

NIGHTHAWK SYSTEMS INC
Form 10KSB
April 13, 2004

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, 2003

Commission File No. 0-30786

NIGHTHAWK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

87-0627349

(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

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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 \$1,030,793.

As of April 7, 2004 there were 25,534,235 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

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Nighthawk Systems, Inc. ("Nighthawk" or "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 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.

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.

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 originally 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 which 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.

The Company has seven full time employees.

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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 a more efficient deployment of resources.

THE MARKETPLACE

The controls industry is characterized by companies that sell remote asset management and tracking systems and related products, and is estimated by Frost & Sullivan to be a \$3.5 billion industry in 2003, growing at a compound annual rate of 25%. 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. On a consumer basis, most people think of remote control in a recreational sense. However, many 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 line based systems. However, telephone lines are expensive, requiring monthly fees, and more importantly, they restrict the remote control to the availability of the telephone line 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, regardless of the availability of a telephone line. 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 an electrical current, whether battery, solar or line generated, can be controlled by a Nighthawk device. The Company has identified primary markets (Electric Utility, IT Professional, Traffic Control), as well as secondary markets (Irrigation, Outdoor Advertising, Oil/Gas, Security) for its products.

TECHNOLOGY AND PRODUCTS

Nighthawk products have been in service for over five years, primarily to fit custom applications. Customers using Nighthawk products today include Raytheon, Boeing, GE, AT&T, Lockheed Martin, the U.S. Forestry Service and the U.S. Army. The Company has three distinguishing features that are not shared by its competitors in the market: (i) its proprietary firmware and software (which together provide the intelligence for our intelligent solutions); (ii) the design of its products (which provides the ease with which they are installed and operated), and; (iii) the wireless-based medium typically used to operate its products (which allows for low cost access, security and flexibility).

The Company's products are shipped ready for use and are pre-programmed before shipment to the customer. Our electric utility products come in their own enclosures, which fit underneath electric meters. Our computer products come as "plug and play" devices; a user simply plugs his computer into the Nighthawk device, which is then plugged into the electrical outlet. To the Company's knowledge, it is the only company currently providing a "plug and play" ready to use wireless remote control device.

Through innovative engineering, 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 operate their own paging accounts, or arrange for the service directly through Nighthawk. The Company has also developed 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 of the product. 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.

The Company assembles its finished 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 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.

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PATENTS PENDING

The Company has two patent applications pending at the U.S. Patent Office: one is titled "Remote Disconnect 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 already 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 already pre-programmed. 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 activate the power supply or to turn the power off to the electronic device or to connect or disconnect the telecommunications line.

COMPETITION

Wireless remote control through the use of radio signals is widespread. Most products available today use private system data radios, cellular telephones, or satellite-based systems. While Nighthawk's 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, Nighthawk is the only company emphasizing paging technology that manufactures a product that is ready-to-use upon receipt.

Utility competition. Two of Nighthawk's competitors evolved from software companies, and advertise that they provide complete, end-to-end solutions for utility load management. Their services are relatively expensive, and must be engineered into the utility's network. As an alternative, Nighthawk offers equipment that is off-the-shelf and ready to use upon purchase, is easily installed and much less expensive. It is Nighthawk's belief that we offer a much more affordable solution that allows the utility to utilize information which already exists within its own network. Paging offers inexpensive and reliable access to the units, and also allows for a group call feature that enhances the ability to implement an effective load control program. As evidence of this, one of our customers recently ordered 5,000 Nighthawk load control circuit boards as part of a retro-fit of technology originally installed by Fisher Pierce. In addition, Nighthawk is currently repairing load control units that were originally manufactured by KeySpan Energy and sold to PECO Energy. In light of advances made by Nighthawk, KeySpan Energy no longer makes load control units, but has recommended to PECO Energy that they contact Nighthawk for their load control needs. There is one other competitor that provides paging-based control boards and represents the closest direct competition to the Company. This competitor used to provide components to Nighthawk, and entered into the market when Nighthawk was experiencing financial difficulties. The paging technology utilized by this competitor limits their coverage to urban areas. There is another small, yet active competitor within the electric utilities market, but their product is more expensive due to the fact that it utilizes cellular technology, and it also does not afford the coverage that paging does.

Rebooting competition. The majority of the competitors in this industry offer products that utilize telephone lines or internet-based technology to access the product. To our knowledge, Nighthawk is the only company that offers paging-based rebooting units. Our units are competitively priced in comparison, 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.

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 having little or no marketing resources to target these markets, both the IT professional and electrical utility 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 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 which 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.

PREDECESSOR OPERATIONS

The Company was incorporated as TPI, Inc., under the laws of the State of Utah on April 26, 1983. In 1985, the Corporation changed its situs from Utah to Nevada and its name to Connections Marketing Corp. In July 1992, the shareholders of the Corporation voted to change the name to LSI Communications, Inc. (LSI).

On June 21, 1999, the Company entered into a Plan of Acquisition with Coaching Institute, Inc., a Utah corporation, wherein the Company issued 2,500,000 shares of common stock for 85,000 shares, 85% of the outstanding common stock of Coaching Institute, Inc. The agreement provided for the Company to receive options to acquire the remaining 15% of the issued and outstanding stock of Coaching Institute, Inc. in exchange for 2,045,455 shares of the Company's common stock. In February 1, 2001, the Company exercised its option by issuing to Coaching Institute, Inc. 2,045,455 shares of its common stock valued at \$2,045. After the acquisition, both companies were surviving with Coaching Institute, Inc. being a wholly owned subsidiary of LSI Communications, Inc.

The acquisition of Coaching Institute, Inc. was recorded using the purchase method of a business combination. Operating activities have been included from Coaching Institute in the consolidated financials since June 21, 1999. Due to the common ownership of Coaching and LSI, the Company valued the acquisition of Coaching Institute at its historical cost, which was \$34,728.

In November 2001, the Company sold the assets and liabilities of Coaching Institute, Inc. to a major shareholder. The Company recognized a loss on the sale of \$574,236. At the time of the reverse acquisition of PCT, the Company had no assets or liabilities, or ongoing operations.

NASD OTC Bulletin Board Quotations

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. For information concerning these stock quotations during the past two years, see the section entitled "Market for Common Equity And Related Stockholder Matters." The quotations presented do not represent actual transactions or broker/dealer markups, markdowns or commissions. On November 25, 2003, Nighthawk was cleared to resume trading on the OTCBB.

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ITEM 2. DESCRIPTION OF PROPERTY

The Company sales and operations departments are in leased facilities located at 8200 East Pacific Place, Suite 204, Denver, Colorado. The lease for its facilities expired on March 2002, but it 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 financial and accounting offices are located in 679 square feet of leased office space at 10715 Gulfdale, Suite 200, San Antonio, Texas. The lease expired on January 31, 2004, and, similar to the Denver facility, Nighthawk continues to lease the space on a month-to-month basis but at a monthly rate of \$808. The Company's Chief Executive Officer currently works out of both the Denver and San Antonio locations.

ITEM 3. LEGAL PROCEEDINGS

In May 2003, the Company was sued by a former board member seeking recovery for the value of 350,000 shares, or \$209,500, and \$120,000 due his firm under a retainer agreement between the Company and his firm. The former Board member 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. The Company does not believe it owes the former Board member anything beyond the settlement agreement and has actively defended its position. The case is proceeding in the state court in Reno, Nevada. No assurance can be given, however, as to the ultimate outcome of the case.

In July 2003, the Company settled a claim against a former employee and director for alleged misuse and retention of approximately \$34,000 in Company funds in accounts under the control of that former employee and director. Pursuant to the terms of the settlement the former employee and director returned the money and resigned from all positions with the Company. The Company also agreed to sell back to that former employee and director the assets and liabilities acquired from him in 2001. The Company recognized a gain of approximately \$92,000 on this sale during 2003.

In September 2003, the Company and its former Chief Executive Officer entered into a Separation Agreement pursuant to which the former CEO resigned all positions from the Company, returned stock to the Company for amounts owed to the Company and transferred to a third party the voting rights for the remainder of his shares of Nighthawk stock for a period of five years. Under the Separation Agreement, the Company agreed to grant him 450,000 stock options and pay for health insurance for three months following his separation from the Company.

In November 2003, the Company was sued by one of the directors of the Company seeking recovery of interest payments for a loan made to the Company. The Company filed a counter-suit against the director and the parties reached a settlement in which the Company agreed to pay one half of the loan amount, \$25,000, in installments and one half of the monthly interest amounts until such time as the \$25,000 amount is paid off. Under the settlement, the director resigned from all positions with the Company and, along with his wife and son, agreed to an eighteen month lock up of stock owned by him, his wife and his son following a permitted sale of 850,000 shares of Company stock.

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

(a) The Company held its annual shareholder meeting on November 13, 2003. Three items were submitted to shareholders for approval: (i) the approval of the Company's auditors, Gelfond Hochstadt Pangburn, PC, for the years 2002 and 2003, (ii) the approval of the Company's 2003 Employee Stock Option Plan, and (iii) election of directors.

(b) Proxies were solicited pursuant to Regulation 14A under the Act, there was no solicitation in opposition to the management's slate of nominees in the proxy and all of such nominees were elected by the shareholders. The slate of directors included in the proxy were Max Polinsky, Patrick Gorman, Herb Jacobson and Tomas Revesz. Prior to announcing the results of the election of directors, Mr. Revesz announced his resignation from the board of directors of Nighthawk and withdrew his name from consideration for the election. The shareholders' proxies voted to postpone the meeting to a future date to consider the slate. Prior to reconvening the shareholders' meeting, Herb Jacobson was disqualified from serving as a member of the board of the Company. On November 16, 2003 the remaining board members, who also held the proxies for the shareholder meeting, voted to accept the votes cast by the shareholders at the November 13, 2003 shareholder meeting. Each of the members of the slate received approval by the shareholders, however, due to Mr. Revesz' resignation and Mr. Jacobson's disqualification only Messrs. Polinsky and Gorman were

elected to the board of directors. They will hold office for a one year term or until their successor shall have been elected and qualified.

(c) *Matters submitted to shareholders for a vote:*

1. *The shareholders were asked to approve the selection of Gelfond Hochstadt Pangburn, PC, as the Company's auditors for the years 2002 and 2003. The results of the shareholder votes on this matter are as follows:*

<i>Votes For</i>	<i>Votes Against</i>	<i>Abstentions</i>
<i>15,299,011</i>	<i>3,070,428</i>	<i>265</i>

2. *The shareholders were asked to approve the Company's 2003 Employee Stock Option Plan. The Plan was first approved by the board of Peregrine Control Technologies, Inc. and the board of Nighthawk sought approval to amend it by increasing the number of shares under the plan from four million to five million as many options had already been granted and the board wanted to make available sufficient shares to retain current valued employees and to attract future potential employees.*

<i>Votes For</i>	<i>Votes Against</i>	<i>Abstentions</i>	<i>Non-votes</i>
<i>15,804,725</i>	<i>0</i>	<i>3,015</i>	<i>2,205,326</i>

3. *Election of Directors*

	<i>For</i>	<i>Against</i>	<i>Abstain</i>
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<i>Max Polinsky</i>	<i>14,959,188</i>	<i>3,395,300</i>	<i>15,216</i>
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<i>Patrick Gorman</i>	<i>14,959,188</i>	<i>3,395,300</i>	<i>15,216</i>
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<i>Herb Jacobson</i>	<i>14,351,917</i>	<i>4,002,571</i>	<i>15,216</i>
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<i>Tomas Revesz</i>	<i>17,284,055</i>	<i>0</i>	<i>15,216</i>
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*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, 2003 and 2002, and the first quarter of fiscal 2004:

<i>Quarter Ended</i>	<i>High</i>	<i>Low</i>	<i>Quarter Ended</i>	<i>High</i>	<i>Low</i>
<i>March 31, 2004</i>	<i>\$0.360</i>	<i>\$0.100</i>			
<i>December 31, 2003</i>	<i>0.290</i>	<i>0.150</i>	<i>December 31, 2002</i>	<i>\$0.320</i>	<i>\$0.110</i>
<i>September 30, 2003</i>	<i>0.320</i>	<i>0.150</i>	<i>September 30, 2002</i>	<i>0.600</i>	<i>0.120</i>
<i>June 30, 2003</i>	<i>0.720</i>	<i>0.250</i>	<i>June 30, 2002</i>	<i>1.950</i>	<i>0.550</i>
<i>March 31, 2003</i>	<i>0.730</i>	<i>0.200</i>	<i>March 31, 2002</i>	<i>5.000</i>	<i>0.162</i>

These quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. These prices also reflect the 1:100 reverse split that occurred in January 2002.

(b) Security Holders

The number of record holders of our common stock at year end 2003 was 189 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 2001, the Company closed a private placement for \$391,200 consisting of 391,200 shares of common stock and warrants to purchase 391,200 shares of common stock to accredited investors under Rule 506 of Regulation D of the Securities Act of 1933, as amended. There was no underwriter and, hence, no underwriting discounts nor commissions for the 2001 private placement.

In 2002, the Company closed a private placement for \$521,650 consisting of 2,479,000 shares of common stock and warrants to purchase 2,304,000 shares of common stock to accredited investors under Rule 506 of Regulation D of the Securities Act of 1933, as amended. There was no underwriter and, hence, no underwriting discounts nor commissions for the 2002 private placement.

The Company reported sales of unregistered securities during the first three quarters of 2003 in each of the respective Forms 10-QSB filed by the Company. During the last quarter of 2003, the Company raised \$135,000 in a private placement consisting of 900,000 shares of common stock and warrants to purchase 900,000 shares of common stock to accredited investors under Rule 506 of Regulation D of the Securities Act of 1933, as amended.

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, 2003 and 2002.

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. Because Peregrine, Inc. was a shell company with no assets, obligations or operations at the time of the reverse merger, the operating results of Nighthawk Systems, Inc. for 2001 and 2002 discussed below were generated by PCT.

Prior to the merger on February 1, 2002, PCT had been a privately owned, family operated company since its founding in 1992. During 2001 and 2002 PCT developed products it felt could be sold to targeted markets on a large-scale basis. Prior to 2001, the Company's revenues were generated primarily through sales of a circuit board that could be utilized by various companies to perform a variety of functions. During 2001 and 2002, the Company developed "off the shelf" whole-house disconnect and load control units which could be easily installed and used by electrical utilities, and the Nighthawk, another ready to use product which can be used to reboot computers. In an effort to strengthen its operations and results, in September of 2001 PCT acquired certain assets of Vacation Communication, Inc. ("Vacation"), a retail paging business. The Company felt that it could leverage off of the existing cash flows of Vacation to fund growth of its own remote control equipment segment, and utilize Vacation's contracts with paging carriers to provide profitable paging services to buyers of its remote control equipment. Also, in an effort to bring outside funds and additional exposure to the Company, in November 2001 it entered into discussions that culminated in the reverse acquisition of Peregrine, Inc. in February 2002. Still, during 2001 and 2002, the Company had minimal funds available for sales and marketing efforts. During those years, it spent less than \$5,000 per year in advertising related to sales efforts and employed one equipment sales person. The Company also spent an additional \$9,000 on general advertising efforts in 2002.

During 2003, the Company spent a significant amount of time resolving corporate governance and operational issues. This process culminated in the resignation of the Company's Chief Executive Officer in March 2003, the

resignations of five board members including one who served as the Company's Chief Operating Officer during 2002, the disqualification and subsequent resignation of a fifth board member, and the disposal of the Company's paging operations that were originally purchased from Vacation during 2001.

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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 unmanned computer stations*
- 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*
- Turning pumps 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 based systems. Opportunities exist for companies that provide intelligent wireless solutions, as telephone lines are expensive and limited in availability and function. NightHawk's products are wireless, and can be designed to work with a variety of wireless media. 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.

Comparison of Years Ended December 31, 2003 and 2002

Revenue

The components of revenue, including revenues from discontinued operations, and their associated percentages of total revenues, for the fiscal years ended December 31, 2003 and 2002 are as follows:

	<i>Years Ended December 31,</i>			
	<i>2003</i>		<i>2002</i>	
<i>Product Revenues</i>				
<i>Nighthawk NH2</i>	<i>\$508,352</i>	<i>47%</i>	<i>\$344,067</i>	<i>40%</i>
<i>PT1 LC</i>	<i>319,615</i>	<i>30%</i>	<i>-</i>	<i>0%</i>
<i>PT Boards</i>	<i>128,914</i>	<i>12%</i>	<i>123,713</i>	<i>14%</i>
<i>Merlin-CEO 700 Sales</i>	<i>28,557</i>	<i>3%</i>	<i>152,638</i>	<i>18%</i>
<i>Other</i>	<i>45,355</i>	<i>4%</i>	<i>40,781</i>	<i>5%</i>
<i>Total product revenues</i>	<i>1,030,793</i>	<i>96%</i>	<i>661,199</i>	<i>76%</i>
<i>Discontinued operations</i>				
<i>Airtime sales</i>	<i>45,880</i>	<i>4%</i>	<i>207,513</i>	<i>24%</i>
<i>Total revenues</i>	<i>\$1,076,673</i>	<i>100%</i>	<i>\$868,712</i>	<i>100%</i>

Revenues from continuing operations are made up of product sales, while revenues from discontinued operations consist of airtime revenues generated by the Company's paging operations, which were disposed of effective July 31, 2003. Product revenues increased \$369,594 or 56% between years, as the Company completed two large contracts during 2003. One of the contracts was for the Company's Nighthawk NH2 product and produced revenues of \$432,600 in 2003 and \$310,000 in 2002. This contract was completed during 2003. The other contract was for the Company's PT1 LC product and produced revenues of approximately \$317,000 in 2003. This contract was approximately 81% complete as of December 31, 2003. Sales of the Company's generic PT control boards for custom use increased only slightly between years, while sales from the Company's CEO-700 product declined \$124,081 or 81% between years. During 2003, the Company re-designed its CEO-700 product to improve its performance capabilities, and it did not focus sales efforts on this product during 2003. It expects to focus more attention on sales of this product during 2004.

During 2002 and 2003, the Company spent less than \$6,000 per year on product advertising due to a lack of available funds. As is more fully discussed in Liquidity and Capital Resources below, the Company anticipates that it will raise funds during 2004 that it will use to implement a comprehensive sales and marketing plan. This plan will focus on sales to both existing customers as well as new customers within the Electric Utility, Computer Rebooting and Traffic Controls markets, and will also include marketing of the Company's new satellite-based products. Until this plan generates orders sufficient to replace revenues from the two large orders processed during 2003, the Company's revenue production will most likely decrease until its sales and marketing plan can be fully implemented.

Cost of goods sold increased by approximately \$309,128 between years, and increased as a percentage of product revenues from 53% in 2002 to 64% in 2003. As a result, the Company's gross margin decreased from 47% in 2002 to 36% in 2003. This decrease is due primarily to the increased volume of PT1 LC's sold as a percentage of overall product revenues between years. Gross margins from sales of PT1 LC's are typically less than for the Company's other products, as individual contract sales volumes are typically higher. The PT1 LC was introduced during 2003.

Selling, general and administrative ("SG&A") expenses, net of amounts related to deferred compensation from 2001 and 2002, decreased \$102,458 from 2002 to 2003. During 2002, the Company issued common stock in return for \$586,500 in consulting fees. During 2003, the Company issued common stock for \$234,750 in consulting fees. This decrease in expenses was offset by increases in a) salaries and wages due to the addition of accounting and financial personnel; b) insurance related to general liability and director and officer coverage; and c) professional fees for legal, auditing and shareholder services. During 2003, the Company incurred legal expenses related to corporate governance and exchange listing matters that were not incurred during 2002.

During 2003, the Company canceled the remaining 300,000 shares that were originally issued to members of its board of directors during 2002, as it determined that the associated services were not performed. This resulted in a reversal of \$300,000 of deferred compensation that was originally recorded in 2002. During the second quarter of 2003, the Company authorized the cancellation of 300,000 shares of common stock previously issued during 2002. A \$33,000 reduction in consulting expense was recorded during the second quarter of 2003 related to this cancellation,

as the Company's board of directors determined that the shares had not been properly authorized for issuance, and that there was a lack of sufficient evidence that any services had been performed.

The Company's loss from operations during 2003 was \$584,553 as compared to a loss of \$1,161,727 in 2002. As indicated above, increased gross profits as a result of increased sales between years were more than offset by expenses incurred with consultants, which were typically paid for by the issuance of common stock.

Net interest expense for 2003 was \$45,875 as opposed to \$39,172 in 2002. During 2003, the Company added debt of \$200,000 to an unrelated party during May 2003 on which it recognized approximately \$11,500 of interest, as well as short-term notes with the same party totaling an additional \$150,000 during the latter half of 2003. The short-term notes carry interest rates of .5% per month.

Airtime sales, which are included in discontinued operations, decreased 69% or approximately \$144,000 between years. The majority of the airtime revenues produced during 2002 and 2003 were produced by retail paging customers rather than by the Company's equipment customers. Because the Company's focus was not on maintaining these retail customers, revenue production from these customers decreased between years. As a result, the Company sold the customer base, as well as related assets and obligations originally purchased from Vacation, back to the owners of Vacation and recognized a gain of \$92,443. This segment produced a net loss of approximately \$14,000 during 2003 prior to its disposal, and a net loss of approximately \$262,000 during 2002. The net loss for 2002 included a impairment of the associated paging customer base of approximately \$112,000 during 2002.

The net loss for 2003 was \$552,457 or \$0.03 per share as compared to a net loss of \$1,462,916 or \$0.08 per share in 2002. The improvement between years was due to increase profits from product sales and decreased expenses associated with stock issuances to consultants. The disposal of the Company's paging airtime operating segment also allowed the Company to improve its net loss results between years.

Liquidity and Capital Resources

The Company's financial statements for the year ended December 31, 2003 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the year ended December 31, 2003, the Company reported a net loss of \$552,457 and has a stockholders' deficit as of December 31, 2003 of approximately \$1.1 million. In addition, the Company had a working capital deficiency of approximately \$1.1 million at December 31, 2003. The Report of Independent Auditors on the Company's financial statements as of and for the year ended December 31, 2003 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.

During the year ended December 31, 2003, the Company used cash of \$921,632 in its normal operating activities. Approximately \$476,000 of this amount was collected during December 2002 and January 2003 in the form of prepayments or deposits on contracts that produced the majority of the Company's revenues during 2003. The remainder of the Company's operating cash during 2003 has come from the issuance of \$365,000 in short term notes, and private equity placements of the Company's common stock that generated net proceeds of \$263,000. A single investor is responsible for \$450,000 of the \$628,000 in cash proceeds from unrelated parties during 2003.

Until the Company is able to generate positive cash flows from operations in an amount sufficient to cover its current liabilities and debt obligations as they become due, it will be reliant on borrowing funds or selling equity securities to meet those obligations. In an effort to increase the possibility of raising sufficient capital to fund a sales and marketing plan, the Company spent a significant amount of time and effort during 2003 in resolving corporate governance and operational issues. As mentioned above, these efforts culminated in, among other things, changes in the Company's management and board, as well as the disposal of the Company's unprofitable paging airtime operating segment. In addition, in January 2004 the Company announced that it had completed arrangements under which the Company's founding shareholders, who at December 31, 2003 owned or controlled in excess of 30% of the Company's stock, agreed not to sell any of their stock for a period of 18 months.

Subsequent to completing this arrangement, the Company made presentations to a variety of corporate finance organizations for the purpose of raising funds to implement a sales and marketing plan. As was announced in March 2004, the Company has since decided to accept an offer from First Associates Investments Inc. of Vancouver, British Columbia to assist it in completing an initial public offering of its shares in Canada in conjunction with a listing of its shares on the TSX Venture Exchange. Under the offering, the Company anticipates raising up to CDN\$1.6 million through the sale of units consisting of one share of common stock and one common share purchase warrant. Pricing of units will be dependent upon market conditions at the time the offering is closed. If the offering is successful, the Company's shares will be traded on both the OTC Bulletin Board and the TSX Venture Exchange in Canada. Terms of the warrant may allow the Company to raise an additional CDN\$2.5 million, dependent on market conditions after the offering is completed. The offering in Canada does not preclude the Company from pursuing supplementary financing arrangements in the United States.

The Company plans to use proceeds from the offering principally to fund a comprehensive sales and marketing effort. The Company was able to produce record revenues in 2002 and 2003 despite spending less than \$6,000 in advertising during each of those years. The Company's paging based products have been installed and utilized successfully by clients in those years, and the Company hopes to leverage those relationships to sell to both existing and new customers. In addition, the Company has recently developed new, satellite-based products that offer the opportunity for the Company to be 'first to market' for many commercial applications. The Company's marketing plan also calls for the Company to expand its sales efforts beyond the United States for international applications within its targeted markets.

As a result of its fundraising efforts, the Company is currently in discussions with the holder of \$350,000 of short-term

debt about the possibility of renegotiating the terms of the notes. The Company has proposed to the investor to agree to convert his \$200,000 note to common stock upon raising a minimum of \$1.0 million in equity funds, and agree to convert two additional notes totaling \$150,000 to long-term notes.

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.

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.

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ITEM 7. FINANCIAL STATEMENTS

The audited consolidated balance sheet of the Company as of December 31, 2003 and related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 2003 and 2002 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:

Index

<i>Report of Independent Auditors</i>	<u>F-1</u>
<i>Consolidated Balance Sheet as of December 31, 2003</i>	<u>F-2</u>
<i>Consolidated Statements of Operations for the Years Ended December 31, 2003 and 2002</i>	<u>F-3</u>
<i>Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2003 and 2002</i>	<u>F-4</u>
<i>Consolidated Statements of Cash Flows for the Years Ended December 31, 2003 and 2002</i>	<u>F-5</u>
<i>Notes to Consolidated Financial Statements</i>	<u>F-6</u>

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

On March 13, 2002, the client-auditor relationship between the Company and Chisholm & Associates ("C&A") ceased as C&A was not reappointed as the Company's auditor after a change in Company management, which occurred as a result of the February 1, 2002 reverse merger with Peregrine, Inc. On April 29, 2002, the Company engaged Gelfond Hochstadt Pangburn, P.C. to serve as its new independent accountants.

C&A's auditor's report on the financial statements of the Registrant for the years ended December 31, 2001 and December 31, 2000, did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles during the fiscal years ended December 31, 2001 and December 31, 2000 except as follows: C&A's report on the financial statement of the Company as of and for the years ended December 31, 2001 and 2000, contained a separate paragraph stating "the Company's recurring operating losses and lack of working capital raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty."

During the audits of the Company's financial statements for the years ended December 31, 2001 and December 31, 2000 and any subsequent interim period through the date of dismissal, there were no disagreements with C&A on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

ITEM 8A. CONTROL AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal 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, 2003, the period cover by the Annual Report on Form 10-KSB. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that the disclosure controls and procedures were effective as of December 31, 2003 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO and CFO.

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 was appointed as his replacement by the board of directors. Consequently, the same person currently holds 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.

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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, 42 - 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.

Myron Anduri, 48 – 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, 46 - 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, 39 - 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.

Each member of the Board of Directors was elected for a one-year term on November 26, 2003.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The following officers and directors filed the indicated reporting forms for the indicated transactions or events. These transactions and events were reported on filings made subsequent to December 31, 2003, with respect to the Company's fiscal year 2003.

H. Douglas Saathoff filed a Form 5 on February 13, 2004.

Max Polinsky filed a Form 5 on February 13, 2004.

Patrick Gorman filed a Form 5 on February 13, 2004.

Myron Anduri filed a Form 3 subsequent to his appointment as President and a Form 4, both on January 9, 2004.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

Name and principal position	Year	Annual Compensation			Long Term Compensation Awards		Payouts	
		Salary	Bonus	Other annual compensation (\$)	Restricted stock award (\$)	Securities Underlying Options/SARS (#)	LTIP payouts (\$)	All other compensation (\$)
Steven Jacobson Chief Executive Officer (a)	2002	\$177,000	(b) \$-	\$ 4,966	(c) \$-	-	\$-	\$-
	2003	52,500	-	\$39,933	(d) -	450,000	-	-
H. Douglas Saathoff Chief Executive Officer (e)	2003	\$115,000	\$-	-	-	500,000	-	-

Notes:

(a) Steven Jacobson was Chief Executive Officer of PCT when PCT was acquired by the Company effective February 1, 2002. He became Chief Executive Officer of the Company subsequent to this acquisition until March 2003, at which time he became a salaried employee.

(b) Salary includes the issuance of 1,000,000 shares valued at \$0.14 per share issued in lieu of cash compensation, and \$37,000 in cash compensation.

(c) Amount includes \$4,966 in personal expenses.

(d) Amount includes \$34,941 in personal expenses and \$4,992 uncollected from an outstanding balance owed the Company.

(e) H. Douglas Saathoff was named the Chief Executive Officer in March 2003.

Name	Number of securities underlying options granted	Percent of total options/SARs granted to employees in fiscal year 2003	Exercise or base price (\$/Sh)	Expiration date
H. Douglas Saathoff Chief Executive Officer(a)	500,000	25.84%	\$0.22	January 1, 2013
Steven Jacobson Chief Executive Officer(b)	450,000	23.26%	\$0.22	September 9, 2013

Notes:

(a) H. Douglas Saathoff was named the Chief Executive Officer in March 2003.

(b) Steven Jacobson was Chief Executive Officer of PCT when PCT was acquired by the Company effective February 1, 2002. He became Chief Executive Officer of the Company subsequent to this acquisition until March 2003, at which time he became a salaried employee.

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*

<i>Title of class</i>	<i>Name and address of beneficial owner</i>	<i>Amount and nature of beneficial owner</i>	<i>Percent of class</i>
<i>Common stock</i>	<i>Steven Jacobson 6600 E Hampden Ave 3rd Floor Denver, CO 80224</i>	<i>4,252,455 (a)(b)</i>	<i>17%</i>
<i>Common stock</i>	<i>Herbert I. Jacobson 1011 S. Valentia St., #87 Denver, CO 80247</i>	<i>3,001,000 (c)</i>	<i>12%</i>
<i>Common stock</i>	<i>Myron Anduri P.O. Box 1051 Fairplay, CO 80440</i>	<i>4,302,554 (d)</i>	<i>18%</i>
<i>Common stock</i>	<i>Tomas Revesz P.O. Box 2498 McAllen, TX 78502</i>	<i>2,065,541 (e)</i>	<i>8%</i>

Notes:

(a) *Includes 450,000 shares under options, none of which vest within 60 days, and 3,602,554 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) *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 1,500,500 shares held in the name of Mr. Jacobson's wife, Sharon Jacobson.*

(d) *Includes 450,000 shares owned directly by Mr. Anduri and 3,602,554 shares held under in 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.*

(e) *Includes 540,541 shares under warrant, exercisable at any time up to March 31, 2005, and one million shares that are convertible under a promissory note. These shares are convertible at any time.*

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Security Ownership of Management

<i>Title of class</i>	<i>Name and address of beneficial owner</i>	<i>Amount and nature of beneficial owner</i>	<i>Percent of class</i>
<i>Common stock</i>	<i>Steven Jacobson</i>	<i>4,252,455 (a), (b)</i>	<i>17%</i>
	<i>6600 E Hampden Ave</i>		

3rd Floor

Denver, CO 80224

<i>Common stock</i>	<i>Max Polinsky 138 Portage Ave. East, Ste. 406 Winnipeg, Manitoba R2COA1</i>	<i>525,000</i>	<i>(c)</i>	<i>2%</i>
<i>Common stock</i>	<i>Patrick Gorman 1666 K Street NW, Ste 500 Washington, D.C. 20006</i>	<i>175,000</i>	<i>(d)</i>	<i>0%</i>
<i>Common stock</i>	<i>Arlen Felsen PO Box 260980 Highlands Ranch, Co 80163</i>	<i>175,000</i>	<i>(e)</i>	<i>1%</i>
<i>Common stock</i>	<i>H. Douglas Saathoff 25106 Callaway San Antonio, Tx 78258</i>	<i>898,329</i>	<i>(f)</i>	<i>4%</i>
<i>Common stock</i>	<i>Directors and officers as a group</i>	<i>6,025,784</i>		<i>24%</i>

Notes:

(a) Includes 450,000 shares under options, none of which vest within 60 days, and 3,602,554 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. 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. Steven Jacobson was Chief Executive Officer and a director until March 2003, at which time he became a salaried employee.

(b) Includes 550,000 shares held in trust for Aaron Guth which expires on 6/11/06 and 550,000 shares held in trust for Adam Guth which expires on 3/31/09. Steven Jacobson acts as trustee for both, and has all rights afforded any shareholder, including voting rights, until the trusts expire.

(c) *Includes 200,000 shares that are owned by Venbanc, Inc., of which Mr. Polinsky is a partner, and 75,000 shares under option that vest November 13, 2004.*

(d) *Includes 75,000 shares under option that vest November 13, 2004.*

(e) *Mr. Felsen was Chief Operating Officer of the Company and a director until his resignation in July 2003.*

(f) *Includes 500,000 options exercisable in thirds on 1/1/04, 1/1/05 and 1/1/06.*

Equity Compensation Plan Information

<i>Plan Category</i>	<i>Number of securities to be issued upon exercise of outstanding options</i>	<i>Weighted average exercise price of outstanding options</i>	<i>Number of securities remaining available for future issuance under equity compensation plans(excluding securities reflected in column (a))</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>
<i>Nighthawk Systems, Inc. 2003 Stock Option Plan approved by security holders</i>	2,285,000	\$0.22	2,715,000

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 30, 2001, PCT acquired certain assets and assumed certain liabilities of Vacation Communication, Inc., a Colorado corporation, in exchange for \$50,000 cash, 150,000 shares of the Company's common stock valued at \$150,000, and notes payable of \$183,135, which included a non compete agreement. Vacation Communication was owned by Arlen Felsen and his wife. Mr. Felsen was a board member and officer of the Company. At December 31, 2002, the balance owed was \$121,422, and in 2003 the Company made payments totaling \$25,504 towards the notes. In connection with the acquisition of Vacation Communication, Inc. the Company entered into employment agreements with Mr. and Mrs. Felsen and another employee. The agreement with Mr. Felsen called for annual salary of \$25,000 through February 2005. The agreements with Mrs. Felsen and the employee called for annual salaries of \$25,000 and \$27,000, respectively. In addition, the agreements provided for covenants-not-to-compete for a period of

one year following separation from the Company. Effective July 31, 2003, the Company sold back to Mr. Felsen the assets and the remainder of the liabilities originally acquired from Vacation Communications. The Company received 150,000 shares of its own common stock as payment, which it retired during 2003. The Company recognized a gain on the disposal of the assets and liabilities of \$92,443.

In October 2001, PCT issued an aggregate of 850,000 shares of its common stock to its outside directors for services. The directors were Charles McCarthy, Jr, Thomas Betterton, Lawrence Brady, Allen Gordon, Edwin Meese III, William Odom, Larry Pressler and Max Polinsky. At the date of commitment, total compensation cost was calculated to be \$850,000, which is to be recognized over the one-year term of the agreement. During the fourth quarter of 2002, the Company canceled the issuance of 200,000 of these shares that were returned by Mr. Gordon and Mr. Odom to the Company, and reversed \$200,000 of associated consulting expenses as these services were never performed. With the exception of Mr. Polinsky, the other directors of PCT listed above resigned in April 2002. During the fourth quarter of 2003, the Company canceled the issuance of an additional 300,000 shares, as it determined that no associated services had been performed.

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.

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. 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.

As of December 31, 2002, the Company owed its Vice President of Sales, Myron Anduri, \$16,100 in salary and \$8,365 in commissions earned in previous periods. During 2003, the Company paid a total of \$12,678 toward these amounts owed. During 2003, Mr. Anduri loaned the Company \$7,964 under short-term notes, of which \$4,203 was repaid by December 31, 2003. As of December 31, 2003 the Company owes Mr. Anduri \$38,708 under short-term note arrangements.

At a meeting of the Board of Directors held on March 26, 2003, H. Douglas Saathoff was named Chief Executive Officer of the Company. During 2003, Mr. Saathoff loaned the Company \$54,100 under short term notes, of which \$45,100 was repaid by December 31, 2003.

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

(a)

EXHIBIT INDEX

(Those attached hereto are sequentially numbered)

Item 13(a)

Exhibit No Description

Amended and Restated Articles of Association, as of February 2, 2002, incorporated by reference

3(i) from Exhibit 3.1 to Form 8-K, as filed with the SEC on February 2, 2002

Bylaws of the Company, incorporated by reference from Exhibit 3.2 to Form 8-K, as filed with the

3(ii) SEC on February 1, 2002.

Nighthawk Systems, Inc. 2003 Stock Option Plan, incorporated by reference from Exhibit 4.1 to the

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Voting Agreement between Steve Jacobson and Myron Anduri granting Anduri the right to vote

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Jacobson's proxy for all shares owned directly by Jacobson, attached hereto.

Convertible Promissory Note, dated March 31, 2003, payable by the Company to Tomas Revesz,

10.1

attached hereto.

Subscription Agreement, dated May 13, 2003, between the Company and Tomas Revesz, attached

10.2

hereto.

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Promissory Note, dated August 21, 2003, payable by the Company to Tomas Revesz, attached

10.3 *hereto.*

Promissory Note, dated October 3, 2003 payable by the Company to Tomas Revesz, attached

10.4 *hereto.*

Engagement Letter, dated March 11, 2004, entered into between the Company and First

10.5 *Associates related to a public offering in Canada, attached hereto.*

Agreement for the sale of Vacation Communication, Inc., d/b/a Gotta Go Wireless, dated July 31, 2003 between the Company and Arlen Felsen, attached hereto.

10.6

Settlement Agreement dated December 19, 2003 between Herbert and Sharon Jacobson and the Company, attached hereto.

10.7

Code of Ethics attached to this Annual Report on Form 10-KSB.

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The Power of Attorney is included on the signature page in this Annual Report on Form 10-KSB.

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Certification of the Chief Executive Officer and Chief Financial Officer is attached to this Annual Report on Form 10-KSB.

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Certification on Form 10-KSB pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 is attached to this Annual Report on Form 10-KSB.

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(b) None

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees:

Fees for audit services provided by Gelfond Hochstadt Pangburn, P.C. (“GHP”) totaled approximately \$71,500 for 2003, comprised of \$58,500 for the 2002 audit and \$13,000 for reviews of the Company’s 2003 quarterly reports on Form 10-QSB.

During 2002, GHP billed the Company approximately \$66,750 which was comprised of approximately \$51,750 for the 2001 audit and \$15,000 for reviews of the Company’s 2002 quarterly reports on Form 10-QSB.

(2) Audit Related Fees:

GHP did not bill the Company any audit related fees during 2003 or 2002.

(3) Tax Fees:

GHP did not bill the Company any tax fees during 2003 or 2002.

(4) All Other Fees:

GHP billed the Company approximately \$3,250 for fees during 2003 for services related to the Company’s NASD filing and a Form 8-K. In 2002, GHP billed the Company approximately \$3,000 for other accounting matters.

(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.*

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REPORT OF INDEPENDENT AUDITORS

Board of Directors

Nighthawk Systems, Inc.

Denver, Colorado

We have audited the accompanying consolidated balance sheet of Nighthawk Systems, Inc. and subsidiary (“the Company”) as of December 31, 2003, 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, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2003, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003, 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 incurred net losses of \$552,457 and \$1,462,916 during the years ended December 31, 2003 and 2002, respectively, and has a stockholders' deficit and working capital deficiency of \$1,100,981 and \$1,130,413, respectively, at December 31, 2003. 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.

As discussed in Note 15 to these consolidated financial statements, the Company has restated its 2002 consolidated statements of operations, stockholders' deficit and cash flows.

GELFOND HOCHSTADT PANGBURN, P.C.

Denver, Colorado

March 12, 2004, except for Note 14,

as to which the date is March 16, 2004.

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*Nighthawk Systems, Inc.
Consolidated Balance Sheet
December 31, 2003*

ASSETS

Current assets :

<i>Accounts receivable, net of allowance for doubtful accounts of \$134</i>	<i>\$</i>	<i>41,917</i>
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<i>Inventories</i>	75,329
<i>Other</i>	35,355
<i>Total current assets</i>	<i>152,601</i>
<i>Furniture, fixtures and equipment, net</i>	20,774
<i>Intangible assets (Note 5)</i>	8,658
	\$ 182,033

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities :

<i>Cash overdraft</i>	\$ 3,902
<i>Accounts payable</i>	392,538
<i>Accrued expenses</i>	200,588
<i>Line of credit (Note 8)</i>	19,842
<i>Notes payable (Note 9):</i>	
<i>Related parties</i>	118,834
<i>Other</i>	458,766
<i>Customer deposit</i>	63,544
<i>Other related party payable (Note 11)</i>	25,000
<i>Total liabilities (all current)</i>	<i>1,283,014</i>

Commitments and contingencies (Notes 6, 10 and 11)

Stockholders' deficit (Notes 10 and 12):

<i>Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued and outstanding</i>	
<i>Common stock; \$0.001 par value; 50,000,000 shares authorized; 24,320,902 issued and outstanding</i>	24,321
<i>Additional paid- in capital</i>	2,855,289
<i>Accumulated deficit</i>	(3,980,591)
<i>Total stockholders' deficit</i>	<i>(1,100,981)</i>

\$ 182,033

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

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*Nighthawk Systems, Inc.
Consolidated Statements of Operations
Years ended December 31,*

	2003	2002 (Restated)
<i>Revenue</i>	\$ 1,030,793	\$ 661,199
<i>Cost of goods sold</i>	658,203	349,075
<i>Gross profit</i>	372,590	312,124
<i>Selling, general and administrative expenses</i>	1,290,143	1,392,601
<i>Amortization of deferred compensation (Note 10)</i>	-	1,556,250
<i>Reversal of 2001 deferred compensation (Note 10)</i>	-	(368,750)
<i>Reversal of 2002 deferred compensation (Note 10)</i>	(300,000)	(1,106,250)
<i>Reversal of 2002 consulting expense (Note 10)</i>	(33,000)	-
<i>Loss from operations</i>	(584,553)	(1,161,727)
<i>Interest expense</i>		
<i>Related parties</i>	15,036	17,795
<i>Other</i>	30,839	21,377
<i>Loss from continuing operations</i>	(630,428)	(1,200,899)
<i>Discontinued operations (Note 3)</i>		

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<i>Loss from operations of discontinued segment</i>	(14,472)	(262,017)
<i>Gain on disposal of discontinued segment</i>	92,443	-
	77,971	(262,017)
<i>Net loss</i>	\$ (552,457)	\$ (1,462,916)
<i>Loss from continuing operations per basic and diluted common share</i>	\$ (0.03)	\$ (0.07)
<i>Income (loss) from discontinued operations per basic and diluted common share</i>	*	\$ (0.01)
<i>Net loss per basic and diluted common share</i>	\$ (0.03)	\$ (0.08)
<i>Weighted average common shares outstanding - basic and diluted</i>	22,021,229	18,565,172

* Less than \$0.01 per share

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

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*Nighthawk Systems, Inc.
Consolidated Statements of
Stockholders' Deficit
Years ended December 31,
2003 and 2002 (Restated)*