in 2007	60,000	60	(60)	-	-	-
Issuance of common stock for contractor compensation	60,000	60	18,540	-	-	18,600
Issuance of common stock for placement costs related to convertible note payable	50,000	50	15,450	-	-	15,500
Issuance of detachable stock warrant related to convertible note payable		-	861,778	-	-	861,778
Beneficial conversion cost related to convertible note payable		-	388,222	-	-	388,222
Common shares issuable (180,000) as placement costs in connection with convertible note payable		-	-	66,600	-	66,600
Net loss	-	-	-	-	(1,644,296)	(1,644,296)
Balance, December 31, 2008	62,267,767	62,268	3,202,261	66,600	(3,892,240)	(561,111)
Compensation related to vesting of restricted common stock awards		-	8,448	-	-	8,448

Issuance of common stock for contractor compensation	250,000	250	47,250	-	-	47,500
Conversion of \$231,482 of principle and accrued interest on convertible notes payable into common stock, including additional beneficial conversion charges for variable conversion price totaling \$135,031	1,929,012	1,929	364,583	-	-	366,512
Net loss		-	-	-	(2,272,239)	(2,272,239)
Balance, December 31, 2009	64,446,779	\$ 64,447	\$ 3,622,542	\$ 66,600	\$(6,164,479)	\$(2,410,890)

The accompanying notes are an integral part of these consolidated financial statements.

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Axis Technologies Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net loss	\$ (2,272,239)	\$ (1,644,296)
Adjustments to reconcile net loss to net cash (used in) operations:		
Depreciation	2,292	2,966
Amortization of patent costs	852	852
Share-based compensation	8,448	10,152
Issuance of common stock for services	47,500	18,600
Amortization of original issue discount	65,065	60,060
Amortization of debt issuance costs	148,819	137,372
Non-cash interest expense related to issuances of warrants and beneficial conversion features	720,615	540,541
Loan default interest charges added to notes payable	384,723	-
Provision for sales returns	36,660	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	81,813	(111,293)
Decrease in inventory and inventory deposits	79,773	5,496
Decrease (increase) in prepaid expenses	439	(783)
Increase in accounts payable	17,101	96,105
Increase in accrued salary - officers/stockholders	199,905	41,931
Increase in accrued expenses	220,829	21,715
Net cash used in operating activities	(257,405)	(820,582)
Cash flows from investing activities:		
Purchase of property and equipment	(479)	(1,095)
Net cash used in investing activities	(479)	(1,095)
Cash flows from financing activities:		
Cash proceeds from convertible notes payable, net of original issue discount of \$138,889 and transaction fees of \$32,000 in 2008	-	1,218,000
Debt issuance costs	-	(203,572)
Payments on short-term notes payable	(42,833)	(195,074)
Proceeds from issuance of notes payable	300,000	-
Net cash provided by financing activities	257,167	819,354
Net decrease in cash and cash equivalents	(717)	(2,323)
Cash and cash equivalents at beginning of period	12,205	14,528
Cash and cash equivalents at end of period	\$ 11,488	\$ 12,205
Supplemental cash and non-cash flow information		

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Cash paid for interest	\$ 82,814	\$71,603
Deferred financing costs paid with the issuance of common stock	\$ -	\$ 82,100
Convertible debt discount recorded for warrant and beneficial conversion feature	\$ -	\$ 1,250,000
Conversion of note payable to common stock	\$ 231,482	\$ -
Accrued interest added to convertible note payable	\$ 191,967	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

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Axis Technologies Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

NOTE 1:

NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Riverside Entertainment, Inc. ("Riverside") was incorporated in the State of Delaware. On September 18, 2006, Riverside entered into a Share Exchange and Acquisition Agreement whereby it agreed to issue 45,000,000 shares of its common stock to acquire all of the outstanding shares of Axis Technologies, Inc. ("ATI"), a private corporation incorporated in 2003 in the State of Delaware. At the time of the share exchange transaction, Riverside was a non-reporting public company and had no current operations. ATI has developed and sells a daylight harvesting fluorescent lighting ballast that uses natural lighting to reduce electricity consumption. The Company's market for advertising and selling the product currently lies within North America.

Upon completion of the transaction on October 25, 2006, ATI became a wholly-owned subsidiary of Riverside and Riverside changed its name to Axis Technologies Group, Inc. (the "Company"). Since this transaction resulted in the existing shareholders of ATI acquiring control of Riverside, the share exchange transaction has been accounted for as an additional capitalization of Riverside (a reverse acquisition, with ATI being treated as the accounting acquirer for financial statement purposes).

The operations of ATI are the only continuing operations of the Company. In accounting for this transaction, ATI was deemed to be the purchaser and parent company for financial reporting purposes. Accordingly, its net assets were included in the consolidated balance sheet at their historical value.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Axis Technology, Inc. All inter-company transactions and balances have been eliminated in the consolidation.

Management Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of 90 days or less to be cash or cash equivalents.

The Company has concentrated its credit risk for cash by maintaining deposits in financial institutions within the geographic region of Lincoln, Nebraska, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Customer Concentrations and Accounts Receivable: The accounts receivable arise in the normal course of business in selling products to customers. Concentrations of credit risk with respect to accounts receivable arise because the Company grants unsecured credit in the form of trade accounts receivable to its customers.

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Axis Technologies Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

At December 31, 2009, one customer accounted for 41% of sales and two customers accounted for 62% of gross outstanding accounts receivable. At December 31, 2008, one customer accounted for 48% of sales and 45% of outstanding accounts receivable.

Accounts are written-off as they are deemed uncollectible based upon a periodic review of the accounts. As of December 31, 2009 and 2008, management has estimated that accounts receivable is fully collectible, and thus, has not established an allowance for doubtful accounts.

The Company has established a reserve for sales returns of \$36,660 at December 31, 2009. The reserve is based on returns expected in 2010 for sales in 2009. There was no reserve at December 31, 2008.

Supplier Concentrations and Inventory: The Company maintains its inventory on a perpetual basis utilizing the first-in first-out (FIFO) method. Inventories have been valued at the lower of cost or market. Management has not recorded an obsolescence reserve for inventory at December 31, 2009 and 2008. All inventory is considered usable and market value is above cost.

The Company purchases 100% of its inventory from a supplier based in California with manufacturing facilities in China.

Property and Equipment: Property and equipment is reported at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The cost of property and equipment is depreciated over the following estimated useful lives of the related assets using the straight-line basis:

Office Equipment and Vehicle	5 years
Computer Equipment	3 years

Intangible Assets: Intangible assets subject to amortization include patent costs, which are being amortized over twenty years. Amortization expense is estimated to be \$850 for each of the next five years.

Long-Lived Assets: The Company periodically evaluates the carrying value of long-lived assets to be held and used, including but not limited to, capital assets and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company has reviewed long-lived assets and certain intangible assets with estimable useful lives and determined that the carrying value as of December 31, 2009, are recoverable in future periods.

Revenue Recognition: The Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred, the selling price is fixed or determinable, collectability is reasonably assured and delivery has occurred per the contract terms.

Warranty and return costs are estimated and accrued based on historical rates. For the years ended December 31, 2009 and 2008, total warranty and return costs were \$7,114 and \$13,347, respectively. The warranty reserve balances

at December 31, 2009 and 2008 were \$7,000 and \$10,349, respectively.

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Axis Technologies Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Deferred Financing Costs: Costs related to the convertible note payable issued by the Company on April 25, 2008, are being amortized using the effective interest method over the term (24 months) of the debt instrument to April 2010 (see Note 6).

Segment Reporting: The Company operates and manages the business under one reporting segment.

Advertising Costs: The Company expenses advertising costs in the period incurred. Advertising costs were \$1,520 and \$3,090 for the years ended December 31, 2009 and 2008, respectively.

Fair Value of Financial Instruments: The respective carrying value of certain on-balance sheet financial instruments approximates their fair values. These financial instruments include cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, indebtedness to related parties and notes payable. Fair values were assumed to approximate cost or carrying values as most of the debt was incurred recently and the assets were acquired within one year. Management is of the opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments.

Income Taxes: The Company accounts for deferred tax assets and liabilities under the liability method. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income and records a valuation allowance to reduce deferred tax assets to the amounts believed to be realizable. The Company concluded that a full valuation allowance against its U.S. deferred tax assets was appropriate as of December 31, 2009 and 2008.

The Company accounts for income taxes pursuant to Financial Accounting Standards Board (“FASB”) guidance which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. The Company believes its income tax filing positions and deductions will be sustained upon examination and, accordingly, no reserves, or related accruals for interest and penalties has been recorded at December 31, 2009 and 2008. In accordance with the guidance, the Company has adopted a policy under which, if required to be recognized in the future, interest related to the underpayment of income taxes will be classified as a component of interest expense and any related penalties will be classified in operating expenses in the statements of operations. The Company’s remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2006 through 2009.

Stock-Based Compensation

The Company accounts for stock-based payments to employees and non-employee directors, including grants of stock options and shares of non-vested stock, to be recognized in the financial statements based on the estimated fair value of the equity award issued.

Comprehensive Income (Loss): Comprehensive income (loss) includes net income (loss) and items defined as other comprehensive income (loss). Items defined as other comprehensive income (loss) include items such as foreign currency translation adjustments and unrealized gains and losses on certain marketable securities. For the years ended

December 31, 2009 and 2008, there were no adjustments to net loss to arrive at comprehensive loss.

Net Loss per Common Share: Basic net loss per common share is computed by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding during the periods presented. Diluted net loss per common share is determined using the weighted average number of common shares outstanding during the periods presented, adjusted for the dilutive effect of any common stock equivalents, consisting of shares that might be issued upon exercise of options, warrants, and conversion of convertible debt.

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Recent Accounting Developments:

Effective September 15, 2009, the Company adopted a new accounting standard that establishes the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") as the exclusive reference to be applied in the preparation of financial statements in conformity with GAAP. Accordingly, all references to legacy guidance issued under previously recognized authoritative literature have been removed in the third quarter of fiscal 2009. The Company's adoption of this authoritative guidance changed how it references GAAP in its disclosures.

In June 2009, the FASB issued authoritative guidance that eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires on-going qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance is not anticipated to have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued guidance on the accounting for multiple-deliverable revenue arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable; eliminates the residual method of allocation and requires arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method; and requires a vendor to determine its best estimate of selling price in a manner consistent with that used to determine the selling price of the deliverable on a stand-alone basis. This guidance also expands the required disclosures related to a vendor's multiple-deliverable revenue arrangements. The guidance is effective beginning February 1, 2011 with early adoption permitted. The Company does not believe the adoption of this standard will have a material impact on our consolidated results of operations, financial condition, cash flows, or disclosures.

NOTE 2:
LIQUIDITY/GOING CONCERN

The Company has incurred significant operating losses during its periods of operation. At December 31, 2009, the Company reports a negative working capital position of \$2,459,405, an accumulated deficit of \$6,164,479, and a stockholders' deficit of \$2,410,890. It is management's opinion that these facts raise substantial doubt about the Company's ability to continue as a going concern without additional debt or equity financing or the ability of the Company to increase revenues.

On April 22, 2010, the Company entered into a joint venture agreement with another Company to temporarily provide financing to facilitate the purchase of inventory. This same Company has committed to an equity placement of \$6,000,000 (see Note 12 for additional information). As of June 21, 2010, the Company has not received any payment related to this equity transaction. However, the Company is uncertain such financing will be available to the Company if at all.

NOTE 3:
INVENTORIES

Inventories at December 31, 2009 and 2008 consist entirely of finished goods, totaling \$226,412 and \$337,566, respectively.

Deposits on purchases of inventory not received as of year-end totaled \$89,878 and \$58,497, at December 31, 2009 and 2008, respectively.

NOTE 4:

ACCRUED SALARY - OFFICERS/STOCKHOLDERS

Certain officers/stockholders of the Company have elected to forego a certain portion of their salary due to having limited operating funds in the past and for the foreseeable future. These amounts are due and mostly payable to these officers/stockholders as excess operating cash flows become available in the future. The total balance owed as of December 31, 2009 and 2008 is \$685,542 and \$485,637, respectively. Subsequent to year end, the Company issued stock for the balance due (see Note 12).

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NOTE 5:
NOTES PAYABLE

On March 25, 2009, the Company entered into a debt instrument security agreement with Gemini Master Fund, Ltd. (“Gemini”), pursuant to which the Company issued a 10% Senior Secured Note in the principal amount of \$150,000 (the “Note”) for working capital funds. The note has a mandatory default amount where the principal of the obligation increases 25% and the stated interest rate increases to 24% if the note is in default. The note was deemed in default in July 2009 and an interest charge of \$37,500 was recorded and the note balance increased to \$187,500. The note was refinanced on December 30, 2009 by adding the obligation plus accrued interest of \$21,250 with the convertible note payable as discussed in Note 6.

On May 20, 2009, the Company issued a promissory note with Mid-America Funding Company generating net cash proceeds of \$150,000 for working capital purposes. In connection with the note payable, the Company issued 1,000,000 shares of its common stock to be held in escrow as collateral for the loan. Additionally, the Company assigned a customer purchase order totaling \$247,500 to the issuer as additional collateral on the note. The note bears interest at a monthly rate of 2% of the outstanding balance. The note is past due and demand can be made for payment in full. The note has a balance of \$107,167 at December 31, 2009.

NOTE 6:
CONVERTIBLE NOTE PAYABLE

On April 25, 2008, the Company entered into a debt instrument security agreement with Gemini Master Fund LTD (“Gemini”), pursuant to which Gemini was issued a 10% Senior Secured Convertible Promissory Note in the principal amount of \$1,388,889 (the “Note”). The face amount of the Note of \$1,388,889 was reduced by an original issue discount of \$138,889 and other issuance costs of \$32,000 to arrive at net proceeds of \$1,218,000.

In connection with the Note, the Company also incurred additional financing costs of \$203,572 which were paid out of the net proceeds to third-party agents and issued 50,000 shares of common stock valued at \$0.31 per share to these same agents. The Company is obligated to issue to the placement agents for this transaction an additional 180,000 shares valued at \$0.37 per share totaling \$66,600. The share price of which was based on the five day average closing price of the Company’s common stock prior to the closing date of the Note. These shares were ultimately issued to the agents on April 22, 2010.

The Note has a maturity date of April 25, 2010, and is secured by all assets of the Company. The Note accrues interest at a rate of 10% per annum, and such interest is payable on a quarterly basis commencing July 26, 2008, with the principal balance of the Note, together with any accrued and unpaid interest thereon, due in twelve monthly installments beginning May 1, 2009. The Company has the option to make the installment payments in cash or in common stock shares at a conversion price equal to the lesser of \$0.26 or 80% of the lowest closing bid price occurring 10 trading days immediately preceding the date at which the price is determined. The May and June 2009 installment payments were made through issuance of common stock. This resulted in an additional beneficial conversion feature valued at \$135,030 being charged as non-cash interest expense for the three-month period ended June 30, 2009 due to the variable conversion price.

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The Note has a mandatory default amount where the principal of the obligation increases by 30% and the stated interest rate increases to 24% if the note payments are in default. The note was deemed in default in July 2009. Therefore, the principal balance of the note was increased by \$347,223 due to this default.

The Note is convertible at the option of the holder at any time into shares of the Company's common stock at an initial conversion price of \$0.26 per share. The conversion price is subject to a weighted-average anti-dilution adjustment in the event the Company issues equity or equity-linked securities at a price below the then-applicable conversion price. The Note can be converted into a maximum of 4.9% of the Company's outstanding common stock on the date of conversion.

Effective December 30, 2009, the Company entered into an Amendment Agreement and an Amended and Restated 10% Senior Secured Convertible Note with Gemini; thereby the Convertible Note Payable and related Note Payable to Gemini were amended. The Note Payable, as discussed in Note 5, accrued interest to date, and the increase in principal for the default terms were consolidated into this agreement. This resulted in the stated value of the combined loans to be \$1,884,097 on December 30, 2009. In addition, the new agreement fixed the conversion share price of the debt to equity at a price of \$0.10 per share and is now convertible on or after February 1, 2010. Previously, the Note had a variable conversion rate. All other terms remained the same. Additionally, in connection with the financing agreement that the Company entered into on April 22, 2010 (see Note 12 Subsequent Events), the Gemini consolidated loan was further extended to a maturity date of July 1, 2010.

The terms of the Securities Purchase Agreement issued in connection with the Note provides that until such time as Gemini no longer holds any of the securities or underlying securities purchased, the Company cannot issue shares of common stock, securities convertible into common stock, or debt obligations involving a variable rate transaction (meaning there is a conversion, exercise or exchange price that is contingent on trading prices or other factors) or a transaction where a purchaser of securities is granted the right to receive additional securities in the future on terms better than those presently being granted to the purchaser. Further, until such time as Gemini no longer holds any of the securities or underlying securities purchased, if the Company issues common stock or securities convertible into common stock on terms that Gemini deems to be more favorable than the terms received by Gemini, Gemini may require the Company to amend the Securities Purchase Agreement and related documents to give Gemini the benefit of the more favorable terms.

Under the terms of the original Note and as additional consideration for the loan, the Company issued Gemini a five-year warrant to purchase up to 5,341,880 shares of its common stock at an exercise price of \$0.26 per share (the "Warrant") which was deemed to have a fair value of \$861,778. The Company used the Black-Scholes-Merton pricing model as a method for determining the estimated fair value of the Warrant issued. The following assumptions were used to estimate the fair value of the Warrant:

§	risk free interest rate of 3.2%;
§	expected life of 2 years;
§	no expected dividends;
§	and volatility of 147%.

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The expected life of the Warrant was determined to be the full-term of the warrant. The risk-free interest rate is based on the Federal Reserve Board's constant maturities of U.S. Treasury bond obligations with terms comparable to the expected life of the Warrant valued. The Company's volatility is based on the historical volatility of the Company's stock.

The fair value of the Warrant was recorded as a discount to the original Note and amortized to interest expense over the term of the Note using the effective interest method. In the event the Company does not have an effective Form 10 registration statement by February 25, 2009, the Warrant provides for a cashless exercise in which the holder will be entitled to the number of shares equal to the difference between the volume weighted average price, as defined in the Note agreement, and the exercise price of the Warrant multiplied by the number of shares issuable upon exercise of the Warrant divided by the volume weighted average price. The Warrant also provides for a weighted-average anti-dilution adjustment to the exercise price in the event the Company issues equity or equity-linked securities at a price below the then-applicable exercise price. As of February 25, 2009, the Company did not have an effective registration statement; therefore the cashless exercise feature will apply.

The Company may be obligated to issue an additional five-year Warrant at an exercise price of \$0.26 per share to a placement agent if all or a portion of the underlying Warrant attached to the Note are converted by the holder. For every 100 warrants exercised by the holder, the placement agent will receive 7 warrants up to a maximum of 373,932 warrants. The fair value for the conditional Warrant will be recorded by the Company if and when the original Warrant is exercised by the holder.

The proceeds of the original loan were allocated based on the relative fair value of the loan and warrant as of the commitment date. Then the Company calculated the intrinsic value of the beneficial conversion feature embedded in the Note. As the amount of the beneficial conversion feature exceeded the fair value allocated to the loan, the amount of the beneficial conversion feature to be recorded was limited to the proceeds allocated to the loan. Accordingly, the beneficial conversion feature was calculated to be \$388,222 and was recorded as an additional discount on the Note and will be recognized over the term of the Note using the effective interest method.

The following summarizes the convertible note balance as of December 31, 2009:

Original gross proceeds received in 2008	\$ 1,388,889
Less: original issue discount at time of issuance of notes	(138,889)
Net proceeds prior to paying transaction costs	1,250,000
Less: value assigned to beneficial conversion feature and warrants	(1,250,000)
Add: amortization of original issue discount, beneficial conversion feature and warrants	1,251,251
Add: mandatory default charge	347,223
Add: short-term note payable (see Note 5)	208,750
Add: accrued interest added to note	170,717
Less: principal payments converted to common stock	(231,482)
Balance at December 31, 2009 (\$1,884,097 face value)	\$ 1,746,459

The effective interest rate of the Note was 82% as of December 31, 2009.

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NOTE 7:

STOCKHOLDERS' EQUITY (DEFICIT)

On June 1, 2009, the Company issued 964,506 shares of common stock at a fair value of \$0.12 per share valued in total at \$115,741 as a principal payment for the convertible debt obligation (see Note 6).

On May 1, 2009, the Company issued 964,506 shares of common stock at a fair value of \$0.12 per share valued in total at \$115,741 as a principal payment for the convertible debt obligation (see Note 6).

On May 1, 2009, the Company issued 250,000 shares of common stock at a fair value of \$0.19 per share valued in total at \$47,500 as compensation for marketing services performed in 2009. The fair value of these shares was determined based upon the quoted market price as of the date the shares were declared.

On March 7, 2008, the Company issued 60,000 shares of common stock at an estimated fair value of \$0.31 per share valued in total at \$18,600 as compensation for public and investor relations for the period from April 1, 2007 to March 31, 2008. The fair value of these shares was determined based upon the quoted market price of the stock as of the date of the shares were declared reduced by a lack of marketability discount.

On March 7, 2008, the Company issued 50,000 shares of common stock at an estimated fair value of \$0.31 per share valued in total at \$15,500 as advance compensation for services being rendered in connection with the convertible debt issuance on April 25, 2008 (see Note 6). The fair value of these shares was determined based upon the quoted market price of the stock as of the date of the shares were declared reduced by a lack of marketability discount.

Stock Issuable:

In connection with the convertible note payable (Note 6), the Company is obligated to issue to the placement agents for this transaction an additional 180,000 shares of common stock valued at \$0.37 per share for a total cost of \$66,600. These shares were issued April 22, 2010 (Note 12).

Restricted Stock:

During the year ended December 31, 2008, the Company awarded 60,000 shares of time-based restricted stock (non-vested) shares to certain employees of the Company. As a condition of the award, the employees must be employed with the Company in order to continue to vest in their shares over an 18-month period. The fair value of the non-vested shares (\$0.31) was determined based upon the quoted market price of the stock as of the award date of grant reduced by a lack of marketability discount and will be amortized ratably over the vesting period.

The Company recorded \$8,448 and \$10,152 of compensation expense in the consolidated statements of operations related to vested shares (restricted stock) for the years ended December 31, 2009 and 2008, respectively.

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A summary of the status of non-vested restricted shares and changes and remaining unearned compensation as of December 31, 2009 is set forth below:

Period	Restricted Shares	Weighted Average Fair Value	Unrecognized Compensation	Weighted Average Remaining Recognition (Months)
Outstanding, December 31, 2007	-		\$ -	
Granted	60,000	\$ 0.31	18,600	
Vested	(32,739)	0.31	(10,152)	
Outstanding, December 31, 2008	27,261	0.31	8,448	8.2
Vested	(27,261)	0.31	(8,448)	
Outstanding, December 31, 2009	-	\$ -	\$ -	-

NOTE 8:

BASIC AND DILUTED EARNINGS PER SHARE

The Company computes earnings per share under two different methods, basic and diluted, and presents per share data for all periods in which statements of operations are presented. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding.

The following provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the years ended December 31, 2009 and 2008.

	2009	2008
Basic earnings per share calculation:		
Net loss to common shareholders	\$ (2,273,239)	\$ (1,644,296)
Weighted average of common shares outstanding	63,573,800	62,226,178
Basic net loss per share	\$ (0.036)	\$ (0.026)
Diluted earnings per share calculation:		
Net loss to common shareholders	\$ (2,273,239)	\$ (1,644,296)
Weighted average of common shares outstanding	63,573,800	62,226,178
Stock warrants, and convertible debt (1)	-	-
Diluted weighted average common shares outstanding	63,573,800	62,226,178
Diluted net loss per share	\$ (0.036)	\$ (0.026)

(1) The computation of diluted net loss per share as of December 31, 2009 and 2008, respectively, does not differ from the basic computation because potentially dilutive issuable securities of warrants of 5,341,000. and conversion shares related to the convertible debt promissory note of 18,840,970 and 5,341,000 as of December 31, 2009 and

2008, respectively would be anti-dilutive.

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NOTE 9:
INCOME TAXES

The provision for income taxes for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Current:		
Federal	\$ -	\$ -
State	-	-
Deferred	(739,400)	(570,500)
	(739,400)	(570,500)
Increase in deferred tax valuation allowance	739,400	570,500
Total income tax provision	\$ -	\$ -

The provision for income taxes varies from the income tax rates applied to the total loss for the years ended December 31 as follows:

	2009	2008
Federal income tax benefit at an average rate (33%)	\$ (749,800)	\$ (542,600)
State tax benefit, net of federal	(136,400)	(98,900)
Non-deductible expenses	146,800	71,000
Current valuation allowance	739,400	570,500
Total income tax provision	\$ -	\$ -

Significant components of the Company's deferred tax assets and liabilities were as follows at December 31:

	2009	2008
Deferred tax assets:		
Net operating loss carry forwards	\$ 1,208,000	\$ 718,800
Reserves and accruals	307,700	215,400
Warrants	302,800	145,300
	1,818,500	1,079,500
Deferred tax liabilities:		
Depreciation	-	(100)
Amortization	(5,300)	(5,600)
	(5,300)	(5,700)
Net deferred tax assets	1,813,200	1,073,800
Valuation allowance	(1,813,200)	(1,073,800)

\$ - \$ -

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Axis Technologies Group, Inc.
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The Company has net operating loss carryforwards aggregating approximately \$4,179,000 as of December 31, 2009, which begin to expire in 2026. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences will become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company has recorded a full valuation allowance against its net deferred tax assets because it is not currently able to conclude that it is more likely than not that these assets will be realized. The amount of deferred tax assets considered to be realizable could be increased in the near term if estimates of future taxable income during the carryforward period are increased.

Under Internal Revenue Code Section 382, certain stock transactions which significantly change ownership, including the sale of stock to new investors, the exercise of options to purchase stock, or other transactions between shareholders could limit the amount of net operating loss carryforwards that may be utilized on an annual basis to offset taxable income in future periods. With the equity transaction that was initiated on April 22, 2010, the Company would most likely meet the criteria for a Section 382 limitation on their NOL carryforwards.

Based on the Company's evaluation, the Company has concluded that there are no significant unrecognized tax benefits. The Company's evaluation was performed for the tax years ended December 31, 2006, 2007, 2008 and 2009, the tax years that remains subject to examination by major tax jurisdictions as of December 31, 2009. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. The Company has adopted a policy to classify interest and penalties as a component of income tax expense.

NOTE 10:
OPERATING LEASE

The Company leases office and warehouse space on a month-to-month basis at a current rate of \$1,302 per month. Rental expense was \$15,627 for the years ended December 31, 2009 and 2008.

NOTE 11:
LITIGATION

The Company periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

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NOTE 12:
SUBSEQUENT EVENTS

IRC Financing Agreement

On April 22, 2010, the Company, IRC - Interstate Realty Corporation (“IRC”), and DHAB, LLC (“DHAB”) entered into an Axis Joint Venture Agreement (the “JV Agreement”), thereby forming a joint venture partnership between the Company and IRC. The primary purpose of the Joint Venture is to facilitate and make funds available to the Company on a temporary basis until the contemplated equity transaction, as further described below, is completed in its entirety. This joint venture structure is being set up only to secure IRC’s interest for their willingness to advance funds to the Company to purchase inventory and to provide a letter of credit to a specific customer/distributor of the Company. Specifically, IRC will advance funds up to \$310,000 for the purchase of new inventory and IRC will put up a \$468,000 letter of credit to a Company customer in order for the distributor to feel confident to purchase \$468,000 of inventory from the Company. If for some reason the Axis customer is not able to sell all of this inventory purchased over the next twelve months, the customer could draw against this letter of credit for each unit of inventory not sold by them. As of June 21, 2010, the Company has received \$70,000 in advances for new inventory purchases and the \$468,000 letter of credit is in place but has not been drawn against. IRC will receive a fee of \$50,000 as consideration for providing for and arranging these financial agreements.

In connection with the JV Agreement, the Company issued DHAB an aggregate of 163,192,720 shares of its common stock in return for a Promissory Note from DHAB in the principal amount of \$6,000,000. The issued DHAB shares are being held by the Company until payment on the obligation is received. The Promissory Note bears no interest and is due on July 1, 2010. If an event of default occurs under the Promissory Note, the Company’s sole remedy is to cancel the shares. As DHAB pays such obligation to the Company, the Company will release the equivalent number of shares of the DHAB stock on a prorated basis as is represented by the sums so paid on a \$0.04 per share basis. DHAB will not have any voting rights pertaining to the DHAB stock, other than to shares that the Company has released as security. The JV Agreement provides that the Company will not issue or agree to issue any additional shares of its common stock prior to July 20, 2010. Any proceeds received on the promissory note, must be used to repay the note payable to Gemini (see notes 5 and 6) in full, prior to any other use. As of June 21, 2010, the Company has not received any payments against the Promissory Note.

Issuance of Common Stock

On April 22, 2010, the Company issued 179,068,002 shares of common stock. This total includes 163,192,720 shares of common stock held by the Company relating to the IRC Financing Agreement discussed above. The Company issued 5,341,880 shares of common stock still held by the Company relating to the potential exercise of stock warrants from Gemini discussed in Note 6. These shares have not been released as of June 21, 2010.

The Company issued 9,723,089 shares valued at \$777,847 (\$0.08 per share) to current and past employees for deferred compensation owed through March 31, 2010. The remaining shares totaling 810,313 were issued for past services performed by independent contractors. The fair value of these issuances was determined based upon the quoted market price of the stock as of the date the shares were declared.

