NIGHTHAWK SYSTEMS INC
Form 10KSB
April 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

COMMISSION FILE NO. 0-30786

NIGHTHAWK SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

NEVADA	87-0627349
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

10715 GULFDALE, STE 200
SAN ANTONIO, TEXAS 78258
(210) 341-4811
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, $0.001 PAR VALUE

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Registrant's revenues for its most recent fiscal year were $528,689.

The aggregate market value of the voting and non-voting common stock held by non-affiliates based on the closing price on April 13, 2006 was $6,047,196.

As of April 14, 2006 there were 67,191,074 shares of common stock, par value $.001 per share, of the registrant issued and outstanding.

Transitional Small Business Disclosure Format Used (Check one): Yes No

TABLE OF CONTENTS

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

Nighthawk Systems, Inc. ("Nighthawk" or "the Company") designs and manufactures intelligent remote power control products that are easy to use, inexpensive and can remotely control virtually any device from any location. Utilizing our proprietary Nighthawk control board, we have designed a series of 'plug and play' devices for certain common customer applications that are ready to use upon purchase, so they are easily installed by anyone, regardless of technical ability, and are also easily integrated into third-party products, systems and processes. They allow for intelligent control by interpreting instructions sent via paging and satellite media, and execution of the instructions by 'switching' the electrical current that powers the device, system or process. Our intelligent products can be activated individually, in pre-defined groups, or en masse, and for specified time periods with a simple click of a mouse or by dialing a telephone number.

Our products have been uniquely designed and programmed to be simple and ready to use upon purchase by anyone, almost anywhere, at affordable prices. As such, it is the Company's goal to have its products become commonplace, accepted and used by businesses and consumers alike in their daily routines. If our 'plug and play' devices do not fit a desired application, the Nighthawk control board can be customized to fit into or alongside other devices that need to be controlled.

We save consumers and businesses time, effort and expense by eliminating the need for a person to be present when and where an action needs to be taken. By utilizing existing wireless technology, we give our users the flexibility to move their application from place to place, without re-engineering their network. Currently, most commercial control applications utilize telephone or Internet connections, which tether the system to a single location and have associated installation and monthly charges. Our products make companies more profitable by eliminating installation costs and monthly charges for telephone or Internet connections, and allow control of unmanned or remote locations that operate on traditional electrical power, solar or battery generated power.

Effective February 1, 2002, the Company acquired 100% of the issued and outstanding shares of Peregrine Control Technologies, Inc. ("PCT") in exchange for 14,731,200 post reverse split shares of the Company's common stock. In conjunction with the acquisition and the change in focus of the Company's business, the Company changed its name to Peregrine, Inc. on January 10, 2002 and later to Nighthawk Systems, Inc. on April 29, 2002. Prior to the acquisition of PCT, the Company had conducted a reverse split of its shares on a 1:100 basis, and had 4,600,256 shares outstanding. The acquisition was recorded as a reverse acquisition, with PCT being the accounting survivor.

PCT was originally incorporated as a Colorado company in 1992, and operated as a family-owned business specializing in paging repair. Through knowledge gained in the operation of the business, the Company began developing a specialized circuit board that could receive paging signals and switch electrical power. In its simplest form, the technology gave the user the ability to turn devices "on" or "off" from or to remote sites. Through limited marketing, the Company was able to solve specific control problems for both large and small companies through customization of the original circuit board.

As of the date of this report, the Company has nine full time employees.

MISSION STATEMENT

To become the premier provider of intelligent, wireless remote power control products and services that allow businesses and consumers to save time and money through more efficient management of resources.

THE MARKETPLACE

The controls industry is characterized by companies that sell remote asset management and tracking systems and related products. It is the Company's belief that there is almost no limit to the size of the remote control market; the application of remote control is limited only by one's imagination. Companies both large and small are seeking ways to save money and lower the risk of liability by replacing processes that require human intervention with processes that can be controlled remotely without on-site human intervention. Today, the remote control of physical assets and processes is performed primarily through the use of telephone and Internet based systems. However, these connections are expensive, requiring high monthly fees, and more importantly, they restrict the remote control to the availability of the physical connection between the person operating the remote control and the asset to be controlled. In contrast, Nighthawk's products are wireless and can therefore be operated from any location, without our device being connected to a telephone line or Internet connection. This means that the asset does not have to be tethered to a fixed location in order to be accessed. Moreover, Nighthawk's products are designed to work with a variety of wireless media including paging and satellite-based systems. Almost any device that runs off of an electrical current, whether battery, solar or line generated, can be controlled by a Nighthawk device. The Company has identified primary markets (Utilities, Emergency Management and IT/Telecommunications), as well as secondary markets (Irrigation, Outdoor Advertising, Oil/Gas and Security) for its products.

TECHNOLOGY AND PRODUCTS

Nighthawk products have been in service for over seven years. The Company's installed customer base includes major electric utilities, internet service providers and fire departments in over 40 states. Customers using Nighthawk products today include the Naval Air Warfare Center - Weapons Division, Mercury Online Solutions, PECO Energy, Denver Fire Department, and Internet America. The primary distinguishing feature of all Nighthawk products that is not shared by its competitors across the various markets is its proprietary firmware and software, which together provide the intelligence for our solutions. The Company's products are shipped ready for use and are pre-programmed before shipment to the customer.

Nighthawk's plug and play products, and the applications they are typically utilized for, are as follows:

Utilities

- CEO700: Remote power connect/disconnect of customers by electric utilities
- PT1-LC: Load control programs utilized by electric utilities

Emergency Management

- FAS8: Firehouse automation. Upon receiving a 911 dispatch, the FAS8 will simultaneously print instructions, activate alarms, turn on lights, turn off stoves, open bay doors and activate outdoor flashing lights within firehouses.
- EA1: In-building alerting, including alarm activation and message display
- AL100: remote public alerting

IT/Telecommunications

- NH100: Rebooting or on/off applications to single devices like servers and routers
- NH8: Rebooting or on/off applications for up to 8 individually controlled devices

Using the proprietary Nighthawk control board, Nighthawk's products can be and have been modified to fit many custom applications such as traffic control signage and irrigation control. If a device needs to be turned on or off, we can typically develop a product to do it.

Through innovative product engineering and software, Nighthawk's products typically utilize a common paging signal found virtually worldwide. Paging is often used because it is very secure, inexpensive, and easy to use. Customers can choose to source their own paging service or Nighthawk will arrange for the service directly. The Company also offers Windows-based software packages that enable customers to activate the remote control units from a PC. Paging, when combined with Nighthawk's proprietary firmware and software, allows for a "group call" feature whereby a user can access multiple sites at the same time using a single paging number. This exponentially increases the functionality and ease of use of the products. It is important to note that the Company's products can be adapted to function with any wireless, or wireline-based, communications medium.

In September 2003, the Company signed an agreement to become a value-added reseller for Orbcomm, a low-earth orbit ("LEO") satellite system. This relationship expands Nighthawk's coverage beyond the reach of paging and cellular systems and allows the Company to offer global solutions for companies that have global needs. Additionally, satellite technology enables Nighthawk's products to be used in conjunction with monitoring equipment due to the two-way communication capability. Unlike paging, which allows for one-way communication, satellite communications allow the customer to get confirmation from the device that the control has been effectuated or that the flow, for example, of liquids being monitored has been shut off or turned on, as the case may be.

In January 2006, we announced that the Company had signed both a value-added reseller agreement and a joint marketing agreement with Verizon Wireless. The agreements allow Nighthawk to bundle access to Verizon Wireless's network with Nighthawk products, and also calls for the two companies to collaborate on joint marketing opportunities. Verizon Wireless operates an extensive paging network throughout the United States. Verizon Wireless has agreed to provide airtime access to Nighthawk on that network on a wholesale basis, allowing Nighthawk to mark up the service if it wishes and sell Verizon Wireless airtime to its customers, who then utilize the Verizon Wireless network to communicate with their Nighthawk devices. The two companies are also working together to identify customers that may be able to utilize the Verizon Wireless network to communicate with Nighthawk's control devices.

The Company completes the assembly of its products at its Denver, Colorado facility. The Company sub-contracts for assembly of various components, and utilizes several vendors for parts that do not require assembly. Parts and sub-assembly services are widely available. During the final assembly process, individual units are programmed depending on their destination or customer requirements, tested, and then shipped to the customer for installation.

In July 2003, the Company sold back the assets and liabilities it had acquired from Vacation Communication, Inc. in September 2001 to the original owners of Vacation Communication, Inc. The assets disposed of in the sale consisted primarily of a retail paging customer base. The Company now purchases wholesale paging services from paging carriers, including Vacation Communication, Inc., for regional, nationwide and international coverage. The Company utilizes these paging carriers to offer paging services to customers that buy Nighthawk products, but do not have their own private paging networks. Several customers own their own private paging networks and, hence, do not require Nighthawk to arrange for their paging services.

PATENTS PENDING

The Company has two patent applications pending at the U.S. Patent Office: one is titled "Remote Disconnect Systems for Utility Meters" and is for whole house disconnect systems, and the second is titled "Paging Remote Disconnect Systems" and is for the remote wireless control for turning on and off electrical and telephonic lines.

Under the first patent application, the user dials a pager number that is pre-programmed into the unit. The paging service then transmits a signal to a radio frequency ("RF") receiver in the module. The signal is then decoded and sent to a processor. The processor then causes a relay to open or close in accordance with the decoded signal in order to connect or disconnect the electrical power.

Under the second application, a user simply plugs the power cord or telecommunication line of their device, such as a computer or appliance, into the outlet of the module. The user is then able to dial a pager number that is pre-programmed. The paging service then transmits a signal to an RF receiver in the module. The signal is then decoded and sent to a processor. The processor then causes a relay to open or close in accordance with the decoded signal in order to activate the power supply or to turn the power off to the electronic device or to connect or disconnect the telecommunications line.

COMPETITION

We have one primary distinguishing feature that is not shared by our competitors in our markets, our proprietary firmware and software, which together provide intelligent solutions for our customers.

Utility competition. The Company has several competitors for its CEO700 remote power disconnect system. BLP Technologies makes a device that is very similar to the CEO700 which also utilizes paging frequencies for activation. The Company competes with BLP Technologies directly for utility projects where either the location of the utility's customers or directives of the utility dictate that paging technology must be used for remote connect/disconnect of customers. If we are able to secure our patent titled "Remote Disconnect Systems for Utility Meters", we may be able to preclude BLP from providing services using their product, which is called X-PulseTM . Carina Technology, Inc. makes a utility meter that it reports is capable of reading a meter and/or remotely disconnecting service utilizing cellular technology. Cellular technology/service is generally more expensive than paging technology/service, but affords the utility the ability to communicate to and from the meter and disconnect device. This would allow the user to connect/disconnect service to a customer, and take a meter reading as well.

Rebooting competition: rebooting of computers, routers and other digital equipment has historically utilized telephone lines or Internet-based technology to access the product. Companies such as DataProbe, Inc., Western Telematic, Inc. and American Power Conversion Corp. make devices that utilize these forms of technology to communicate to their devices. To our knowledge, we are the only company that offers paging-based rebooting units. Our units are competitively priced in comparison to alternative products, and offer the distinct advantage of being wireless, thus allowing the units to be moved from place to place without moving lines and incurring installation charges. Our products also offer an 'out of band' solution, meaning that our customers utilize a separate (paging) network, instead of their own existing network, to reboot devices within their own network.

Emergency Management competition: this is an emerging market that has not yet developed product standards and therefore there is no identified competition as of the date of this report. Historically, the Company has provided equipment that has been used for activating signs for departments of transportation, in-station firehouse alerting which includes message printout, and activating civil defense sirens. The Company believes that its existing technology is well-suited for in-building and in-house emergency alerting in combination with alerting of first responders.

Wireless competition. Wireless remote control through the use of radio signals has historically been performed utilizing private system data radios, cellular telephones, or satellite-based systems. While our technology can be modified to utilize any of these wireless media, our core expertise has been in the use of paging. This medium, combined with our proprietary technology, allows for a high level of security, the lowest overall cost and greatest control flexibility. Only a handful of small, undercapitalized companies utilize paging for this purpose. To our knowledge, we are the only company emphasizing paging technology that manufactures a product that is ready-to-use upon receipt.

SALES AND DISTRIBUTION

The Company believes that it has the opportunity to meet current demand for applications of its technology within specific markets, and to create opportunities in many other markets as well. Despite historically having little or no marketing resources to target these markets, customers in our targeted markets have found that the Company's technology successfully meets their needs. As such, Nighthawk will focus significant direct, and supplier-based, sales efforts in these industries.

Nighthawk's intelligent products attach to existing customer hardware and act as a "brain", receiving wireless instructions sent from a remote location, allowing the hardware to perform as instructed. As mentioned above, Nighthawk's products are typically set up to receive these instructions via a paging protocol, which allows for secure, reliable and low cost operation. Nighthawk products literally serve as the "intelligence" between the wireless service medium and the hardware that must perform the desired action. As such, we believe substantial opportunities exist to partner with wireless service providers as well as hardware manufacturers and dealers, each of which stand to gain from the use of Nighthawk's products. The Company will also attempt to establish itself as a supplier of products to paging and other wireless service providers, and establish dealer networks in a number of markets, including, but not limited to, computer controls, utilities, irrigation, traffic control, and wide area notification.

During 2005, the Company hired its first full time sales staff. This staff now consists of one inhouse sales person who handles incoming customer inquiries and makes outbound sales calls, as well as a full time account executive who calls on potential customers. In addition, the Company announced in January 2006 that it had signed a joint marketing agreement with Verizon Wireless. Under this agreement, the companies will collaborate to identify, pursue and close mutually beneficial business opportunities, and Verizon Wireless sales personnel will introduce Nighthawk Systems products to new and existing customers..

ITEM 2. DESCRIPTION OF PROPERTY

The Company's sales and operations departments are in leased facilities located at 8200 East Pacific Place, Suite 204, Denver, Colorado. The lease for this facility expired on March 2002, but the Company has maintained use of the facilities on a month-to-month basis since that time. The leased property consists of approximately 2400 square feet, for which the Company pays $1,650 per month. It consists of office space and a manufacturing floor. The

Company's executive offices are located in 679 square feet of leased office space at 10715 Gulfdale, Suite 200, San Antonio, Texas. The Company leases the space at a monthly rate of $815.

ITEM 3. LEGAL PROCEEDINGS

In May 2003, the Company was sued by a former Board member, Charles McCarthy, seeking recovery for the value of 350,000 shares, or $209,500, and $120,000 due his law firm under a retainer agreement between the Company and his firm. McCarthy had previously signed a settlement agreement with the Company in which he agreed to cancel all potential claims against the Company and its directors in return for 150,000 unregistered shares trading at a value of $0.60 or higher. In October 2004 we reached an agreement with him to settle the case for $55,000. Under the Settlement Agreement and Release, we made a cash payment to McCarthy of $10,000 during October 2004, a cash payment of $15,000 in January 2005 and the remaining balance was settled in the October of 2005.

The Company, along with the current officers and board members and several former directors, were sued by Lawrence Brady, a former director of the Company, and his son Mark Brady, who served for a period of time as Chief Financial Officer, for, among other things, breach of contract for unlawful termination and failure to provide stock allegedly promised. The alleged breaches and other claims all stem from their service as director of the Company and Chief Financial Officer, respectively, for part of 2001 and part of 2002. The Company denied the allegations. Further, The Company counter-sued the Bradys for non -performance and breach of fiduciary duties. Pursuant to a court order, dated June 23, 2005, the judge terminated the Brady's lawsuit, dismissing it, outright. In July of 2005, in an effort to bar the Bradys from raising these issues in the future, the Company engaged in a mutual release of all claims and issued a total of 250,000 shares of unregistered stock and $10,000 to Lawrence Brady, Mark Brady and their counsel.

Certain claims and lawsuits have arisen against the Company in its normal course of business. The Company believes that such claims and lawsuits have not had, and will not have, a material adverse effect on the Company's financial position, cash flow or results of operations.

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

No matters were submitted to a shareholder vote in 2004. However, the Company held a special shareholders' meeting on January 6, 2005 to vote to increase the number of authorized common shares. The results are as follows:

1. To approve an amendment to the Amended and Restated Articles of Incorporation of Nighthawk Systems, Inc. to increase the number of authorized shares of our common stock from 50,000,000 to 200,000,000

VOTES FOR	VOTES AGAINST	ABSTENTIONS
17,833,098	1,585,559	102,600

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market for Common Equity

From July 8, 2002 through May 23, 2003, our common stock traded on the Over the Counter Bulletin Board ("OTCBB") under the symbol "NIHK". From May 27, 2003 until November 25, 2003 our stock was traded on the pink sheets under the same symbol, after which our stock resumed trading on the OTCBB. The CUSIP number is 65410X-10-4. Knight Securities, L.P., Schwab Capital Markets, L.P. and ACAP Financial, Inc. are among the most active market makers for the stock. From February 1, 2002 through July 8, 2002, our common stock traded on the OTCBB under the symbol "PGRN." Prior to February 1, 2002, the stock traded on the OTCBB under the symbol "LSIM".

The following is a table of the high and low bid prices of our stock for each of the four quarters of the fiscal years ended December 31, 2005 and 2004, and the first quarter of fiscal 2006:

QUARTER ENDED	HIGH	LOW	QUARTER ENDED	HIGH	LOW
March 31, 2006	0.14	0.04			
December 31, 2005	0.09	0.03	December 31, 2004	0.23	0.09
September 30, 2005	0.14	0.06	September 30, 2004	0.25	0.12
June 30, 2005	0.23	0.12	June 30, 2004	0.38	0.20
March 31, 2005	0.27	0.14	March 31, 2004	0.35	0.18

These quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

(b) Security Holders

The number of record holders of our common stock at year-end 2005 was 197 according to our transfer agent. This figure excludes an indeterminate number of shareholders whose shares are held in "street" or "nominee" name.

(c) Dividends

There have been no cash dividends declared or paid since the inception of the company, and no cash dividends are contemplated in the foreseeable future. The company may consider a potential dividend in the future in either common stock or the stock of future operating subsidiaries.

(d) Sales of Unregistered Securities

In 2003, we sold 1,575,000 shares of common stock to seven investors for cash at a weighted average price of $0.17 per share. Warrants to purchase 1,575,000 shares of common stock at an exercise price of $0.25 per share were also included in these sales. We did not publicly offer the securities and the investors were all accredited investors. No underwriters were involved in the sales.

Between January 1, 2004 and March 31, 2004, we sold 858,333 shares of common stock to nine investors for cash at a price of $0.15 per share. Warrants to purchase 858,333 shares of common stock at an exercise price of $0.25 per share were also included in these sales. We did not publicly offer the securities and the investors were all accredited investors. No underwriters were involved in the sales.

Between May 31, 2004 and June 15, 2004, we sold 1,162,000 Special Warrants to five investors for cash at a price of $0.20 per Special Warrant. Each Special Warrant is convertible into one share of our common stock and one warrant to purchase a share of our common stock at an exercise price of $0.30 per share.

First Associates Investments, Inc. was the underwriter in this offering. They received a commission of 8% of the total proceeds raised and the right to purchase 12.5% of the amount of the Special Warrants sold in the offering, or 142,250 Special Warrants.

9

During the first quarter of 2005, the Company sold 650,000 shares of common stock to an investor for cash at a price of $0.15 per share. Warrants to purchase 650,000 shares of common stock at an exercise price of $0.25 per share were also included in the sale. We did not publicly offer the securities and the investor is an accredited investor. No underwriters were involved in the sale.

During the second quarter of 2005, the Company sold 100,000 shares of common stock to a business partner of the Company's Chairman for $20,000. We did not publicly offer the securities and this person is an accredited investor. No underwriters were involved in the sale.

The securities described immediately above were issued to investors in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as set forth in Section 4(2) under the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder relative to sales by an issuer not involving any public offering, to the extent an exemption from such registration was required. All purchases of the securities described immediately above this paragraph represented to us in connection with their purchase that they were accredited investors and were acquiring the shares for investment purposes only and not for distribution, that they could bear the risks of the investment and could hold the securities for an indefinite period of time. The purchasers received written disclosures that the securities had not been registered under the Securities Act of 1933 and that any resale must be made pursuant to a registration statement or an available exemption from such registration. Each participant in the offering or offerings described above was given access to full and complete information regarding us, together with the opportunity to meet with our officers and directors for purposes of asking questions and receiving answers in order to facilitate such participant's independent evaluation of the risks associated with the purchase of our securities.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD LOOKING STATEMENTS

Discussions and information in this document, which are not historical facts, should be considered forward-looking statements. With regard to forward-looking statements, including those regarding the potential revenues from increased sales, and the business prospects or any other aspect of Nighthawk Systems, Inc. ("the Company"), actual results and business performance may differ materially from that projected or estimated in such forward-looking statements. The Company has attempted to identify in this document certain of the factors that it currently believes may cause actual future experience and results to differ from its current expectations. Differences may be caused by a variety of factors, including but not limited to, adverse economic conditions, entry of new and stronger competitors, inadequate capital and the inability to obtain funding from third parties.

The following information should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2005 and 2004.

GENERAL

The Company's financial results include the accounts of Nighthawk Systems, Inc. (formerly Peregrine, Inc.) and its subsidiary, Peregrine Control Technologies, Inc. ("PCT"). Effective February 1, 2002, the two companies were brought together under common management through an acquisition in which Peregrine, Inc. acquired all of the outstanding shares of PCT. Because Peregrine, Inc. issued more shares to acquire PCT than it had outstanding just prior to the acquisition, the transaction was accounted for as a reverse acquisition of Peregrine, Inc. by PCT. Peregrine, Inc. subsequently changed its name to Nighthawk Systems, Inc.

The Company designs and manufactures intelligent remote monitoring and power control products that are easy to use, inexpensive and can remotely control virtually any device from any location. Our proprietary, wireless products are ready to use upon purchase, so they are easily installed by anyone, regardless of technical ability, and are also easily integrated into third-party products, systems and processes. They allow for intelligent control by interpreting instructions sent via paging and satellite media, and executing the instructions by 'switching' the electrical current that powers the device, system or process. Our intelligent products can be activated individually, in pre-defined groups, or en masse, and for specified time periods with a simple click of a mouse or by dialing a telephone number.

Our products have been uniquely designed and programmed to be simple and ready to use upon purchase by anyone, almost anywhere, at affordable prices. As such, it is the Company's goal to have its products become commonplace, accepted and used by businesses and consumers alike in their daily routines.

We save consumers and businesses time, effort and expense by eliminating the need for a person to be present when and where an action needs to be taken. By utilizing existing wireless technology, we give our users the flexibility to move their application from place to place, without re-engineering their network. Currently, most commercial control applications utilize telephone lines, which tether the system to a single location and have associated installation and monthly charges. Our products make companies more profitable by eliminating installation costs and monthly charges for telephone lines, and allow for remote control of unmanned or remote locations that may operate on traditional electrical power, or solar or battery generated power.

Active applications for our intelligent products include, but are not limited to:

- Rebooting digital network components
- Remote switching of residential power
- Managing power on an electrical grid
- Activation/deactivation of alarm and warning devices
- Displaying or changing a digital or printed message or warning sign
- In-station firehouse alerting
- Turning irrigation systems on or off
- Turning heating or cooling equipment on or off

Companies both large and small are seeking ways to save money and lower the risk of liability by replacing processes that require human intervention with processes that can be controlled remotely without on-site human intervention. Today, the remote control of industrial or commercial assets and processes is performed mainly through the use of telephone-line or Internet-based systems. Opportunities exist for companies that provide intelligent wireless solutions, as telephone lines are expensive and limited in availability and function, and Internet-based solutions are not always available or desirable. Nighthawk's products are wireless, and can be designed to work with a variety of wireless media. They often offer an 'out of band' control solution - they function on a different network than the item to be turned on or off. The number of applications for wireless remote control is virtually limitless. The Company has identified primary markets (Utility, IT Professional, Traffic Control), as well as secondary markets (Irrigation, Outdoor Advertising, Oil/Gas, Security) for its products.

11

COMPARISON OF YEARS ENDED DECEMBER 31, 2005 AND 2004

Revenue

The components of revenue, including revenues from discontinued operations, and their associated percentages of total revenues, for the fiscal years ended December 31, 2005 and 2004 are as follows:

	YEARS ENDED DECEMBER 31,			
	2005		2004	
Product Revenues				
Nighthawk NH100 & NH8	$ 119,078	23%	$ 186,492	31%
PT1 LC	1,120	-	64,536	11%
PT 1000 & PT Boards	118,483	22%	99,256	16%
CEO 700	157,470	30%	197,508	32%
Hydro 1	76,975	15%	-	-
Other product	5,651	1%	11,938	2%
Freight	5,468	1%	6,848	1%
Total product revenues	484,245	92%	566,578	93%
Airtime sales	44,444	8%	43,602	7%
Total revenues	$ 528,689	100%	$ 610,180	100%

Revenues from continuing operations are made up of product sales and airtime billed to customers for Nighthawk Systems, Inc. products. Revenues from continuing operations declined $81,491 or 13% between years. The Company's revenues have historically been dependent on a handful of customers who have each placed a large order. These contracts originated in 2002, and production under these contracts stretched into 2004. In 2004, approximately $135,000 of the Company's rebooting product revenues were generated by a single customer. While this customer continued to order equipment throughout 2005, revenues from this customer declined to approximately $33,000 during 2005. During 2004, two customers accounted for approximately $140,000 of the total CEO 700 revenues for the year. These two customers did not account for any CEO 700 revenues during 2005. During 2004, one customer accounted for almost all of the approximately $65,000 in revenues from the sale of PT1 LC load control boards. During 2005, the Company did not market this product, and generated only $1,120 in revenues from the product. Decreases from the culmination of these three projects was offset partially by the approximately $76,000 sale of Hydro1 irrigation control units as part of a government-funded project in the state of New Mexico early in 2005. While the Company anticipates that it may sell more Hydro1 irrigation control units in the future, it anticipates that such sales will remain 'project oriented' until and unless it decides to dedicate significant marketing and sales dollars to this product.

In an effort to generate additional business from new customers, the Company sought financing during 2004 which culminated in our funding relationship with Dutchess Private Equities, II, L.P. ("Dutchess"). Using funding from this source, the Company hired its first full time sales staff consisting of two people early in 2005. Throughout 2005, the sales staff was charged with generating new business opportunities for the Company's core products, the NH100 rebooting device and the CEO700 whole house disconnect device. It also launched a new website during 2005 which allows potential customers to send contact information and product inquiries directly to the Company via the Internet. Even though the Company did not actively market its rebooting devices during 2005, if results from the one major customer are excluded from both 2004 and 2005, sales of this product actually increased from year to year. New rebooting customers were added, primarily within the Wireless Internet Service Provider industry. During 2005, in spite of long sales cycles typically associated with electric utilities, the Company added over a dozen new utilities to its CEO700 customer base. More importantly, these efforts have lead to larger potential sales opportunities within the electric utility industry. As of December 31, 2005, the Company had submitted bids on over $6.0 million in potential product sales within the industry, and was in contact with entities that are planning large deployments over the next 18 months.

12

During 2005, the Company continued selling it's PT1000 control boards to customers for a variety of applications, including sign control for various departments of transportation. The Company also sold several units to fire departments for in-house fire station alerting. This resulted in an increase in PT1000 board sales between years of approximately $19,000.

Cost of goods sold declined approximately $69,000, or 16% between years, and decreased as a percentage of product revenues from 72% in 2004 to 70% in 2005. As a result, the Company's gross margin increased from 28% in 2004 to 30% in 2005. While lower production volumes between years caused the decrease in overall cost of goods sold, the Company's gross profit declined only 7% from $171,707 in 2004 to $159,358 in 2005. Sales of the Hydro1, a relatively higher margin product, in 2005, as well as changes made to the Company's NH100 rebooting product contributed to the increased gross margin between years. The Company sold no Hydro1 irrigation control units during 2004, and the Company enhanced the design of its core rebooting product so that it is less expensive to produce during 2005.

Selling, general and administrative ("SG&A) expenses increased approximately $636,000, approximately 48%, from 2004 to 2005. During 2005, the Company spent approximately $300,000 on public relations services in an effort to increase investor awareness of the Company, and to promote sales of the Company's products. The Company's ability to receive funding from its primary funding source under agreements signed in August 2004 is dependent on both the price and trading volume of its common stock. As such, the Company spent more money on public relations efforts during 2005 than it did in 2004. The Company also spent approximately $285,000 more on salaries and wages during 2005 than it did in 2004. The Company hired a corporate controller who was employed during the first 9 months of the year before he resigned, and then hired a Vice President/General Manager in early October 2005. In addition, as mentioned above, the Company hired its first full time sales staff during 2005 that was employed throughout the year, and also contracted for marketing help throughout 2005. The Company spent approximately $175,000 more on sales and marketing efforts during 2005 than it did during 2004.

Related party interest expense decreased $42,601 between years because the

Company converted almost all related party debt to common stock during 2004. Other interest expense increased approximately $711,000 between years due to borrowings between the Company and its primary funding partner, Dutches Private Equities. During 2005, Dutchess loaned the company net cash proceeds of $1,460,633 in the form of short-term promissory notes and long-term convertible debentures. The promissory notes have no stated interest rate but have a face amount greater than the funded amount. The notes are recorded by the Company at the discounted amount, and the difference between the face and funded amount is recognized as interest expense over the life of the loan. During 2005, the Company recognized approximately $292,000 in non-cash expense in amortizing these differences. Outstanding principal balances on promissory notes that matured during the year were rolled into new promissory notes or debentures, plus a 10% penalty on the face amount of the note that expired. During 2005, the Company recognized approximately $239,000 in such penalties, which it recorded as interest expense. The convertible debentures carry interest rates of 10%. Dutchess also received incentive shares on all new cash proceeds loaned to the Company. These incentive shares are recorded as prepaid interest and expensed over the life of the loan. During 2005, the Company amortized approximately $241,000 in incentive fees , which was also included in interest expense.

13

Airtime sales were approximately $44,000 during both years presented. Airtime access to communicate to the Company's control devices represents a source of recurring revenue to the Company unless the customer arranges for such service on their own. The Company typically bills for airtime access on a prepaid, quarterly basis. Even though the Company continued to add new customers during 2005, airtime billed to those customers was offset by revenues lost when the Company's largest rebooting customer had its own asset management contract suspended with a large company and therefore no longer needed airtime to service that company.

The net loss for 2005 was $2,692,656, or $0.07 per share as compared to a net loss of $1,377,395, or $0.05 per share in 2004. The increased net loss and net loss per share was principally the result of non-cash interest expense associated with the Company's funding with Dutchess during 2005, as well as public relations efforts during the year. The addition of sales and marketing personnel and related activities also contributed to the increase.

LIQUIDITY AND CAPITAL RESOURCES

The Company incurred a net loss of approximately $2.7 million during the year ended December 31, 2005 and had a stockholders' deficit and working capital deficiency of approximately $2.5 million and $500,000, respectively, as of December 31, 2005. The Report of Independent Registered Public Accounting Firm on the Company's financial statements as of and for the year ended December 31, 2005 includes a "going concern" explanatory paragraph which means that the auditors expressed substantial doubt about the Company's ability to continue as a going concern. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Although no assurance can be given that such plans will be successfully implemented, management's plans to address these concerns include:

1. Raising working capital through additional borrowings.
2. Raising equity funding through sales of the Company's common stock.
3. Implementation of the Company's sales and marketing plans.

In August 2004, the Company signed a financing arrangement with Dutchess Private Equities, II, L.P. ("Dutchess") under which the Company received $250,000 in exchange for a convertible debenture during August 2004. The Company also signed an investment agreement under which Dutchess agreed to purchase up to $10.0 million in common stock from the Company, at the Company's discretion, over the next three years, subject to certain limitations including the Company's then current trading volume. Although the amount and timing of specific cash infusions available under the entire financing arrangement cannot be predicted with certainty, the arrangement represents a contractual commitment by Dutchess to provide funds to the Company.

During 2005, Dutchess provided the Company with $1,461,133 in net cash proceeds in return for convertible debentures and promissory notes totaling $2,621,469. During the twelve months ended December 31, 2005, the Company also exercised seventeen (17) puts to Dutchess that produced cash proceeds of $342,477, of which $245,384 was used to repay outstanding notes and accrued interest, in exchange for the issuance of 3,819,654 shares. On March 9, 2005, Dutchess exercised 250,000 warrants at $0.125 each, for total proceeds of $31,250, $15,000 of which was applied to outstanding notes and accrued interest.

The aforementioned funding from Dutchess was used to fund the cash shortfall generated from operations during 2005 of approximately $1.6 million.

Although no assurance may be given that it will be able to do so, the Company expects to be able to continue to access funds under this arrangement to help it fund near-term and long-term sales and marketing efforts, and to cover cash flow deficiencies.

Subsequent to December 31, 2005, Dutchess has provided the Company with $635,000 in cash proceeds in return for the issuance of $684,000. The Company has also issued 13,226,916 shares to Dutchess as a result of the exercise of 14 puts, which reduced outstanding debt owed to Dutchess by $1,262,243.

During 2005, the Company hired its first full-time personnel that were dedicated only to developing sales channels and sales opportunities. The Company also developed new or enhanced existing products in order to better penetrate targeted markets. As a result, as of December 31, 2005, the Company had developed a pipeline of potential sales opportunities that included in excess of $6,000,000 for which it had submitted formal bids. No assurance may be given that the Company will be successful in winning these bids or growing revenues based on the pipeline of opportunities.

The Company's strategic initiatives for 2006 include:

- Capitalize on existing enterprise sales opportunities
- Cultivate and capitalize on indirect sales channels
- Enhance our marketing effort to support direct and indirect sales channels
- Bundle our products with ancillary products and services to enhance revenue opportunities
- Develop and sell a device that functions on multiple wireless protocols
- Form an advisory board with relevant industry expertise and relationships
- Execute on a strategic acquisition that is scalable and complementary to our existing business

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue recognition

Revenue from product sales is recognized when all significant obligations of the Company have been satisfied. Revenues from equipment sales are recognized either on the completion of the manufacturing process, or upon shipment of the equipment to the customer, depending on the Company's contractual obligations. The Company occasionally contracts to manufacture items, bill for those items and then hold them for later shipment to customer-specified locations. There were no bill and hold items at December 31, 2005. Revenue related to airtime billing is recognized when the service is performed. Some customers pre-pay airtime on a quarterly or annual basis and the pre-paid portion is recorded as deferred revenue. Deferred revenue, included in accrued liabilities on the balance sheet at December 31, 2005, is approximately $12,200.

Stock-based compensation

We believe that stock-based compensation is a critical accounting policy that affects our financial condition and results of operations. Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation defines a fair-value based method of accounting for stock-based employee compensation plans and transactions in which an entity issues its equity instruments to acquire goods or services from non-employees, and encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related interpretations.

15

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "Share-Based Payment", which addresses the accounting for share-based payment transactions. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25, and instead, generally requires that such transactions be accounted and recognized in the statement of operations based on their fair value. SFAS No. 123R will be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. SFAS No. 123R offers the Company alternative methods of adopting this standard. The Company has not yet determined which alternative method it will use. Depending upon the number and terms of options that may be granted in future periods, the implementation of this standard could have a material impact on the Company's financial position and results of operations.

ITEM 7. FINANCIAL STATEMENTS

The audited consolidated balance sheet of the Company as of December 31, 2004 and related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 2004 and 2003 are included, following Item 14, in sequentially numbered pages numbered F-1 through F-19. The page numbers for the financial statement categories are as follows:

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

The Company's management, including the Company's principal executive and financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the year ended December 31, 20045 the period covered by the Annual Report on Form 10-KSB. Based upon that evaluation, the Company's principal executive and financial officer has concluded that the disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO/CFO.

16

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, as noted in previous filings, throughout 2002 and until March 26, 2003, the Company's former Chief Executive Officer was responsible for, among other duties, opening the mail, making accounting entries, writing checks and producing financial reports. Disbursements of cash and stock issuances were made during this time period that were not substantiated as relating to Company business, or were made in error. At the meeting of the Board of Directors held on March 26, 2003, the former Chief Executive Officer resigned, and the Chief Financial Officer, H. Douglas Saathoff, was appointed as his replacement by the board of directors. Consequently, Mr. Saathoff held both the position of Chief Executive Officer and Chief Financial Officer, but procedures were implemented subsequent to March 26, 2003 to segregate responsibilities in order to reduce the opportunities for a single person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business. In addition, the new Chief Executive Officer and the board of directors initiated a process to establish and implement a written policy on disclosure controls and procedures and hired a corporate controller on January 1, 2005 to add additional oversight to the accounting function. On April 12, 2005, the Board of Directors agreed that Mr. Saathoff should no longer act as both Chief Executive Officer and Chief Financial Officer. Mr. Saathoff relinquished his duties as Chief Financial Officer as of April 12, 2005 and Daniel P. McRedmond, the Company's Corporate Controller assumed the role of the Company's Principal Accounting and Financial Officer. On September 28, 2005, Mr. McRedmond resigned as Corporate Controller and he has not been replaced as of the filing of this report. As such, from September 28, 2005 through the date of the filing of this report, Mr. Saathoff has served as both the Company's principal executive and financial officer.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT OF 1934, AS AMENDED

The following persons are executive officers and directors of the Company:

H. Douglas Saathoff, 44 - Chief Executive Officer, Chief Financial Officer

H. Douglas "Doug" Saathoff, CPA, joined the Company as its full-time Chief Financial Officer on January 1, 2003 after serving in that capacity on a part-time consulting basis beginning in October 2002. On March 26, 2003, he was promoted to the position of Chief Executive Officer. Prior to joining the Company, he served as Chief Financial Officer for ATSI Communications, Inc. (AMEX: AI), from June 1994 through July 2002 and as a Board Member of ATSI's publicly traded subsidiary, GlobalSCAPE, Inc. (GSCP.OB) from April 1997 through June 2002. During his tenure at ATSI, he was directly responsible for establishing and monitoring all accounting, financial, internal reporting and external reporting functions, and had primary responsibility for fundraising efforts. ATSI raised over $60 million in debt and equity financing from both individuals and institutions during Doug's tenure, and moved from the Canadian OTC market to the U.S. OTC market and eventually to a listing on the American Stock Exchange in February 2000. ATSI grew from San Antonio-based start-up with 11 employees to an international operation with in excess of 500 employees and operations in the U.S., Mexico, Costa Rica, Guatemala and El Salvador with annual revenues in excess of $60 million. He was instrumental in the acquisition of subsidiaries and customer bases, as well as the divestiture of GlobalSCAPE in June 2002. Prior to joining ATSI, Doug served as the Accounting Manager, Controller and Financial Reporting Manager for U.S. Long Distance Corp. from 1990 to 1993. While at USLD he was responsible for supervising all daily accounting functions, developing internal and external financial reporting of budgeted and actual information, and for preparing financial statements for shareholders, lending institutions and the Securities and Exchange Commission. Doug also served as Senior Staff Accountant for Arthur Andersen & Co. where he planned, supervised and implemented audits for clients in a variety of industries, including telecommunications, oil & gas and financial services. Doug graduated from Texas A&M University with a Bachelor of Business Administration degree in Accounting.

17

Myron Anduri, 50 - President

Mr. Anduri joined the Company in January 2000 and was promoted to President in December 2003 from his previous position as Vice President of Sales. From 1999 to 2000 he was Vice President-New Business Development for Kyocera Solar Inc. of Scottsdale, Arizona. While with Kyocera, he worked to develop new market areas for the company's solar power products. From 1997 to 1999 he served as Vice President- Telecommunications Division, a $21 million international unit, where he managed all sales and engineering efforts. From 1993-1997 Mr. Anduri was Senior Vice President-Marketing and Sales for Photocomm Inc. a Nasdaq-traded company based in Scottsdale Arizona, which was ultimately acquired by Kyocera in 1997. He also served as Vice President-Industrial Division of Photocomm from 1989-1993 and was the Rocky Mountain Regional Manager from 1987-89. Mr. Anduri holds a BA in Economics from Colorado State University.

Max Polinsky, 48 - Chairman of the Board

Mr. Polinsky was elected a member of the Board in April 2002 and is a member of our audit committee. He is a director and principal of Venbanc, Inc., an investment and merchant bank located in Winnipeg, Manitoba Canada that he founded with a partner in 1994. Venbanc specializes in the structuring and financing of start-up companies and provides follow-up financial and management advisory assistance. It has successfully funded and taken public several companies in Canada and the United States in the past ten years. Prior to this Mr. Polinsky was the general manager of City Machinery Ltd., a nationwide power transmission parts distributor with offices across Canada. He began his career as a stockbroker at Canarim Investment Corp. (now Canaccord Capital) in 1982. Mr. Polinsky graduated with honors from the University of Manitoba with a degree in Business Administration, Finance Major.

Patrick A. Gorman, 41 - Board Member

Mr. Gorman was elected a member of the Board in April 2002, and is a member of the compensation committee. He is the managing director of Gorman and Associates, Inc., a strategic consulting firm for corporate and government affairs. Since its inception, the company has been dedicated to being the preeminent business development firm for companies seeking to do business with the Fortune 500 as well as the advisory firm of choice in understanding the federal government in Washington, D.C. Mr. Gorman's focus at Gorman and Associates, Inc. includes law and the legislative process, communications, government relations, and operations. Over the last 10 years, he has advised corporations, NGOs, non-profits, and individuals on issues pertaining to criminal law, the environment, telecommunications, international trade, fund raising, community development, media relations, and alternative dispute resolution. Mr. Gorman is a member of the Advisory Board of New Media Strategies, Inc., an Internet service provider focused on public relations, communications, and viral marketing. Mr. Gorman is also a Board member of the Echo Hill Campership Fund, a local non-profit whose mission is to send the neediest, very low-income, inner-city youths to camp on the Chesapeake Bay. Mr. Gorman is admitted to practice law in Maryland and the District of Columbia and has successfully appeared at the administrative, district, circuit, and appellate court levels.

On November 26, 2003, each member of the Board of Directors was elected for a one-year term or until their successor shall have been elected and qualified.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Nighthawk Systems, Inc. has adopted a code of ethics that applies to the executive officers of the Company, including its Chief Executive Officer, President and Principal Accounting and Financial Officer. A copy of the Company's code of ethics is available on the Company's corporate website at www.nighthawksystems.com, and will be provided free of charge to any person upon request. Requests may be made by phone at 210 341-4811.

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS	PAYOUTS
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION ($)	RESTRICTED STOCK AWARD ($)	SECURITIES UNDE OPTIONS/SARS
H. Douglas Saathoff,						
Chief Executive Officer (a)	2005	$115,000	$13,500	-	-	
	2004	$120,000	$ -	-	-	500
	2003	$115,000	$ -	-	-	
Myron Anduri, President (b)	2005	$115,000	$ -	-	-	
	2004	$120,000	$ -	-	-	250
	2003	$ 84,125	$ -	-	-	

NOTES:

(a) H. Douglas Saathoff was named the Chief Executive Officer in March 2003.
(b) Myron Anduri was named President in December 2003. In 2004, Mr. Anduri was given 181,416 shares of the Company's common stock in exchange for $22,276 in debt he had incurred on the Company's behalf and for which the Company had recognized a liability to Mr. Anduri.

NAME OPTIONS/SARS GRANTED	NUMBER OF SECURITIES TO EMPLOYEES	PERCENT OF TOTAL UNDERLYING OPTIONS GRANTED	EXERCISE OR BASE PRICE	($/SH)

No options or stock appreciation rights were granted to executive officers of the registrant in

Max Polinsky received 150,000 shares in return for serving as Chairman of the Board through his term ending November 13, 2003. Patrick Gorman received 100,000 shares for serving as a board member through his term ending November 13, 2003. Both Mr. Polinsky and Mr. Gorman were granted 75,000 options to purchase common shares at a price of $0.22 per share in return for one year of service on the board beginning November 13, 2003. On December 8, 2004, both Mr. Polinsky and Mr. Gorman were granted 500,000 options to purchase common shares at a price of $0.09 per share in return for services rendered.

19

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

BENEFICIAL OWNERS OF MORE THAN 5% OF NIGHTHAWK SYSTEMS, INC. COMMON STOCK

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF C
Common stock	Steven Jacobson 6600 E Hampden Ave 3rd Floor Denver, CO 80224	4,005,317(a)(b)	7.9%
Common stock	Myron Anduri P.O. Box 1051 Fairplay, CO 80440	3,208,149 (c)	6.5%

NOTES:

(a) Based on historical information and the fact that no Section 16 filings were completed by Mr. Jacobson during 2005, although Company management has reason to believe that Mr. Jacobson sold shares during 2005. Includes 300,000 shares under options which are vested or vest within 60 days, and 1,875,317 shares held under in an irrevocable voting agreement with Myron Anduri which was executed on September 8, 2003 and which will survive for a period of five years from that date. See Note (d) below.

(b) Based on historical information and the fact that no Section 16 filings were completed by Mr. Jacobson during 2005, although Company management has reason to believe that Mr. Jacobson sold shares during 2005. Includes 550,000 shares held in a trust that expires on 6/11/06 for Aaron Guth and 550,000 shares held in a trust that expires on 3/31/09 for Adam Guth. Steve Jacobson acts as trustee for both trusts, and has all rights afforded any shareholder, including voting rights, until the trusts expire.

(c) Includes 431,416 shares and 250,000 under warrants and options, respectively, which are exercisable within 60 days. Also includes 1,875,317 shares held under an irrevocable voting agreement with Steve Jacobson which was executed on September 8, 2003 and which will survive for a period of five years from that date. Pursuant to this agreement, Mr. Anduri has the right to vote the proxy of said shares on all matters submitted to a vote of the shareholders with the single exception of votes on any proposal to change fifty one percent (51%) or more of the ownership of the Company. Mr. Anduri receives no economic benefits from the shares subject to this Voting Agreement.

SECURITY OWNERSHIP OF MANAGEMENT

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF C
Common stock	Max Polinsky 138 Portage Ave. East, Ste. 406 Winnipeg, Manitoba R2COA1	925,000 (a)	2.0%
Common stock	Patrick Gorman 1666 K Street NW, Ste 500 Washington, D.C. 20006	675,000 (b)	1.4%
Common stock	H. Douglas Saathoff 25106 Callaway San Antonio, Tx 78258	948,324 (c)	2.0%
Common stock	Myron Anduri PO Box 1051 Fairplay, CO 80440	3,208,149 (d)	6.5%
Common stock	Directors and officers as a group	5,756,473	10.8%

NOTES:

(a) Includes 200,000 shares that are owned by Venbanc, Inc., of which Mr. Polinsky is a partner, and 575,000 shares under options exercisable within 60 days.

(b) Includes 575,000 shares under options exercisable within 60 days.

(a) Includes 500,000 shares under options exercisable within 60 days.

(d) Includes 431,416 shares and 250,000 under warrants and options, respectively, which are exercisable within 60 days. Also includes 1,875,317 shares held under an irrevocable voting agreement with Steve Jacobson which was executed on September 8, 2003 and which will survive for a period of five years from that date. Pursuant to this agreement, Mr. Anduri has the right to vote the proxy of said shares on all matters submitted to a vote of the shareholders with the single exception of votes on any proposal to change fifty one percent

(51%) or more of the ownership of the Company. Mr. Anduri receives no economic benefits from the shares subject to this Voting Agreement. Based on historical information and the fact that no Section 16 filings were completed by Mr. Jacobson during 2005, although Company management has reason to believe that Mr. Jacobson sold shares during 2005.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS	NUMBER OF FUTURE I PLA
	(a)	(b)	
Nighthawk Systems, Inc. 2003 Stock Option Plan approved by security holders	3,435,000	$ 0.16	

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

At a meeting of the Board of Directors held on March 26, 2003, the Board accepted the resignation of Steve Jacobson as chief executive officer, but remained as an employee of the Company. On July 9, 2003, Steve Jacobson resigned as a member of the Company's board of directors. On September 8, 2003, the Company entered into a separation agreement with Steve Jacobson under which, among other things, he agreed to a) resign as an employee of the Company; b) return 545,454 shares of stock held by him to the Company in payment of the $118,629 he owed the Company as of that date; and c) transfer voting rights for shares owned or held in trust by him to Myron Anduri, an employee of the Company for five years. Under the agreement, the Company agreed to issue Steve Jacobson 450,000 options to purchase shares of the Company's common stock at $0.22 per share, with such options vesting over a three-year period at a rate of 150,000 shares per year. As a result of the transaction, the Company recorded an additional $39,933 in compensation expense to Steve Jacobson for amounts owed by him to the Company upon his resignation. The Company retired the 545,454 shares returned to the Company under the agreement.

During 2004, the Company entered into an agreement with Steve Jacobson in which it allowed him to transfer up to 600,000 shares of his stock, which he was contractually restricted from selling under his separation agreement until June 2005, to various consultants who had agreed to perform services for the Company. As of December 31, 2004, 200,000 of these shares had been distributed to a consultant and the Company recognized $20,000 in consulting expenses related to this transaction. The remaining 400,000 shares were not distributed, and are not included in the issued and outstanding shares of the Company as of December 31, 2004. As part of the agreement, the Company agreed to replace Mr. Jacobson's 600,000 shares with 730,000 shares of stock that would not be eligible for resale until November 2005. The Company recorded $13,000 in consulting expense associated with this agreement. In addition, the Company amended Mr. Jacobson's separation agreement to allow him to sell 50,000 shares of common stock in each of the months of March, April, May and June 2005.

On December 19, 2003 the Company entered into a settlement and release agreement with a former director, Herb Jacobson, and his wife. Under terms of the agreement, Mr. & Mrs. Jacobson and the Company agreed to dismiss any and all claims against each other in return for, among other things, payment of a total of $25,000 over a four-month period from the Company to Mr. Jacobson. The Company paid this amount during 2003 and 2004. In addition, Mr. and Mrs. Jacobson, along with their son Steven Jacobson, agreed to refrain from selling, transferring, conveying or otherwise disposing of their remaining share ownership for a period of eighteen months subsequent to selling an aggregate of 850,000 shares. As a result of the agreement, the Company recorded a gain of $23,912 due to a reduction in the amount previously recorded by the Company as owed to Mr. Jacobson.

In August 2004, in an effort to improve its working capital position, the Company issued 558,007 shares of common stock and warrants to purchase 558,007 common shares at $0.20 per share to an individual and a company in exchange for approximately $88,700 in notes payable plus accrued interest owed them by the Company. The individual is a business partner of the Company's Chairman, Max Polinksy, and the company is affiliated with the father of Mr. Polinksy. Based on calculations using Black-Scholes, the fair value of the warrants issued to the two parties was $29,079. This amount is reflected in interest expense and additional paid-in capital for the period ended December 31, 2004.

ITEM 13. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

EXHIBIT INDEX
(THOSE ATTACHED HERETO ARE SEQUENTIALLY NUMBERED)

Item 13(a)

EXHIBIT NO	DESCRIPTION
24	Power of Attorney is included on the signature page in this Annual Report on this Form 10-KSB.
31.1	Rule 13a-14(a)/15d - 14(a) Certification of H. Douglas Saathoff, Chief Executive Officer of Nighthawk Systems, Inc., filed herewith.
32.1	Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees:

Fees billed by GHP Horwath, P.C. for audit and review services for each of the years ended December 31, 2005 and 2004 were $37,516 and $66,000, respectively.

(2) Audit-Related Fees:

During 2004, GHP Horwath, P.C. billed the Company $5,000 for services related to the Company's Registration Statement on Form SB-2, and $750 for services related to the Company's filing on Form S-8

(3) Tax Fees:

GHP Horwath, P.C. did not bill the Company any tax fees during 2005 or 2004.

(4) All Other Fees:

GHP Horwath, P.C. did not bill the Company any other fees during 2005 or 2004.

(5) Audit Committee's Pre-Approval Policies and Procedures

(i) The audit committee of the board of directors approves the scope of services and fees of the outside accountants on an annual basis, prior to the beginning of the services.

(ii) The audit committee of the board of directors reviewed and approved 100% of the fees for the services above.

22

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Nighthawk Systems, Inc.

We have audited the accompanying consolidated balance sheet of Nighthawk Systems, Inc. and subsidiary ("the Company") as of December 31, 2005, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the 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 Nighthawk Systems, Inc. and subsidiary as of December 31, 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company reported a net loss of approximately $2.7 million during the year ended December 31, 2005, and has a stockholders' deficit and working capital deficiency of approximately $2.5 million and $500,000, respectively, at December 31, 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

GHP HORWATH, P.C.

Denver, Colorado
March 17, 2006, except for the last paragraph of Note 11
as to which the date is April 14, 2006

F-1

NIGHTHAWK SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

ASSETS

Current assets:
Cash
Accounts receivable, net of allowance for doubtful accounts of $750
Inventories
Prepaids

Total current assets

Furniture, fixtures and equipment, net
Intangible and other assets

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:
Accounts payable
Accrued expenses
Line of credit
Notes payable:
Related parties
Other

Total current liabilities

Long-term liabilities:
Convertible debt

Commitments and contingencies

Stockholders' deficit:

Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding

Common stock; $0.001 par value; 200,000,000 shares authorized; 46,477,158 issued and outstand

Additional paid- in capital

Accumulated deficit

Total stockholders' deficit