NIGHTHAWK SYSTEMS INC
Form 10KSB
April 15, 2005

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, 2004

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[x] 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 $610,180.

As of April 12, 2005 there were 36,507,560 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[x]

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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. 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 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 eight 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 (Electric Utility, IT Professional, Emergency Management and Traffic Control), 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 six years, primarily to fit custom applications. Customers using Nighthawk products today include IBM, the Naval Air Warfare Center - Weapons Division, Mercury Online Solutions, and a number of electric utilities around the country. 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 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.

Nighthawk's products and suggested applications:

- NH1 & NH100: rebooting or on/off applications to a single device.
- NH8: rebooting or on/off applications for up to eight electrical devices from a single unit.
- CEO700: whole house disconnect/reconnect for the Electric Utility market.
- PT1000: designed for OEM integration and control of up to eight devices.
- PT1-LC: designed for load control programs in the Electric Utility market.
- PT FAS: designed to aid in firehouse automation, the PT FAS will simultaneously print instructions, activate alarms, turn on lights, turn off stoves, open baydoors and activate outdoor flashing lights. The PT FAS is a low cost way for fire departments to automate critical tasks.
- Hydro 1: remote irrigation control.
- AL100: remote public alert systems.
- ST1500: utilizing the Orbcomm satellite system, the ST1500 allows for rebooting and on/off applications for up to three devices anywhere in the world.

All of Nighthawk's products can be and have been modified to fit custom applications.

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 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.

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 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 three distinguishing features that are not shared by our competitors in the market: (i) our proprietary firmware and software, which together provide intelligent solutions; (ii) the design of our products, which provides the ease with which they are installed and operated; and (iii) the wireless-based medium typically used to operate our products, which allows for low cost access, security and flexibility.

Utility competition. Two of our competitors, Comverge, Inc. and Canon Technologies, Inc. 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, we offer equipment that is off-the-shelf and ready to use upon purchase, is easily installed and much less expensive. It is our 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, the Alabama Municipal Electric Authority ordered 5,000 Nighthawk load control circuit boards as part of a retro-fit of technology originally installed by Fisher Pierce. In addition, we repaired load control units during 2004 that were originally manufactured by KeySpan Energy and sold to PECO Energy. In light of advances made by us, KeySpan Energy no longer makes load control units, but has recommended to PECO Energy that they contact us for their load control needs. There is one other competitor that provides paging-based control boards and represents the closest direct competition to us, BLP Components, Ltd. This competitor provides components to us, and entered into the market when we were experiencing financial difficulties. The paging technology utilized by this competitor limits their coverage to urban areas. There is another competitor by the name of Telemetric Corporation within the electric utilities market, but their product is more expensive because it utilizes cellular technology, and it also does not afford the same coverage area as paging.

Rebooting competition. Remote rebooting of computers has historically utilized telephone lines or Internet-based technology to access the product. 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.

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.

In early 2005, the Company expanded its sales force, hiring two seasoned sales professionals and has also established relationships with a number of distributors that service the electric utility industry

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.
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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.

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 will settle the remaining balance in the fourth quarter 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 aggregate amount of damages claimed is not specified. The case is proceeding in the state court in Denver, Colorado. Several of the individually-named defendants have been voluntarily dismissed by the plaintiffs. The Company plans to vigorously defend itself and its current directors and officers, and filed a counterclaim against the plaintiffs for non-performance and breach of fiduciary duties. This counterclaim was allowed to proceed by the court over the objection of the plaintiffs. No assurance can be given, however, as to the ultimate outcome of the case.

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, 2004 and 2003, and the first quarter of fiscal 2005:

QUARTER ENDED. . .	HIGH	LOW	QUARTER ENDED	HIGH	LOW
December 31, 2004.	0.23	0.09	December 31, 2003	$0.29	$0.15
September 30, 2004	0.25	0.12	September 30, 2003	0.32	0.15
June 30, 2004. . .	0.38	0.20	June 30, 2003	0.72	0.25
March 31, 2004 . .	0.35	0.18	March 31, 2003	0.73	0.20

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 2004 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

During the three month period ended September 30, 2002, we received a total of $168,900 in exchange for 1,524,000 unregistered shares of our common stock and 1,524,000 warrants. The warrants are exercisable for 2 years from their date of issuance, with 435,000 exercisable at $0.75 per share, and the remainder at $0.20 per share.

Subsequent to September, 30, 2002, we received $42,500 in exchange for 425,000 unregistered shares of our common stock and 425,000 warrants with exercise prices of $0.20 which are exercisable for two years from their date of issuance.

In October 2002, the Board of Directors agreed to issue Steven H. Jacobson, the Chief Executive Officer, 1,000,000 unregistered shares of our common stock in lieu of approximately $120,000 in unpaid cash compensation that was due him under his employment contract for the period from December 1, 2001 through September 30, 2002.

In 2002, we sold 2,479,000 shares of common stock to twenty-one investors for cash at a weighted average price of $0.45 per share. Warrants to purchase 2,479,000 shares of common stock were also included in these sales at an exercise price of $0.25 per share for 1,869,000 of the warrants and at $0.75 per share for 435,000 of the warrants. We did not publicly offer the securities and the investors were all accredited investors. No underwriters were involved in the sales.

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.

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, 2004 and 2003.

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 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.

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 sixth board member, and the disposal of the Company's paging operations that were originally purchased during 2001.

The Company has historically had minimum funds available to it to support its operations and has been largely dependent on the private equity placements with accredited investors to fund its negative cash flows. As such, minimum capital has been available historically to fund and sustain sales and marketing efforts. In August 2004, the Company signed a financing arrangement with Dutchess Private Equities, II, L.P. ("Dutchess") which was amended on August 26, 2004 and on September 24, 2004. Under the terms of the amended arrangement, the Company received a total of $250,000 under a debenture during the three-month period ended September 30, 2004. The Company also signed an investment agreement under which, subsequent to the December 2004 effectiveness of its SB-2 registration statement filed with the Securities and Exchange Commission ("SEC"), Dutchess has 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. As is more fully explained in Liquidity and Capital Resources below, the Company began utilizing the investment agreement in December 2004 in order to implement a sales and marketing effort designed to generate revenues during 2005. This effort for 2005 should include the following:

- Hiring sales and marketing personnel. The Company plans to increase its sales force with experienced salespeople to effectively target existing and new markets. Those individuals that are specialized in a field will be assigned to those market applications of our products.

- Product marketing including print media and attendance at trade shows. This method has proved the most effective for the Company to date, and it plans to increase its presence in the current space to attract new customers.

- An improved Internet presence, including an e-commerce website for retail sales.

- Leveraging existing customer relationships by up-selling new products or fully integrating systems with the Company's products.

- The establishment of distribution and dealer networks. Through an effective dealer network, the Company can increase awareness in its products and utilize a dealer's sales force to actively promote its products.

- New applications in irrigation control, civil defense and emergency management. The current product design can be altered with little cost to the Company to be effectively implemented into a wide array of fields. Through the commitment of funding, the Company can now research all possible applications and begin to market directly to new customers.

- The development and launch of a product designed to be used for multiple purposes by consumers.

In addition to the marketing and sales objectives, the Company has identified the following strategic goals for 2005:

- Joint ventures with wireless service providers and equipment manufacturers.

- The identification of complementary products and companies for potential acquisition.

Comparison of Years Ended December 31, 2004 and 2003

Revenue

The components of revenue, including revenues from discontinued operations, and their associated percentages of total revenues, for the fiscal years ended December 31, 2004 and 2003 are as follows:

	YEARS ENDED DECEMBER 31,			
	2004		2003	
Product Revenues				
Nighthawk NH1, NH2 & NH8.	$ 186,492	31%	$ 508,352	47%
PT1 LC.	64,536	11%	319,615	30%
PT 1000 & PT Boards	99,256	16%	128,914	12%
CEO 700	197,508	32%	28,557	3%
Other product	11,938	2%	5,945	0%
Freight	6,848	1%	20,624	2%
Total product revenues.	566,578	93%	1,012,007	94%
Airtime sales	43,602	7%	18,786	2%
Revenues from continuing operations	610,180	100%	1,030,793	96%
Discontinued operations				
Airtime sales	-	0%	45,880	4%
Total revenues.	$ 610,180	100%	$1,076,673	100%

Revenues from continuing operations are made up of product sales and airtime billed to customers for Nighthawk Systems, Inc. products, while revenues from discontinued operations consist of airtime revenues generated by the Company's paging operations, which were disposed of effective July 31, 2003. Revenues from continuing operations declined $420,613 or 41% between years primarily due to the completion of two large contracts during 2003. Combined, the two contracts contributed $749,600 or 74%, of total product revenues for 2003. One of the contracts was for the Company's Nighthawk NH2 product and produced revenues of $432,600 in 2003. The second 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 CEO-700 product increased $168,951 or 592% between years and offset to some degree the effects of the large 2003 contracts. During 2004 and 2003, the Company spent approximately $9,200 and $6,000, respectively, on product advertising due to limited availability of operating funds.

Cost of goods sold declined $219,730 or 33% between years and increased as a percentage of product revenues from 64% in 2003 to 72% in 2004. As a result, the Company's gross margin decreased from 36% in 2003 to 28% in 2004. This decrease in gross margin is due primarily to the overall decrease in product volume between years. Lower production volume limits the Company's ability to cover fixed costs of production. In addition, 47% of sales were generated by the Company's higher margin rebooting products during 2003 as compared to only 31% in 2004.

Selling, general and administrative ("SG&A) expenses stayed relatively flat, increasing $21,681, approximately 2%, from 2003 to 2004. The comparative figure for 2003 SG&A expenses is net of $333,000 related to the reversal of 2002 deferred compensation and the reversal of 2002 consulting expenses in 2003. Although the Company reduced employee and employee related costs, insurance, telecommunications and travel costs, the reductions were more than offset by increased expenditures in 2004 for consulting and public relations related activities as well as $55,000 for a legal settlement with a former director.

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 2004 was $1,140,117 as compared to a loss of $584,553 in 2003. The increased net loss was the result of decreased revenues and decreased gross margin in 2004 as well as the adjustments in 2003 operating expenses related to deferred compensation and consulting expenses.

Net interest expense for 2004 was $236,634 as opposed to $45,875 in 2003, an increase of $190,759. The increase in interest expense in 2004 is primarily due to the value of warrants issued to creditors who exchanged approximately $242,000 in notes and accrued interest for warrants and common stock, and the recognition of approximately $92,000 in beneficial conversion expenses related to the debenture agreement between the Company and Dutchess Private Equities, II, L.P.

Airtime sales were approximately $65,700 in 2003, $45,800 of which is included in discontinued operations. The majority of the airtime revenues produced during 2003 were produced by retail paging customers rather than by the Company's equipment customers. 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 in 2003. This segment produced a net loss from operations of $14,472 during 2003 prior to its disposal. The airtime revenues included in 2004 and 2003 revenues from continuing operations resulted from airtime related to Nighthawk equipment sales rather than the traditional paging revenues associated with Vacation.

The net loss for 2004 was $1,376,751 or $0.05 per share as compared to a net loss of $552,457 or $0.03 per share in 2003. The increased net loss and net loss per share was the result of decreased revenues and decreased gross margin, interest expense associated with note conversions and our funding arrangement with Dutchess in 2004, as well as the adjustments in 2003 operating expenses related to deferred compensation and consulting expenses.

Liquidity and Capital Resources

The Company's financial statements for the year ended December 31, 2004 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, 2004, the Company reported a net loss of approximately $1.38 million and has a stockholders' deficit as of December 31, 2004 of approximately $1.24 million. In addition, the Company had a working capital deficiency of approximately $1.04 million on this date. The Report of Independent Registered Public Accounting Firm on the Company's financial statements as of and for the year ended December 31, 2004 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, 2004, cash used in operating activities was $851,884. Although the Company recorded a net loss of $1,376,751 for 2004, $557,387 in recorded expenses were non-cash expenses.

There were no cash flows from investing activities during 2004.

Net cash provided by financing activities for 2004 was $913,002 and resulted primarily from the sale of common stock and warrants and the issuance of notes payable. The Company issued 1,488,333 shares of common stock in return for $237,350 in net cash proceeds, 5,000 shares of preferred stock in return for $12,500 in cash proceeds, and received $188,775 in net proceeds from the issuance of Special Warrants during 2004. As mentioned above, the Company also received $250,000 from Dutchess during August 2004, and received an additional $250,000 from Dutchess in December 2004 in return for a second note. These cash inflows were offset to some degree by payments on notes payable.

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 remain reliant on borrowing funds or selling equity to meet those obligations. The Company has historically sold its equity securities through private placements with various individuals. Raising funds in this manner typically requires much time and effort to find new accredited investors, and the terms of such an investment must be negotiated for each investment made. Cash from these types of investments has historically been generated in amounts of $50,000 or less, in an unpredictable manner, making it difficult to fund and implement a broad-based sales and marketing program.

During February 2004, the Company met with several brokerage firms and private equity groups to investigate the possibilities of raising an amount of cash sufficient to both fund a comprehensive sales and marketing plan and improve its working capital position from a deficit to a surplus. As a result of those meetings, the Company announced in March 2004 that a brokerage firm based in Vancouver, British Columbia would sponsor an offering of equity securities of the Company. However, this offering would be performed on a best-efforts basis, without any guarantee of success. In an effort to fund the Company's operations in advance of such an offering, the brokerage firm sponsored a private placement of Special Warrants that are convertible into units consisting of both one share of common stock of the Company at $0.20 per share and a warrant to purchase one share of common stock at $0.30 per share. This private placement effort resulted in net proceeds of $188,775, net of issuance costs of $43,625.

A challenge faced by the Company is the ability to purchase and maintain an inventory of parts necessary to complete orders as quickly as possible after they are received. If the Company is able to complete orders more quickly, it can generate and collect cash from its contracts more quickly. The Company generates recurring orders from several of its customers. Therefore, the expeditious completion of orders could lead to the generation of additional orders from existing customers and improved cash flows for the Company. Also, as noted earlier, the Company's cost of production will be higher on a per unit basis if it does not maintain minimum levels of production in its facility. Delays caused by the purchasing of parts after orders were received during 2004 resulted in higher production costs per unit. Because the Company has some fixed costs of production, delays or work stoppages due to inventory shortages causes inefficiency in production. In addition, ordering parts in smaller quantities does not allow the Company to take advantage of volume discounts offered by some of its suppliers. These delays and inefficiencies ultimately result in decreased or slower cash flows and delays in follow-up orders from customers.

In an effort to assist the Company in completing orders for customers in a more expeditious manner, in August 2004 the Company's largest creditor loaned the Company an additional $60,000. Proceeds from this loan were used to purchase parts required to complete orders held at that time by the Company. The creditor was repaid from the receipts generated by the orders, plus 10% annual interest. Although no assurance may be given that it will be able to do so, the Company anticipates that it will also be able to utilize its investment agreement with Dutchess to assist it in processing orders more expeditiously. The Company believes that it will be able to initiate a sales and marketing plan designed to utilize direct sales efforts, as well as indirect sales efforts through dealer networks and through improvements to its own web site. The Company also plans to utilize funds generated through debt and equity arrangements to expedite the production of the orders it receives in an effort to improve the Company's ability to generate cash flows from operations on a recurring basis. Additionally, in order to lessen the Company's dependence on securing large contracts for recurring cash flows, the Company is in the initial stages of developing a consumer-based product, which it believes may eventually produce recurring cash flows from sales.

In August 2004, the Company signed a financing arrangement with Dutchess, which was amended on August 26, 2004 and on September 24, 2004. Under the terms of the amended arrangement, the Company received $100,000 under a convertible debenture on August 11, 2004, $25,000 on August 26, 2004, and $125,000 under the debenture on September 27, 2004. Interest accrues on the debenture at an annual rate of 8%. The debenture can be converted into common shares anytime prior to its maturity on August 10, 2007 at the lesser of (i) 73% of the lowest closing bid price on the date of conversion, or (ii) twelve and a half cents ($0.125). Any portion of the debenture that remains outstanding at August 10, 2007 will automatically convert into common shares. The number of shares converted at any time is limited so as not to exceed 4.99% of the shares of Nighthawk common stock outstanding. In addition, Dutchess was issued a warrant to purchase up to 250,000 shares of common stock at a price of twelve and a half cents ($0.125) for a period of up to five years. 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. On December 3, 2004 Dutchess loaned the Company an additional $250,000 under a second note (Second Dutchess Note). The Second Dutchess Note had no stated interest rate but had a face value of $300,000 and matured April 3, 2005, resulting in an implied annual rate of 72.8%. The note was intended to be repaid via puts exercised under the investment agreement, with the Company making payments of the greater of $75,000 every 30 days or 50% of each put until the note is paid in full.

On January 18, 2005, Dutchess loaned the Company an additional $225,000. The note has no stated interest rate but has a face amount of $270,000 and matures on May 18, 2005. In connection with the note, Dutchess was issued 250,000 shares of common stock as an incentive and the Company also signed a consulting agreement with a company in which an employee of Dutchess is a member of management. Under the consulting agreement, the company was issued 500,000 shares of Company common stock.

On April 7, 2005, Dutchess loaned the Company an additional $488,500. The note has no stated interest rate but has a face amount of $586,200 and matures on June 7, 2005. A portion of the proceeds of this loan was used to repay the note dated December 3, 2004 with a face amount of $300,000, which matured on April 3, 2005. In connection with the note, Dutchess was issued 250,000 shares of common stock as an incentive and the Company signed a consulting agreement with a company in which an employee of Dutchess is a member of management. Under the consulting agreement, the company was issued 300,000 shares of Company common stock.

During the period from January 1, 2005 through April 12, 2005, the Company exercised six (6) puts to Dutchess totaling 1,276,610 shares for proceeds of $222,726. Of the total proceeds, $142,635 was used to repay portions of previously issued notes to Dutchess and $80,091 went to the Company.

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.

Also during the period from January 1, 2005 through April 12, 2005, Dutchess elected to convert at total of $75,000 of the 36-month convertible note for 600,000 shares of the Company's common stock.

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.

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, 2004. 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, 2004, is approximately $6,500.

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.

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:

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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 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, 2004, the period covered 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, 2004 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO/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, 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.

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, 43 - 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, 49 - 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, 47 - 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, 40 - 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

The following officers, directors and others failed to timely file the indicated reporting forms during 2004.

Myron Anduri, President, Form 4 filed January 9, 2004.
Myron Anduri, President, Form 4 filed October 6, 2004.
Steven Jacobson, 10% owner, Form 3, filed September 27, 2004.
Patrick Gorman, Director, Form 4 filed February 11, 2005.
Max Polinsky, Chairman, Form 4 filed February 11, 2005.

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 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 T COMPENSATION	
NAME AND PRINCIPAL. . . . . POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION ($)	RESTRICTED STOCK AWARD ($)	SE UN O
H. Douglas Saathoff, Chief Executive Officer (a)	2004	$120,000	$-	-	-	
	2003	$115,000	$-	-	-	500
Myron Anduri, President (b)	2004	$120,000	$-	-	-	
	2003	$84,125	$-	-	-	250