MEYERCORD EDWARD
Form 4
April 02, 2019

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
MEYERCORD EDWARD
(Last) (First) (Middle)
6480 VIA DEL ORO
(Street)
SAN JOSE, CA 95119
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
EXTREME NETWORKS INC [EXTR]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
PRESIDENT AND CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/01/2019	04/01/2019	M		15,000 (1)	A	$ 3.87	547,692	D	
Common Stock	04/01/2019	04/01/2019	S		15,000 (1)	D	$ 7.4864	532,692	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Am Underlying Sec (Instr. 3 and 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title
Non-Qualified Stock Option (right to buy)	$ 3.87	04/01/2019	04/01/2019	M			15,000	04/26/2013 (1)	04/26/2019	Common Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MEYERCORD EDWARD 6480 VIA DEL ORO SAN JOSE, CA 95119	X		PRESIDENT AND CEO	

Signatures

Quentin Wright, Power of Attorney	04/02/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Transaction made pursuant to a duly adopted 10b5-1 trading plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ------ ------------ Net cash provided by financing activities 1,130,415 900,819 ------------ ------------ Net (decrease) increase in cash (72,492) (41,191) Cash, beginning balance. 91,205 61,118 ------------ ------------ Cash, ending balance $ 18,713 19,927 ============ ============ -5- Condensed Consolidated Statements of Cash Flows (continued) Supplemental disclosures of cash flow information: 2006 2005 ---------- ---------- Cash paid for interest $ 16,528 $ 49,722 ========== ========== Supplemental disclosure of non-cash investing and financing activities: Common shares issued as payments on notes payable, including commissions $1,312,280 ========== Common shares issued as incentives for notes payable $ 277,650 $ 168,500 ========== ========== Common shares issued for prepaid consulting agreements $ 207,500 ========== Conversion of accrued expenses to common stock $ 35,000 $ 56,620 ========== ========== Conversion of notes payable and accrued interest to common stock Notes payable $ 155,590 Accrued interest 6,960 ---------- Total amount converted $ 162,550 ========== Preferred stock dividends issued in common stock $ 440 ========== -6- NIGHTHAWK SYSTEMS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE AND SIX

MONTH PERIODS ENDED JUNE 30, 2006 AND 2005 (unaudited) 1. ORGANIZATION, GOING CONCERN, RESULTS OF OPERATIONS AND MANAGEMENT'S PLANS ORGANIZATION Nighthawk Systems, Inc. ("the Company") designs and manufactures intelligent wireless power control products that enable simultaneous activation or de-activation of multiple assets or systems on demand. Nighthawk's installed customer base includes major electric utilities, internet service providers and fire departments in over 40 states. Nighthawk's products also enable custom message display, making them ideal for use in traffic control and emergency notification situations. Nighthawk products enable customers to wirelessly extend their reach, allowing them to turn on, off or reboot remotely located equipment at any time, from anywhere. Expensive truck rolls and third-party service contracts are no longer required with Nighthawk products in place. The Company's 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 wireless media, and executing the instructions by 'switching' the electrical current that powers the device, system or process. Nighthawk's 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. GOING CONCERN, RESULTS OF OPERATIONS AND MANAGEMENT'S PLANS The Company incurred a net loss of approximately $1.9 million during the six month period ended June 30, 2006 and had a stockholders' deficit of approximately $2.4 million as of June 30, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Although no assurance can be given that such plans will be successfully implemented, management's plans to address these concerns include: - Raising working capital through additional borrowings. - Raising equity funding through sales of the Company's common stock. - Implementation of the Company's sales and marketing plans. In August 2004, the Company signed a financing arrangement with Dutchess Private Equities, II, L.P. ("Dutchess") under which the Company received $250,000 in exchange for a convertible debenture during August 2004. The Company also signed an investment agreement under which Dutchess agreed to purchase up to $10.0 million in common stock from the Company, at the Company's discretion, over the next three years, subject to certain limitations including the Company's then current trading volume. Although the amount and timing of specific cash infusions available under the entire financing arrangement cannot be predicted with certainty, the arrangement represents a contractual commitment by Dutchess to provide funds to the Company. Since entering into the arrangement with Dutchess, the Company has utilized the arrangement to obtain enough cash to cover its operating cash flow deficits on a monthly basis. For more information on transactions with Dutchess during the six-month period ending June 30, 2006, please see Note 4 - Notes payable. 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. During 2005, the Company hired its first full-time personnel that were dedicated only to developing sales channels and sales opportunities Throughout 2005, the sales staff was responsible for generating new business opportunities for the Company's core products, the NH100 rebooting device and the CEO700 whole house disconnect device. It also launched a new website during 2005 which allows potential customers to send contact information and product inquiries directly to the Company via the Internet. -7- The Company's strategic initiatives for 2006 include: - Capitalize on existing enterprise sales opportunities - Cultivate and capitalize on indirect sales channels - Enhance our marketing effort to support direct and indirect sales channels - Bundle our products with ancillary products and services to enhance revenue opportunities - Develop and sell a device that functions on multiple wireless protocols - Form an advisory board with relevant industry expertise and relationships - Execute on a strategic acquisition that is scalable and complementary to our existing business The Report of the Company's Independent Registered Public Accounting Firm on the Company's financial statements as of and for the year ended December 31, 2005 includes a "going concern" explanatory paragraph which means that the auditors expressed substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts of liabilities that might be necessary should the Company be unsuccessful in implementing these plans, or otherwise be unable to continue as a going concern. 2. BASIS OF PRESENTATION The accompanying unaudited condensed consolidated financial statements, which include the accounts of Nighthawk Systems, Inc. and its subsidiary Peregrine Control Technologies, Inc. (collectively referred to herein as "the Company"), have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information. In the opinion of management, all adjustments (consisting of only normal recurring items), which are necessary for a fair

presentation have been included. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for 2005 filed with the Securities and Exchange Commission (the "SEC"). 3. SIGNIFICANT ACCOUNTING POLICIES 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. The Company had no bill and hold sales at June 30, 2006. 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 expenses on the balance sheet at June 30, 2006, is approximately $14,323. PROVISION FOR DOUBTFUL ACCOUNTS The Company reviews accounts receivable periodically for collectibility and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. -8- CONCENTRATIONS Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss. At June 30, 2006, the Company had approximately $156,311 in accounts receivable, net of the allowance for doubtful accounts. Approximately $79,004 of this balance was from two customers, $57,763 of which was collected subsequent to June 30, 2006. During the three months ended June 30, 2006, two customers accounted for approximately 24% and 12% of total revenue, respectively. During the three months ended June, 2005, one customer accounted for approximately 46% of total revenue. During the three months ended June 30, 2006, three suppliers accounted for approximately 76% of the Company's purchases of pre-manufactured component materials. INVENTORIES Inventories consist of parts and pre-manufactured component materials and finished goods. Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. PROPERTY AND EQUIPMENT Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of five to seven years. Maintenance and repairs are expensed as incurred and improvements are capitalized. Upon sale or retirement of assets, the cost and related accumulated depreciation or amortization is eliminated from the respective accounts and any resulting gains or losses are reflected in operations. INTANGIBLE ASSETS Intangible assets include patent costs and are stated at cost. If the patents are granted, the Company will then begin to amortize the patents over the shorter of the lives of the patents or the estimated useful lives using the straight-line method. The Company reviews these and any other long-lived assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Based on its review, management does not believe that any impairment of intangible or other long-lived assets exists at June 30, 2006. RESEARCH AND DEVELOPMENT COSTS Research and development costs include materials and equipment costs associated with the formulation, design, construction and testing of new product prototypes. These costs also include contract labor and salaries, wages and other related costs of personnel engaged in the research and development activities. During the three month period ending June 30, 2006, the Company incurred approximately $60,000 in research and development costs related to the development of a two-way wireless product for the utility industry. These costs are included in selling, general and administrative expenses in the accompanying financial statements. INCOME TAXES Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, and for operating loss and tax credit carry forwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. The Company's deferred tax assets have been completely reduced by a valuation allowance because management does not believe realization of the deferred tax assets is sufficiently assured at the balance sheet date. -9- NET LOSS PER SHARE Basic net loss per share is computed by dividing the net loss applicable to common stockholders by the weighted-average number of shares of common stock

outstanding for the year. Diluted net loss per share reflects the potential dilution that could occur if dilutive securities were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company, unless the effect of such inclusion would reduce a loss or increase earnings per share. For each of the periods presented in the accompanying financial statements, the effect of the inclusion of dilutive hares would have resulted in a decrease in loss per share. Accordingly, the weighted average shares outstanding have not been adjusted for dilutive shares. USE OF ESTIMATES The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. STOCK-BASED COMPENSATION During the first quarter of fiscal 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 - revised 2004 ("SFAS 123R") "Share-Based Payment" which replaced Statement of Financial Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APA 25"), "Accounting for Stock Issued to Employees". Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. 4. NOTES PAYABLE At June 30, 2006, notes payable consist of the following: Related parties: Note payable, officer; unsecured; interest at prime rate plus 5.5% (12.24% at June 30, 2006); due on demand $ 9,554 Note payable, officer; unsecured; interest at 23.99%, revolving 3,917 ---------- $ 13,471 ========== Other: Convertible note payable to stockholder, 8% interest rate, in default as of the date of this report (1) $ 160,000 Notes payable to stockholder, 8% interest rate, in default as of the date of this report (1) 165,000 Unsecured note with a financial institution, 17.24% interest rate, revolving 15,439 ----------- $ 340,439 =========== Long Term: Convertible debenture, 5% interest rate, due December, 2010 $ 500,000 Convertible debenture, 10% interest rate, due December, 2009 1,360,263 Convertible debenture, 10% interest rate, due March, 2011 179,720 Convertible debenture, 10% interest rate, due April, 2011 165,000 Convertible debenture, 10% interest rate, due May, 2011 130,000 Convertible debenture, 10% interest rate, due June, 2011 205,000 ---------- $2,539,983 ========== 1) Based on recurring discussions with the shareholder, who is a former board member, the Company does not expect to receive a notice of default and to have the notes called by the holder. However, no assurance may be give that this will be the case. -10- On January 9, 2006, Dutchess loaned the Company $245,000. The note had no stated interest rate but had a face amount of $294,000 and matured on January 9, 2007. Dutchess was issued 653,000 incentive shares of unregistered common stock valued by the Company at $45,710 for the note, which was secured by put notices. During the three month period ending March 31, 2006, Dutchess exercised put notices valued at $294,000 to pay off the note and was issued 3,477,247 shares of common stock as a result. On February 8, 2006, Dutchess loaned the Company $205,000 in exchange for a convertible debenture that was due February 8, 2011. Dutchess was issued 615,000 incentive shares of unregistered common stock valued by the Company at $58,770 for the debenture, which was secured by put notices. The debenture contained a clause calling for an early redemption penalty of 20%. During the three month period ending March 31, 2006, Dutchess exercised put notices valued at $246,000 to pay off the debenture and the redemption penalty, and was issued 2,429,107 shares of common stock as a result. The Company recorded the redemption penalty as interest expense, and also recorded $68,333 in interest expense during the period related to the beneficial conversion feature of the debenture. On March 16, 2006, Dutchess loaned the Company $185,000 in exchange for a convertible debenture that is due March 16, 2011. Dutchess was issued 444,000 incentive shares of unregistered common stock valued by the Company at $44,400 for the debenture, which is secured by put notices. During the six-month period ended June 30, 2006, Dutchess exercised on put notice valued at $5,280 to pay down the debenture, and was issued 69,480 shares as a result. The debenture contains a clause calling for an early redemption penalty of 20%. On April 19, 2006, Dutchess loaned the Company $165,000 in exchange for a convertible debenture that is due April 19, 2011. Dutchess was issued 366,666 incentive shares of unregistered common stock valued by the Company at $33,000 for the debenture, which is secured by put notices. The Company recorded $2,751 in interest expense during the six month period ending June 30, 2006 related to the beneficial conversion feature of the debenture. The debenture contains a

clause calling for an early redemption penalty of 20%. On May 17, 2006, Dutchess loaned the Company $130,000 in exchange for a convertible debenture that is due May 17, 2011. Dutchess was issued 690,000 incentive shares of unregistered common stock valued by the Company at $48,300 for the debenture, which is secured by put notices. The Company recorded $1,444 in interest expense during the six month period ending June 30, 2006 related to the beneficial conversion feature of the debenture. The debenture contains a clause calling for an early redemption penalty of 20%. On June 15, 2006, Dutchess loaned the Company $205,000 in exchange for a convertible debenture that is due June 15, 2011. Dutchess was issued 1,010,000 incentive shares of unregistered common stock valued by the Company at $47,470 for the debenture, which is secured by put notices. The Company recorded $1,139 in interest expense during the six month period ending June 30, 2006 related to the beneficial conversion feature of the debenture. The debenture contains a clause calling for an early redemption penalty of 20%. In addition to the activity discussed about, during the six month period ending June 30, 2006, Dutchess exercised puts valued at $737,832 to pay off four notes and one debenture, plus all related interest, that had been outstanding at December 31, 2005, and exercised puts valued at $59,573 to pay down a debenture that had been outstanding at December 31, 2005. Dutchess was issued 14,661,608 shares as a result of these transactions. The Company recorded $121,039 in interest expense on these notes and debentures during the period, as well as $83,908 in interest expense related to the beneficial conversion feature of the debenture. In total, the Company recognized a total of $46,331 in interest expense related to the beneficial conversion feature of debentures outstanding during the period. The Company also paid $30,405 in cash, issued 760,121 shares of stock valued at $30,405 and accrued an additional $6,325 in commissions due to a third party as a result of puts exercised by Dutchess during the period. Subsequent to June 30, 2006, Dutchess has exercised four puts valued at $98,975 in order to pay down the debentures issued in December 2005 and March 2006. The Company issued Dutchess 2,392,500 shares of common stock as a result. On July 6, 2006, Dutchess loaned the Company $135,000 in exchange for a convertible debenture that is due July 6, 2011. Dutchess was issued 575,000 incentive shares of unregistered common stock valued by the Company at $28,750 for the debenture, which is secured by put notices. The debenture contains a clause calling for an early redemption penalty of 20%. 5. STOCKHOLDERS' DEFICIT COMMON STOCK During the six month period ending June 30, 2006, the Company issued 4,925,000 unregistered shares of common stock to consultants for services to be performed. The Company recognized $177,000 in expense related to these contracts during the period, and has recorded an additional $60,000 in prepaids related to one of the contracts as of June 30, 2006. The Company also issued 850,000 unregistered shares of common stock to a consultant for $35,000 in services rendered in 2004 and 2005. ITEM 2. 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.'s business, actual results and business performance may differ materially from that projected or estimated in such forward-looking statements. Nighthawk Systems, Inc. ("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 unaudited condensed consolidated financial statements included herein which are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. GENERAL 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. Applications for our intelligent products include, but are not limited to: - Rebooting remotely located computer equipment - 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 -11- 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. 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 March 31, 2005. Revenue related to airtime billing is recognized when the service is performed. Some customers pre-pay airtime on a quarterly or annual basis and the pre-paid portion is recorded as deferred revenue. Deferred revenue, included in accrued expenses on the balance sheet at March 31, 2005, is approximately $15,800. 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. -12- COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2006 AND JUNE 30, 2005 The components of revenue and their associated percentages of total revenues, for the three months ended June 30, 2006 and 2005 are as follows: Three months ended June 30, 2006 2005 $ Change % Change ------------------ ------------------ ---------- -------- Revenues: Rebooting products $ 34,646 14% $ 21,002 21% $ 13,644 65% Logic boards 18,610 7% 14,144 15% $ 4,466 32% Utility products 163,827 65% 47,590 48% $ 116,237 244% Emergency notification products 20,351 8% - 0% $ 20,351 n/a Hydro 1 - - 0% $ - n/a Airtime sales 9,082 4% 13,556

14% $ (4,474) -33% Other product 3,652 1% 1,282 1% $ 2,370 185% Freight 1,971 1% 798 1% $ 1,173 147% ---------- ---------- ---------- Total revenues $ 252,139 100% $ 98,372 100% $ 153,767 156% =========== ========== =========== Revenues for the three-month period ended June 30, 2006 were $252,139 as compared to $98,372 for the corresponding period of the prior year, an increase of 156% between periods. Sales of each of Company's core products increased between the periods presented, and the Company also produced revenues from the sale of emergency notification products during the 2006 period. The products, sold mainly to firehouses for in-station alerting, were not yet being sold during the prior year period. During 2005, the Company hired its first fulltime sales staff, and began proactively marketing its products for the first time. In 2006, the Company added an in-house sales coordinator. These additions have produced more frequent contact with both new and existing customers, which has resulted in an increased level of product sales. Airtime revenues decreased approximately $4,500 between periods. Recurring monthly airtime revenues from the Company's largest customer declined in July 2005 when that customer lost its own remote monitoring contract with a customer, and airtime access to more than 2,400 rebooting units was canceled. Cost of goods sold includes parts and pre-manufactured components used to assemble our products as well as allocated overhead for production personnel and facilities costs. Cost of goods sold increased by $80,381 or 94% to $165,480 for the three months ended June 30, 2006 from $85,099 for the corresponding period of the prior year but decreased as a percentage of revenues between the periods from 94% in 2005 to 66% in 2006. As a result, the Company's gross margin increased between the periods from 13% to 34%. This improvement in gross margins is attributable to the increase in products produced during the 2006 period as compared to the 2005 period, which led to volume discounts for parts and in-house production efficiencies. The increase in revenues assisted in covering fixed overhead charges at the Company's assembly facility in Denver, Colorado. Selling, general and administrative expenses for the three months ended June 30, 2006 decreased by $33,885 or 6% to $554,155 from $558,040 for the three-month period ended June 30, 2005. The Company incurred one-time expenses of approximately $60,000 during the second quarter of 2005 for the settlement of lawsuit and legal fees associated with that suit. No such fees were incurred during the second quarter of 2006, but the Company did spend approximately $60,000 during the second quarter of 2006 on the development of a new product for the utility market that has two-way wireless capability. These development costs offset the decrease in legal expenses between quarters. The Company expects to begin marketing the new product during the quarter ending September 30, 2006. The Company also spent less on public relations efforts during the second quarter of 2006 than it did during the second quarter of 2005. Interest expense decreased $192,462 or 54% between the three-month periods presented. During 2005, the Company borrowed funds on a monthly basis from Dutchess under short-term notes. The value of any associated loan discounts or incentive shares was expensed over the term of the notes. In addition, if the notes were not paid off prior to maturity, the Company incurred penalties when the matured notes were rolled into new note balances. During the second quarter of 2005, the Company recognized approximately $132,000 in non-cash expenses related to the amortization of these loan discounts, approximately $84,000 in non-cash expenses related to incentive shares and approximately $86,000 in penalties on late payments of Dutchess notes. While the Company has continued to borrow funds from Dutchess on a monthly basis, all amounts outstanding throughout the second quarter of 2006 are under debentures that mature four to five years from their date of issuance. Any associated expenses for loan discounts and incentive shares on these notes are amortized over the life of the note, resulting in smaller amounts of interest expense recorded by the Company on a monthly basis. -13- The net loss to common shareholders for the three-month period ended June 30,2006 was $633,561 compared to $933,517 for the three-month period ended June 30, 2005, an improvement of 31%. The decrease in net loss was due primarily to increased sales and production of the Company's products that produced additional gross margin dollars, combined with a reduction in expenses for public relations campaign and reduction in interest expense related to Dutchess notes and debentures. The net loss per common share for the quarter ended June 30, 2006 was ($0.01) as compared to (0.03) for the previous year's quarter. The improvement was the result of the lower net loss, and the increase in the weighted average number of shares outstanding from period to period, primarily due to the issuance of shares to Dutchess which were utilized to reduce the amount outstanding under notes and debentures held by Dutchess. COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2006 AND JUNE 30, 2005 The components of revenue and their associated percentages of total revenues, for the six months ended June 30, 2006 and 2005 are as follows: Six months ended June 30, 2006 2005 $ Change % Change ------------------ ------------------ ---------- -------- Revenues: Rebooting products $ 81,716 21% $ 42,606 16% $ 39,110 92% Logic boards 36,075 9% 39,997 15% $ (3,922) -10% Utility products 211,825 54% 78,815 29% $ 133,010 169% Emergency notification

products 38,166 10% - 0% $ 38,166 n/a Hydro 1 - 76,750 28% (76,750) n/a Airtime sales 17,127 4% 27,789 10% $ (10,662) -38% Other product 5,044 1% 1,637 1% $ 3,407 208% Freight 3,573 1% 2,000 1% $ 1,573 79% ---------- ---------- ---------- Total revenues $ 393,526 100% $ 269,594 100% $ 123,932 46% ========== =========== ========== Revenues for the six-month period ended June 30, 2006 were $396,526 as compared to $269,594 for the corresponding period of the prior year, an increase of 46% between periods. Sales of two of the Company's core products (Rebooting and Utility) increased between the periods presented, and the Company also produced revenues from the sale of emergency notification products during the 2006 period. During 2005, the Company began selling its PT1000 logic boards to wireless integrators for use in firehouse alerting. During the latter half of 2005, the Company produced a new product, the FAS8 Firehouse Alerting System, based on the specific needs of fire departments. As such, in many instances the Company sold the FAS8 solution to fire departments during 2006 instead of the PT1000 logic board that it had sold them in prior years. The Company continues to sell the PT1000, it's most versatile product, for use in a wide variety of applications. During 2005, the Company hired its first fulltime sales staff, and began proactively marketing its products for the first time. In 2006, the Company added an in-house sales coordinator. These additions have produced more frequent contact with both new and existing customers, which has resulted in an increased level of product sales. During the six months ended June 30, 2005, one customer, who purchased the Company's Hydro 1 product, represented approximately 28% of the Company's total revenue. This sale was made as part of a stated-funded project in New Mexico, and the Company has not marketed or sold Hydro 1's since that time. The Company does not consider the Hydro 1 to be part of its portfolio of products that it markets and sells on an ongoing basis. Airtime revenues decreased 38%, or $10,662 between the two periods presented. Recurring monthly airtime revenues from the Company's largest customer declined in July 2005 when that customer lost its own remote monitoring contract with a customer, and airtime access to more than 2,400 rebooting units was canceled. Cost of goods sold includes parts and pre-manufactured components used to assemble our products as well as allocated overhead for production personnel and facilities costs. Cost of goods sold increased by $74,669 or 94% to $264,292 for the six months ended June 30, 2006 from $189,623 for the corresponding period of the prior year but decreased as a percentage of revenues between the periods from 70% in 2005 to 67% in 2006. As a result, the Company's gross margin increased between the periods from 30% to 33%. This improvement in gross margins is attributable to the increase in products produced during the 2006 period as compared to the 2005 period, which led to volume discounts for parts and in-house production efficiencies. The increase in revenues assisted in covering fixed overhead charges at the Company's assembly facility in Denver, Colorado. In addition, the gross margin for the six month period ended June 30, 2005 was high relative to the number of products produced during the period because of the one-time sale of the higher margin Hydro 1 units produced during that period. Selling, general and administrative expenses for the six months ended June 30, 2006 increased by $161,675 or 14% to $1,311,375 from $1,149,700 for the three-month period ended March 31, 2005. This increase was due to the recognition of approximately $180,000 in noncash expenses from unregistered stock issuances to public relations firms. Interest expense increased $277,254 or 57% between the six-month periods presented. The increase was due to interest expense related to the Dutchess notes and debentures, several which were paid off during the first quarter of 2006 prior to their maturity date. When this occurs, the Company expenses any unamortized discount associated with the debt being paid off, as well as any unamortized beneficial conversion expense, any unamortized expense associated with incentive shares issued with the debt, any early redemption penalties. During the first quarter of 2006, the Company recognized interest expense of approximately $153,000 related to the beneficial conversion feature of debentures, as well as approximately $192,000 in interest expense related for the value of incentive shares issued to Dutchess in exchange for money loaned to the Company. The Company also recognized approximately $77,000 in interest expense during the period in early redemption penalties on debentures that were paid off during the period. During the second quarter of 2006, interest expense actually declined, as most short term notes from Dutchess had either been paid off or had been rolled into long term debentures. These longer term arrangements allow the Company to expense loan discounts and incentive shares over longer periods of time, resulting in lower monthly interest accruals than shorter term notes. The net loss to common shareholders for the six-month period ended June 30,2006 was $1,949,242 compared to $1,560,016 for the six-month period ended June 30, 2005, an increase of 25%. Increased sales and gross profit was more than offset by increases in expenses associated with public relations firms and the amount of interest expense recorded during the first quarter of 2006 associated with the early payoff of notes held by Dutchess. The net loss per common share for the quarter ended June 30, 2006 was ($0.03) as compared to (0.04) for the previous year's quarter. The improvement was

the result of the increase in the weighted average number of shares outstanding from period to period, primarily due to the issuance of shares to Dutchess during the first quarter of 2006 which were utilized to reduce the amounts outstanding under notes and debentures held by Dutchess. LIQUIDITY AND CAPITAL RESOURCES The Company's financial statements for the six months ended June 30, 2006 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. The Company incurred a net loss of approximately $1.9 million during the six-month period ended June 30, 2006 and had a stockholders' deficit of approximately $2.4 million as of June 30, 2006. The Report of Independent Registered Public Accounting Firm on the Company's financial statements as of and for the year ended December 31, 2005 includes a "going concern" explanatory paragraph which means that the auditors expressed substantial doubt about the Company's ability to continue as a going concern. Although no assurance can be given that such plans will be successfully implemented, management's plans to address these concerns include: - Raising working capital through additional borrowings. - Raising equity funding through sales of the Company's common stock. - Implementation of the Company's sales and marketing plans. In August 2004, the Company signed a financing arrangement with Dutchess Private Equities, II, L.P. ("Dutchess") under which the Company received $250,000 in exchange for a convertible debenture during August 2004. The Company also signed an investment agreement under which Dutchess agreed to purchase up to $10.0 million in common stock from the Company, at the Company's discretion, over the next three years, subject to certain limitations including the Company's then current trading volume. Although the amount and timing of specific cash infusions available under the entire financing arrangement cannot be predicted with certainty, the arrangement represents a contractual commitment by Dutchess to provide funds to the Company. Since entering into the arrangement with Dutchess, the Company has utilized the arrangement to obtain enough cash to cover its operating cash flow deficits on a monthly basis. During the six month period ended June 30, 2006, net cash used in operating activities was approximately $1.2 million. Net proceeds from the issuance of a note and debentures to Dutchess during the period totaled $1,135,000. Major cash outlays during the period were approximately $350,000 for payroll/employee benefits, $302,000 for public relations efforts, $221,000 for inventory, $144,000 for consulting expense, $72,000 for sales and marketing efforts, and $60,000 for product development. The Company issued 14,466,308 shares to Dutchess during the six-month period ended June 30, 2006 which was used to pay down $1,332,826 in debt during the period. Each note or debenture issued by the Company to Dutchess is secured by put notices, which allow Dutchess to exercise puts in order to pay down on the notes and debentures if they want to. 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 from or selling equity to Dutchess or other parties to meet those obligations. Although the amount and timing of specific cash infusions available under the entire financing arrangement cannot be predicted with certainty, the arrangement represents a contractual commitment by Dutchess to provide funds to the Company. -14- ITEM 3. CONTROLS AND PROCEDURES (a) Evaluation of Disclosure Controls and Procedures: The Company's management, including the Company's principal executive officer and principal accounting and financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the three-month period ended June 30, 2006, the period covered by the Quarterly Report on Form 10-QSB. Based upon that evaluation, the Company's principal executive officer and principal financial and accounting officer have concluded that the disclosure controls and procedures were effective as of June 30, 2006 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO. 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, on September 23, 2005, the Company's Principal Accounting and Financial Officer, Daniel P. McRedmond, resigned as the Company's Corporate Controller. As a result, the Company's Chief Executive Officer, H. Douglas Saathoff, will serve as the Company's Principal Operating and Principal Accounting and Financial Officer until Mr. McRedmond's successor is hired. -15- PART II - OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS None ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS None ITEM 3. DEFAULTS UPON SENIOR SECURITIES The Company is in default on two loans from Mr. Revesz, a former board member, as of the date of this report and is in discussions to extend the maturity dates on those notes. In April 2004, the Company reached an agreement with Tomas Revesz under which, in return for an additional $25,000 in borrowings and the extension of the maturity dates

of three notes to July 31, 2004, the Company granted the creditor a secured position in the assets of the Company. ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS None ITEM 5. OTHER INFORMATION None ITEM 6. EXHIBITS AND REPORTS (a) Exhibits 31.1 Certification of H. Douglas Saathoff, Chief Executive Officer and Principal Accounting and Financial Officer, pursuant to Rule 13A-14 or 15D-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32 Certification pursuant to the 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (b) Reports on Form 8-K. None -16- SIGNATURES In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. NIGHTHAWK SYSTEMS, INC. (Registrant) Date: August 14, 2006 By: /s/ H. Douglas Saathoff --------------------------- H. Douglas Saathoff, Chief Executive Officer, Principal Accounting and Financial Officer