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**U.S. SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-KSB**

(Mark one)

**Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Fiscal Year Ended September 30, 2005

or

**Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission File Number 000-23025

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**NOTIFY TECHNOLOGY CORPORATION**

(Name of small business issuer in its charter)

**California**  
(State or other jurisdiction  
of incorporation or organization)

**77-0382248**  
(I.R.S. Employer  
Identification No.)

**1054 S. De Anza Blvd. Suite 105**  
**San Jose, California**  
(Address of principal executive offices)

**95129**  
(Zip Code)

**Issuer's telephone number: (408) 777-7920**

**Securities registered under Section 12(b) of the Exchange Act:**

**None**

**Securities registered under Section 12(g) of the Exchange Act:**

**Common Stock**

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Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

State issuer's revenues for its most recent fiscal year. \$5,018,464

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on December 15, 2005, was approximately \$410,586. Shares of Common Stock held by officers and directors and their affiliated entities have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

The number of shares outstanding of Registrant's common stock, \$0.001 par value at December 15, 2005 was 13,968,995 shares.

Transitional Small Business Disclosure Format (check one): Yes  No

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## PART I

### FORWARD LOOKING STATEMENTS

*You should read the following discussion in conjunction with our audited financial statements and the notes thereto that appear elsewhere in this Annual Report on Form 10-KSB. The following discussion contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve risks and uncertainties. Forward-looking statements generally include words such as “may,” “will,” “plans,” “seeks,” “expects,” “anticipates,” “outlook,” “intends,” “believes” and words of similar import as well as the negative of those terms. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. All forward-looking statements included in this Annual Report on Form 10-KSB, including, but not limited to, statements regarding the future growth of our wireless product line; statements regarding future revenues from our products; statements regarding our ability to receive referrals from our channel partners; statements regarding our future success; statements regarding future costs; statements regarding future research and development efforts; statements regarding competition in the market for wireless products; statements regarding future patent applications; statements regarding future financial results; statements regarding future plans to extend our product line; statements regarding the sufficiency of our existing cash balances to fund our operations; and statements regarding the effect of future financings on our existing shareholders are based on current expectations and are subject to important factors that could cause actual results to differ materially from those projected in the forward-looking statements. Such important factors include, but are not limited to, those discussed below under “Risk Factors” and elsewhere in this Annual Report and in other documents we file with the U.S. Securities and Exchange Commission.*

#### **ITEM 1. Description of Business**

Notify Technology Corporation (also referred to as “we”, “us” and “our” unless the context otherwise requires) was incorporated in the state of California in August 1994. We are a leading provider of secure real time wireless synchronization of email, calendar, contacts and tasks, supporting any Blackberry, Palm and Windows Mobile Wireless device on all major cellular voice and data networks worldwide. NotifyLink Enterprise Mobility Solution (“NotifyLink”), our middleware enterprise product line, works with Microsoft Exchange, Novell GroupWise and a variety of IMAP4 email systems including Sun, Oracle, MiraPoint, Communicate, Gordano, Stalker, Scalix, Kerio and Open-Xchange. NotifyLink users have the ability to compose, reply, forward and delete their emails while mobile. In addition, users have the ability to maintain mobile synchronization with their calendar, contacts and tasks from their wireless device.

We have also been a supplier of traditional landline or wireline call and message notification products and services. In fiscal 2001, we developed a voice mail notification product known as the Visual Got Mail Solution for a long distance company entering the local telephone market. The Visual Got Mail Solution uses a combination of server based software and a modified version of our Call Manager caller-id adjunct device. Although we shifted our focus to the enterprise mobility software business in fiscal 2003 and fiscal 2004, the Visual Got Mail Solution generated substantially all of our revenue in fiscal 2002 and 2003, a substantial majority of our revenue in fiscal 2004 and approximately 57% of our revenue in fiscal 2005. We have continued to generate service revenue from the installed base of voice mail users even though new sales of the Visual Got Mail Solution have declined significantly since mid fiscal 2003. Because we believe our greatest opportunity for future growth lies with our wireless product line, the focus of our sales, marketing and development effort in fiscal 2005 has been in our mobility software products. Wireless products contributed approximately 43% of our total revenue in fiscal 2005 as compared to 28% of total revenues in fiscal 2004. We currently sell our products primarily through direct sales. To a lesser extent, we sell our products through resellers both domestically and internationally.

We are currently the only provider of a wireless enterprise synchronization solution enabling any size organization a single solution to simultaneously support any Blackberry, Palm and Windows Mobile device. We

provide a network independent solution thereby facilitating unparalleled flexibility to change devices or networks as technology develops or user needs evolve. In addition, we are the only provider of wireless enterprise synchronization middleware supporting Blackberry wireless devices other than Research In Motion Limited. Our NotifyLink for Novell GroupWise provides both wired and wireless synchronization for email, calendar, contacts and task information. Both the NotifyLink on-premise and hosted editions can be seamlessly integrated into an organization's existing network while offering the broadest possible wireless device support of any available enterprise solution.

For wireless device users, NotifyLink provides support for a variety of wireless networks including cellular networks such as CDMA/1XRTT, GSM/GPRS, and all fixed wireless networks using 802.11x technology. For "wired" devices such as Palm and Pocket PC PDA's, NotifyLink for Novell GroupWise and IMAP4 will provide network based synchronization allowing the mobile user to synchronize their mobile device independent of their desktop location. We have designed the NotifyLink On-Premise Edition for information technology (IT) organizations that desire centralized management and support for their mobile user needs. With the NotifyLink On-Premise Edition, organizations can easily support their growing mobile workforce while providing a migration path from wired to wireless device usage.

We recently expanded our product offering with the NotifyLink Hosted Edition. The NotifyLink Hosted Edition provides users with the same features as the NotifyLink On-Premise Edition without the need to install a NotifyLink server on the customer's premise. The NotifyLink Hosted Edition is particularly well suited for smaller user organizations seeking a comprehensive wireless synchronization solution while minimizing infrastructure costs and IT resources.

Our wireline or legacy product is the Visual Got Mail Solution for voice mail notification sold to one long distance telephone company that provides voice mail as part of its local service product. In late fiscal 2004, this customer reduced its commitment to the local service that employs our product such that we consider the Visual Got Mail Solution a declining product with an unknown remaining life. We received monthly service revenue for all of fiscal 2005 although at a declining rate.

In contrast, we sell NotifyLink to a large number of customers. As such, neither our NotifyLink revenues nor accounts receivables are concentrated in any one customer or small number of customers.

## **Products**

### *NotifyLink Enterprise Mobility Solution ("NotifyLink")*

NotifyLink is comprised of the NotifyLink On-Premise Edition and the NotifyLink Hosted Edition. NotifyLink has been designed to uniquely address the needs of organizations of all sizes.

Using NotifyLink, mobile users can read, compose, reply, forward, mark as read, and delete email messages from their mobile device. NotifyLink provides users with an "automatic" synchronization of emails sent to end users' email mailbox and all emails originated, forwarded and replied to from the mobile device will be synchronized with the user's desktop. NotifyLink is device agnostic because email users are provided with a platform specific smart client, which is loaded on the mobile device. Once the platform specific smart client mobile device is installed on their wireless device and the server on-line, the user is able to open their email, read it and then perform any number of operations including replying, forwarding, and even deleting the email. NotifyLink supports attachment download and upload for Palm, Pocket PC, and Blackberry mobile devices. NotifyLink also supports the ability to forward attachments. NotifyLink provides bi-directional mobile synchronization of the user's calendar, contacts, and tasks regardless of whether the information was entered on the mobile device or at the user's desktop. The transmitted information keeps personal calendars continually up to date at both the client server level and the mobile device level.

NotifyLink's "wireless" functionality supports all Palm, Windows Mobile and Blackberry OS devices simultaneously over a variety of wireless networks: GSM/GPRS, CDMA/1XRTT and any 802.11x. NotifyLink

wireless functionality also provides “over-the-air” synchronization of email and PIM thereby freeing users from the requirement to cradle their wireless devices in order to maintain synchronization. NotifyLink provides automatic notification of new email and person information management (PIM) eliminating the need for users to initiate a data session in order to retrieve their personal data.

All email and PIM is stored behind an organization’s firewall, while all delivery of information to and from the wireless devices is encrypted utilizing either TDES or AES encryption algorithms. Information security is assured because NotifyLink supports both Triple DES (TDES) and the latest Advanced Encryption Standard (AES). AES is a Federal Information Processing Standard (FIPS), that specifies a cryptographic algorithm for use by U.S. Government organizations to protect sensitive, unclassified information.

### **NotifyLink On-Premise Edition**

The NotifyLink On-Premise Edition provides a single enterprise solution supporting the wireless needs of its users through the use of an on-premise server. The NotifyLink On-premise Edition for GroupWise and for IMAP4 is based on a client-server architecture comprised of the NotifyLink Enterprise server and the NotifyLink device client module. The NotifyLink Enterprise server product involves three components: database component, web component and a messaging component. All three components may be installed to the same server or each component can be installed to a separate server in a more distributed environment. The NotifyLink On-Premise Edition is ideal for companies with a volume of mobile professionals who need real-time synchronization of their existing email to any one of a variety of supported mobile devices.

### **NotifyLink Hosted Edition**

Beginning in November 2004, we began to actively market our NotifyLink Hosted Edition for GroupWise and various IMAP4 email platforms. In March 2005, we launched the NotifyLink Hosted Edition for Exchange. The NotifyLink Hosted Edition provides the same wireless synchronization of email, calendar, contacts and task information as the our NotifyLink On-Premise Edition, except without the need of any on-premise hardware or software. The NotifyLink Hosted Edition provides all email and PIM services and support from a hardened data center that provides users a high level of reliability and availability. It remotely accesses email and PIM data from the customer site and synchronizes to a user’s Blackberry, Palm or Windows Mobile wireless device. The NotifyLink Hosted Edition provides organizations with a simple solution to their immediate mobility needs. It was designed as a cost efficient alternative for customers whose universe of wireless users does not justify an internal server or who do not have the internal IT resources to maintain a NotifyLink Enterprise server. The NotifyLink Hosted Edition is also targeted at organizations interested in outsourcing the synchronization of email and PIM.

### *Visual Got Mail Solution*

Our legacy Visual Got Mail Solution is designed to provide voice mail notification services to customers. Our revenues to date have consisted principally of sales to one customer in connection with its local voice mail telephone service. The Visual Got Mail Solution, designed for telephone company deployment as a service offering, includes a scalable carrier class server infrastructure that we host and a Call Manager telephone adjunct (CPE) that we manufacture and sell. The Visual Got Mail Solution integrates our caller-id technology with a unique method of voice mail notification into a single device that can fit into the palm of your hand. Revenues for the Visual Got Mail Solution declined substantially from fiscal 2003 to fiscal 2004 as the customer reduced its commitment to providing local telephone services. We recognized \$1,417,010 of deferred revenue in fiscal 2005 related to CPE owned by our customer that our customer decided to dispose of rather than deliver to its customers. We have an additional \$221,137 of similar deferred revenue on our balance sheet that will be subject to the same accounting treatment in fiscal 2006. We recorded another \$1,291,000 in Visual Got Mail Solution revenue in fiscal 2005 that consisted of service revenue generated from an installed base of voice mail users built up since May 2002 but in decline since July 2004. We expect the Visual Got Mail Solution revenues to be adversely affected in future periods by the decline in the installed base of voice mail users.

## **Sales, Marketing and Distribution**

We are expanding our customer base by gathering leads through several channels. We have an inside sales force that handles leads generated from our corporate web site, the web sites of our strategic partners where we maintain a presence, referrals from referral partners with whom we have agreements, 2way wireless carriers and other customers. Carriers that we have referral relationships with include Verizon Wireless, T-Mobile Wireless, Cingular Wireless and Sprint in the United States and Bell Mobility Wireless, Telus, and Rogers Communications in Canada. Another channel is based on referrals from 2way device manufacturers such as Palm, Inc., Handspring, and Kyocera Wireless. Additional leads come from Novell's Cool Solutions Web site and the PalmSource web site. One market advantage of our NotifyLink wireless solution is that we support Novell's email system called GroupWise. We will continue to receive referrals from these channel partners only to the extent that they successfully refer our products and services to interested customers.

Our Visual Got Mail Solution has generated revenue from both voice mail notification services to the users of our customer and sales of adjunct equipment devices. Service revenue is based on the monthly active installed base of voice mail users and varies as the installed base changes. The installed base grew to a high of 490,000 voice mail users in July 2004 but has since been in decline due to the reduction of our customer's commitment to marketing the voice mail services that the Visual Got Mail Solution supports. The installed base of voice mail users has declined or "churned off" approximately 41% in the last fourteen months, (July 2004 through September 2005) with a corresponding decline in our service revenue. The second component of the Visual Got Mail Solution is a hardware device that we supplied and was sold by our customer to their end users of voice mail. Orders to ship this product effectively ceased in September 2004. Although we have a customer backlog of 22,000 devices as of September 30, 2005 and carry related deferred revenue on our balance sheet, we have no inventory position in the units and received instructions subsequent to September 30, 2005 to dispose of these units. In fiscal 2005, we recognized \$1,417,010 of deferred revenue related to CPE owned by our customer that our customer decided to dispose of rather than deliver to its customers. We have an additional \$221,137 of similar deferred revenue on our balance sheet that will be subject to the same accounting treatment in fiscal 2006. If the demand for the Visual Got Mail Solution service were to cease or decline at an accelerated rate, the loss of the on-going service revenue would have a materially adverse affect on our business. We also cannot predict the churn pattern going forward or predict further business decisions by our customer and there can be no assurance that our customer will continue to use the Visual Got Mail Solution.

The traditional sales activities for our wireline products were large direct contracts with large telephone companies. The Visual Got Mail Solution followed that pattern but sales of our NotifyLink products consist of numerous small contracts sold directly to individual companies. For the NotifyLink product line, we typically sell annual licenses recognized ratably over the term of the contract. The Visual Got Mail Solution, NotifyLink product line and unrelated royalty revenue accounted for 57%, 43% and 0% of total revenues in fiscal 2005, respectively. In fiscal 2004, the Visual Got Mail Solution, NotifyLink product line and unrelated royalty revenue accounted for 66%, 28% and 4% of total revenue, respectively.

## **Technical and Marketing Support**

We have developed product collateral, improved web site design and expanded marketing programs for the NotifyLink products. This program includes product awareness branding and product training through various mediums such as Notify web site marketing; strategic partner web site marketing; regional, national and international trade shows; strategic partner regional user meetings; carrier training seminars; webinars; user market surveys and a monthly news letter.

We provide customer technical support to our customers for all of our products and product installation for our NotifyLink customers. We maintain a hosting center for our Visual Got Mail Solution in California and a hosting center for our NotifyLink product line in Ohio. We also supply the support to maintain up-time requirements for the Visual Got Mail Solution and our NotifyLink hosted products.

## **Research and Development**

We incurred \$1,040,197 and \$1,034,221 in research and development expenses in fiscal 2005 and 2004, respectively. Our development efforts were devoted to improving our software product, porting our solution to new wireless devices released by wireless device manufacturers, and creating new products within the NotifyLink family. Our software engineering development is located in our offices in Canfield, Ohio. We believe that our future success, if any, depends significantly on our ability to continue to enhance our existing wireless products and to develop new products. Therefore, we intend to continue to incur research and development costs. We expect that our research and development efforts will be focused in wireless software as our wireline products are mature and their market is declining.

## **Manufacturing**

We had no significant manufacturing efforts in fiscal 2005. We did not order any new product in fiscal 2005 from our offshore turnkey manufacturer that produced the Call Manager that is a component in our Visual Got Mail Solution. Fulfillment services ceased in September 2004 with the absence of customer fulfillment requests. The absence of fulfillment activity in fiscal 2005 has resulted in no product under warranty thereby eliminating our potential warranty expense exposure.

## **Governmental Regulation and Industry Standards**

Our wireline CPE products must comply with a variety of regulations and standards including regulations and standards set by the Federal Communications Commission, Underwriters Laboratories, National Registered Testing Laboratories, and Bell Communications Research. Given the inactive status of our wireline CPE product line, additional legislative or regulatory changes would have little adverse effect on our business and operating results.

## **Competition**

We believe the market for our wireless products is highly competitive and that competition is likely to intensify. In the market for wireless e-mail notification and management software, we compete with Research In Motion Limited and Consilient Technologies Corp. Our Visual Got Mail Solution indirectly competes with a single alternate voice mail notification service offered by local exchange carriers such as BellSouth, SBC Communications, and Verizon. Many of these companies have greater financial, technical and marketing resources than we do. In addition, there are several companies with substantially greater technical, financial and marketing resources than we have that could produce competing products. These companies include wireless software providers such as Intellisync, Visto and Good Technology. We expect that to the extent that the market for our products develops, competition will intensify and new competitors will enter the market. We may not be able to compete successfully against existing and new competitors as the market for our products evolves and the level of competition increases. A failure to compete successfully against existing and new competitors would materially and adversely affect our business, revenues, operating results, and financial condition.

## **Proprietary Rights**

We regard various features and design aspects of our products as proprietary and we rely primarily on a combination of patent, copyright, and trademark laws and employee and third-party nondisclosure agreements to protect our proprietary rights. We have been issued a patent covering the design of our MessageAlert products in 1995 that expires in 2010, and a patent covering the MultiSense technology used in our MessageAlert product issued in 1996 that expires in 2016 and a patent on our Call Manager in 1999 that expires in 2019. We intend to continue to apply for patents, as appropriate, for our future technologies and products. There are few barriers to entry into the market for our products, and there can be no assurance that any patents we apply for will be granted, that any issued patents will be enforceable or valid, or that the scope of our patents or any patents granted in the future will be broad enough to protect us against the use of similar technologies by our

competitors. There can be no assurance, therefore, that any of our competitors, some of whom have far greater resources than we do, will not independently develop technologies that are substantially equivalent or superior to our technology.

On May 17, 2001, Research In Motion Limited, the maker of the “Blackberry” hand-held computer, announced that it had been issued a patent on its Blackberry single mailbox integration. Generally, the patent relates to Research In Motion’s proprietary system and method of redirecting information between a host computer system, and a mobile communications device while maintaining a common electronic address between the host system and the mobile device. Research In Motion also announced that it had filed a complaint against Glenayre Technologies, Inc. for, among other items, patent and trademark infringement. Our intellectual property counsel has reviewed the patent and issued an opinion to us opining that version 4.0 of our Desktop software does not infringe on Research In Motion’s patent. Nevertheless, no assurances can be given that Research In Motion will not bring an action against us for a patent infringement or similar claim, or if any such claim is brought, the eventual results thereof.

We may be involved from time to time in litigation to determine the enforceability, scope and validity of any of our proprietary rights or of third parties asserting infringement claims against us. These claims could result in substantial cost to us and could divert our management and technical personnel away from their normal responsibilities.

In fiscal 1997, we entered into a non-exclusive license agreement with Active Voice Corporation for the right to use patented technology held by Active Voice Corporation pursuant to which we have paid an up-front fee on our sales of products that contain stutter dial tone detection.

In fiscal 1998, we entered into a royalty agreement with Uniden America Corporation (“Uniden”) allowing Uniden to incorporate our VMWI technology into Uniden’s products for a per unit fee. In fiscal 2004, we expanded the agreement and granted Uniden an unlimited restricted license in exchange for a lump sum. Royalty revenue from this agreement was \$154,975 and \$34,625 in fiscal 2004 and 2003, respectively. There was no royalty revenue in fiscal 2005.

In November of 2003, NCR Corporation and Notify Technology Corporation entered into a non-exclusive license agreement that allows us to offer certain product features on our Enterprise Mobility Solution that are covered by a patent held by NCR. This agreement requires a royalty payment on Enterprise revenue subject to the patent.

## **Employees**

As of September 30, 2005, we employed forty-nine (49) persons of whom sixteen (16) were engaged in research and development, one (1) in operations, twelve (12) in sales and marketing, fifteen (15) in customer service, and five (5) in general administration and finance. All of these employees are employed on a full-time basis. None of our employees are currently represented by a labor union. We consider our relations with our employees to be good.

Our success, if any, will be dependent on our ability to attract and retain highly skilled technical personnel as well as marketing and sales personnel. If we were unable to hire the necessary personnel, the development of new products and enhancements to current products would likely be delayed or prevented. Competition for highly skilled technical, managerial, sales, and marketing personnel is intense. There can be no assurance that we will be successful in retaining our key personnel and in attracting and retaining the personnel we require for expansion.

## **RISK FACTORS**

### **Because of our financial condition and our business plans, our financial statements disclose that there is substantial doubt as to our ability to continue as a going concern and accordingly our business has a high risk of failure**

We are currently replacing our wireline products with our wireless software products and researching and developing new products and enhancements to our existing NotifyLink product family. Due to our present financial condition there is substantial doubt as to our ability to continue as a going concern. To date, our NotifyLink product line has not generated sufficient revenue to completely replace our wireline products. As our wireline revenues decline, we need to improve the sales of NotifyLink to compensate. The success of our business operations will depend upon a significant favorable market acceptance for our new wireless software products and our ability to obtain further financing. It is not possible for us to predict with assurance the outcome of these matters. If we are unable to achieve profitable operations from our new software wireless products or obtain further financing, then our business will fail. We cannot predict whether we will be able to obtain additional financing when or as needed. Any potential financing could take the form of debt or equity and could include terms that are unfavorable to us and its/or our existing stockholders. Any equity financing transaction would be expected to dilute the equity and voting interests of our existing stockholders.

### **A significant portion of our revenue is derived from the sale of a single solution to a single customer and that customer has changed its business commitment to the market in which our product is sold**

For the fiscal year ended September 30, 2005, 57% of our revenue came from the sale of our Visual Got Mail Solution to a single competitive provider of local phone services. In July 2004, the customer changed its business position in the market in which our product is sold and terminated its outbound marketing efforts. Although our customer continues to purchase our service product from us, the installed base upon which our service is based has changed from a growth status to a declining status. Furthermore, shipments of the hardware or Consumer Premise Equipment (CPE) portion of the Visual Got Mail Solution were suspended although we recorded \$1,417,010 in deferred revenue in fiscal 2005 representing the disposal of customer owned CPE inventory that our customer decided to dispose rather than deliver it to their customers. As of September 30, 2005, we held approximately 22,000 units of CPE for this customer. We received instructions subsequent to September 30, 2005 to dispose of these units and will do so in the first quarter of fiscal 2006. We have no inventory position in this product as it belongs to our customer but we will recognize \$221,137 of deferred revenue upon final disposition of the remaining inventory. If, for whatever reason, this customer is not able to, or chooses not to, sell or support its voice mail service, or the contractual rate we charge per user is renegotiated down, or our agreement is not renewed in April 2006, our revenue, operating profit and financial condition would be materially adversely affected. In such an event, we would have no alternative distribution channel for our Visual Got Mail Solution and our revenue, operating results and financial condition would be materially adversely affected.

### **We have a history of losses, and there is no assurance of future profitability**

We commenced operations in August 1994 and through January 1996 were engaged primarily in research and development. We introduced the Visual Got Mail Solution in fiscal 2001 and made a subsequent decision in fiscal 2003 to refocus our strategy on developing and selling software applications for the 2way wireless data market. Accordingly, our business has changed substantially in recent years, making it difficult to make period-to-period comparisons of our operations, and we face all of the risks and uncertainties encountered by early-stage companies. For the fiscal years ended September 30, 2004, 2003 and 2002, we incurred net losses of \$655,908, \$1,100,475 and \$1,741,752, respectively. We incurred a net loss of \$557,452 for fiscal 2005 and as of September 30, 2005, we had an accumulated deficit of \$23,633,686 and a working capital deficit of \$900,261. We anticipate having negative cash flow from operating activities in future quarters and years. We also expect to incur further operating losses in future quarters and years until such time, if ever, as there is a substantial increase in orders for our products and product sales generating sufficient revenue to fund our continuing operations. There can be no assurance that sales

of our products will ever generate significant revenue, that we will ever generate positive cash flow from our operations or that we will attain or thereafter sustain profitability in any future period.

**If we are unable to market our wireless software products and achieve industry acceptance quickly, we could lose existing and potential customers and our sales would decrease**

Although a significant portion of our current revenue continues to come from servicing our installed base of the wireline Visual Got Mail Solution, we expect the Visual Got Mail Solution revenue to continue to decline in future periods. Accordingly, we must continue to invest in our wireless products in order to grow our revenues and improve our financial condition. We need to market our new wireless software products on a timely basis to keep pace with technological developments, emerging industry standards, and the growing needs of our sophisticated customers. We intend to extend our product offerings primarily through our NotifyLink product line. However, we may experience difficulties in marketing these new products, and our inability to timely and cost-effectively introduce them and future enhancements, or the failure of these new products or enhancements to achieve market acceptance, could seriously harm our business. Life cycles of wireless software products are difficult to predict, because the market for such products is new and evolving and characterized by rapid technological change, frequent enhancements to existing products and new product introductions, changing customer needs and evolving industry standards. The introduction of competing products that employ new technologies and emerging industry standards could render our products and services obsolete and unmarketable or shorten the life cycles of our products and services. The emergence of new industry standards might require us to redesign our products. If our products are not in compliance with industry standards that become widespread, our customers and potential customers may not purchase our products.

**If the market for wireless data communications devices does not grow, we may not successfully sell our NotifyLink products**

The overall market for wireless data communications devices has experienced significant growth in recent years. The success of our NotifyLink On-Premise and Hosted products depends upon this growth. There can be no assurance that the market for wireless software products will continue to grow, that firms within the industry will adopt our software products for integration with their wireless data communications solutions, or that we will be successful in independently establishing product markets for our wireless software products. We cannot predict that growth of our NotifyLink products will continue or maintain itself at the current level. If the various markets in which our software products compete fail to grow, or grow more slowly than we currently anticipate, or if we were unable to establish product markets for our new software products, our business, results of operation and financial condition would be materially adversely affected.

**We may be unable to generate the capital necessary to support our planned level of research and development activities or to manufacture and market our products**

At September 30, 2005, we had an accumulated deficit of \$23,633,686 and incurred a net loss of \$557,452 for the year ended September 30, 2005. We also had a working capital deficit at that date of \$900,261. Our recently developed NotifyLink products will need to attain favorable market acceptance in order for us to be able to continue our research and development activities and to fund operating expenses at current levels. Regardless, because our NotifyLink wireless product line has not provided sufficient contributions to our revenues to date to operate profitably without the contribution of our Visual Got Mail Solution revenue, the success of our business operations will depend upon a significant favorable market acceptance for our new wireless software products and our ability to obtain further financing. Obtaining additional financing will be subject to a number of factors including market conditions, investor acceptance of our business plan, and investor sentiment. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable to us. If we are unable to raise additional financing, we will have to significantly reduce our spending, delay or cancel planned activities or substantially change our current corporate structure. In such an event, we intend to implement expense reduction plans in a timely manner. However, these actions would have material adverse effects on our business, results of operations, and prospects, resulting in a possible failure of our business.

### **Our quarterly operating results may vary**

We anticipate that we will experience significant fluctuations in our operating results in the future. Fluctuations in operating results may cause the price of our common stock to be volatile. Operating results may vary as a result of many factors, including the following:

- the reduced commitment of our long distance customer to the voice mail business underlying our voice mail notification business;
- our level of research and development;
- our sales and marketing activities;
- announcements by us or our competitors;
- size and timing of orders from customers;
- new product introductions by us or our competitors;
- licensing costs of patent conflicts; and
- price erosion.

Each of the above factors is difficult to control and forecast. Thus, they could have a material adverse effect on our business, financial condition and results of operations.

Notwithstanding the difficulty in forecasting future sales, we generally must undertake research and development and sales and marketing activities and other commitments months or years in advance. Accordingly, any shortfall in product revenues in a given quarter may materially adversely affect our financial condition and results of operations because we are unable to adjust expenses during the quarter to match the level of product revenues, if any, for the quarter. Due to these and other factors, we believe that quarter to quarter comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

### **Our products may not be accepted**

We announced the launch of our new NotifyLink web based service and our NotifyLink Desktop products in November 2000. We released improved versions of the NotifyLink product throughout fiscal 2003, 2004 and 2005. The hosted product, was introduced in November 2004. We extended our products to operate in IMAP4 operating systems in September 2005. To date, we have received increasing but limited revenue from the sale of these products. We do not believe our sales to date are sufficient to determine whether or not there a sufficient consumer or business demand for our products to bring us to profitability.

We intend to devote resources to sales and marketing efforts of the NotifyLink product line and to promote general consumer and business interest in our products. There can be no assurance that such efforts will be successful or that significant market demand for our products will ever develop.

### **We depend on a limited number of potential customers and need to develop marketing channels**

We are building a formal referral channel and participate in informal referral arrangements with several wireless carriers, 2way wireless device manufacturers and one net ware company for the sale of our NotifyLink products and services where our products assist in the sales of their products. We have a limited direct sales force to sell our NotifyLink products and services to eventual users and we rely upon both formal and informal referral arrangements to provide leads for our NotifyLink products. To date, most of our referral arrangements are formal and we will receive referrals only to the extent that our referral partners successfully refer our products and services to potential users. There can be no assurance that we will achieve a significant volume of sales of our NotifyLink products and services to end users or that we will continue to receive referrals from our formal

arrangements. Our Enterprise solution product is relatively new and we have not yet achieved sufficient growth in our sales to operate profitably without contribution from our Visual Got Mail Solution, whose sales are expected to be limited to service revenues from a gradually declining installed base.

We are expanding our distribution channels for our wireless products by participating in national and regional trade shows, promotions with strategic partners, training programs for telephone and wireless carrier sales representatives and presenting at Novell Groupwise user meetings across the United States. We cannot predict whether these activities will result in increased wireless revenues. We also have limited international sales due to limited resources to build a reseller network. Our management will need to expend time and effort to develop these channels. Our customer profile has changed from volume sales to a limited number of large telecommunication customers to relatively small sales to a large number of business customers. We have expanded our internal sales force in response. Because, historically, our marketing efforts have been largely focused on developing relationships for wireline products, our management has had only limited experience in selling wireless with the new customer profile. We may not be able to adapt our traditional marketing and distribution programs to expand our distribution channels and any marketing efforts undertaken by or on behalf of us may not be successful.

### **Our products may suffer from defects**

Some of our products consist of software and services related to our wireless NotifyLink product line. Our NotifyLink products incorporate a mix of new and proven technology that has been tested extensively, but may still contain undetected design flaws. A failure by us to detect and prevent a design flaw or a widespread product defect could materially adversely affect the sales of the affected product and our other products and materially adversely affect our business, financial condition and operating results.

We have stopped production and development of our Visual Got Mail Solution product and all product in the field is out of warranty so we have no exposure from unknown defects.

### **We face significant competition**

We believe the market for our wireless products is highly competitive and that competition is likely to intensify. In the market for wireless email notification and management software, we compete with Research In Motion Limited, Consilient Technologies Corp., Infowave Software, Inc, Wireless Knowledge, Synchrologic, Visto and Good Technology. Our Visual Got Mail Solution indirectly competes with a single alternate Voice Mail notification service offered by local exchange carriers such as BellSouth, SBC Communications, and Verizon. Many of these companies have greater financial, technical and marketing resources than we do. In addition, there are several companies with substantially greater technical, financial and marketing resources than we have that could produce competing products. These companies include wireless software providers such as Consilient Technologies Corp., Infowave Software, Inc, Wireless Knowledge, Synchrologic, Visto and Good Technology. We expect that to the extent that the market for our products develops, competition will intensify and new competitors will enter the market. We may not be able to compete successfully against existing and new competitors as the market for our products evolves and the level of competition increases. A failure to compete successfully against existing and new competitors would materially and adversely affect our business, revenues, operating results, and financial condition.

### **Delisting from the Nasdaq SmallCap Market may affect the liquidity of our trading market and the market price of our common stock**

Since September 4, 2002, our common stock has been quoted on the Over-the-Counter Bulletin Board. Our shareholders could find it difficult to dispose of or to obtain accurate quotations as to the market value of, our common stock. In addition, delisting may make our common stock ineligible for use as, or make our common stock substantially less attractive as, collateral for margin and purpose loans, for investment by financial institutions under their internal policies or state legal investment laws, as consideration in the financing of future

acquisitions of businesses or assets by us, and for issuance by us in future capital raising transactions any of which could cause the market price of our common stock to decrease. Delisting subjects our common stock to the “penny stock rules” contained in Section 15(g) of the Securities Exchange Act of 1934.

### **We depend on key executives**

Our potential for success depends significantly on key management employees, including our Chairman, President and Chief Executive Officer, Mr. Paul F. DePond, our Vice President of Development, Rhonda Chicone, our Chief Financial Officer, Gerald W. Rice, our Vice President of Business Development, Gordon S. Faulmann and our Director of International Sales, Elizabeth Dorman. We have entered into employment agreements with these five key management employees. The loss of their services or those of any of our other key employees would materially adversely affect us. We also believe that our future success will depend in large part on our ability to attract and retain additional highly skilled technical, management, sales and marketing personnel. If we were unable to hire the necessary personnel, the development of new products and enhancements to current products would likely be delayed or prevented. Competition for these highly-skilled employees is intense. Therefore, there can be no assurance that we will be successful in retaining our key personnel and in attracting and retaining the personnel we require for expansion.

### **Our intellectual property may not be adequately protected and we may infringe the rights of others**

We regard various features and design aspects of our products as proprietary and rely primarily on a combination of patent and trademark laws and employee and third-party nondisclosure agreements to protect our proprietary rights. We were issued a patent covering the design of our MessageAlert products in 1995 that expires in 2010, a patent covering the MultiSense technology used in our MessageAlert product issued in 1996 that expires in 2016 and a patent on our Call Manager call waiting device in 1999 that expires in 2019. We intend to continue to apply for patents, as appropriate, for our future technologies and products. There are few barriers to entry into the market for our products, and there can be no assurance that any patents we apply for will be granted or that the scope of our patents or any patents granted in the future will be broad enough to protect us against the use of similar technologies by our competitors. There can be no assurance, therefore, that any of our competitors, some of whom have far greater resources than we do, will not independently develop technologies that are substantially equivalent or superior to our technology.

In November of 2003, NCR Corporation and Notify Technology Corporation entered into a non-exclusive license agreement that allows us to offer certain product features on our Enterprise Mobility Solution that are covered by a patent held by NCR. This agreement requires a royalty payment calculated on all of our revenue of product we sell that uses the features covered by the patent.

On May 17, 2001, Research In Motion Limited, the maker of the “Blackberry” hand-held computer, announced that it had been issued a patent on its Blackberry single mailbox integration. Generally, the patent relates to Research In Motion’s proprietary system and method of redirecting information between a host computer system, and a mobile communications device while maintaining a common electronic address between the host system and the mobile device. Research In Motion also announced that it had filed a complaint against Glenayre Technologies, Inc. for, among other items, patent and trademark infringement. Our intellectual property counsel has reviewed the patent and issued an opinion to us opining that version 4.0 of our Desktop software does not infringe on Research In Motion’s patent. Nevertheless, no assurances can be given that Research In Motion will not bring an action against us for a patent infringement or similar claim, or if any such claim is brought, the eventual results thereof.

We may be involved from time to time in litigation to determine the enforceability, scope and validity of any of our proprietary rights or of third parties asserting infringement claims against us. These claims could result in substantial cost to us and could divert our management and technical personnel away from their normal responsibilities.

### **Our stock price may be volatile**

The market price for our common stock may be affected by a number of factors, including the announcement of new products or product enhancements by us or our competitors, the loss of services of one or more of our executive officers or other key employees, quarterly variations in our or our competitors' results of operations, changes in earnings estimates, developments in our industry, sales of substantial numbers of shares of our common stock in the public market, general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors. In addition, stock prices for many companies in the technology sector have experienced wide fluctuations that have often been unrelated to the operating performances of these companies. These factors and fluctuations, as well as general economic, political and market conditions, such as recessions, may materially adversely affect the market price of our common stock.

### **Our charter provisions may discourage acquisition bids**

Our Articles of Incorporation gives our board of directors the authority to issue an aggregate of 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights for these shares, without any further vote or action by our shareholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisition and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

### **Our articles of incorporation limit the liability of officers and directors and we have entered into indemnification agreements with them**

Our Articles of Incorporation eliminate, in certain circumstances, the liability of our directors for monetary damages for breach of their fiduciary duties as directors. We have also entered into indemnification agreements with each of our directors and officers. Each of these indemnification agreements provides that we will indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred by them in connection with any civil or criminal action or administrative proceeding arising out of their performance of duties as a director or officer, other than an action instituted by the director or officer. These indemnification agreements also require that we indemnify the director or other party thereto in all cases to the fullest extent permitted by applicable law. Each indemnification agreement permits the director or officer that is party thereto to bring suit to seek recovery of amounts due under the indemnification agreement and to recover the expenses of such a suit if they are successful.

## **ITEM 2. Description of Property**

Our principal executive offices are located at 1054 South DeAnza Boulevard, Suite 105, San Jose, California 95129. These facilities consist of approximately 3,900 square feet of office space pursuant to a lease that expires March 31, 2006. We have a second location at 6570 Seville Drive, Canfield, Ohio 44406 that houses an engineering group and our customer support organization. The Ohio facility consists of approximately 5,000 square feet of office space pursuant to a lease that expires in October 2006.

We have not invested in real property at this time nor do we intend to do so. We have no formal policy with respect to investments in real estate or investments with persons primarily engaged in real estate activities.

## **ITEM 3. Legal Proceedings**

We are not a party to any litigation.

## **ITEM 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote by security holders during the fourth quarter of fiscal 2005.

## PART II

### ITEM 5. Market for Common Equity, Related Stockholder Matters, and Small Business Issuer Purchases of Equity Securities

#### (a) Market for Common Equity.

Our common stock was listed on the Nasdaq SmallCap Market under the symbol NTFY until our common stock was delisted from the Nasdaq SmallCap Market on September 4, 2002. From September 4, 2002 until present, our common stock has been trading on the OTC Bulletin Board under the symbol NTFY.

The quarterly high and low bid prices of our common stock during fiscal 2005 and the quarterly high and low sales prices of our common stock for fiscal 2004 are as follows:

#### NTFY Common Stock

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended September 30, 2005</b>		
Fourth Quarter .....	\$0.200	\$0.150
Third Quarter .....	\$0.240	\$0.130
Second Quarter .....	\$0.300	\$0.150
First Quarter .....	\$0.270	\$0.135
<b>Fiscal Year Ended September 30, 2004</b>		
Fourth Quarter .....	\$0.300	\$0.200
Third Quarter .....	\$0.330	\$0.230
Second Quarter .....	\$0.250	\$0.200
First Quarter .....	\$0.270	\$0.200

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. The quarterly high and low bid prices of our common stock during fiscal 2005 were provided by Bloomberg L.P.

#### (b) Holders.

As of December 15, 2005, there were approximately 88 holders of record of our common stock.

#### (c) Dividends.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

#### (d) Equity Compensation Plans

The information required by this item regarding equity compensation plans is incorporated by reference to the information set forth in Item 11 of this Annual Report on Form 10-KSB.

#### (e) Recent sales of Unregistered Securities

During the period covered by this Annual Report on Form 10-KSB, there were no sale of unregistered securities of Notify.

## **ITEM 6. Management's Discussion and Analysis or Plan of Operation**

### **Overview**

We were incorporated in the State of California in August 1994. We are a leading provider of secure real time wireless synchronization of email, calendar, contacts and tasks, supporting any Blackberry, Palm and Windows Mobile Wireless device on all major cellular voice and data networks worldwide. NotifyLink, our middleware enterprise on-premise and hosted solutions, work with Microsoft Exchange, Novell GroupWise and a variety of IMAP4 email systems including Sun, Oracle, MiraPoint, Communigate, Gordano, Stalker, Scalix, Kerio and Open-Xchange. NotifyLink users have the ability to compose, reply, forward and delete their emails while mobile. In addition, users have the ability to maintain mobile synchronization with their calendar, contacts and tasks from their wireless device.

We have also been a supplier of wireline call and message notification products and services. In fiscal 2001, we developed a voice mail notification product known as the Visual Got Mail Solution for a long distance company entering the local telephone market. Although we shifted our focus to the enterprise mobility software business in fiscal 2003 and fiscal 2004, the Visual Got Mail Solution generated substantially all of our revenue in fiscal 2002 and 2003, a substantial majority of our revenue in fiscal 2004 and approximately 57% in fiscal 2005. We have continued to generate service revenue from the currently installed base of voice mail users even though new sales of the Visual Got Mail Solution have declined significantly since mid fiscal 2003. Because we believe our greatest opportunity for future growth lies with our wireless product line, the focus of our sales, marketing and development effort in fiscal 2005 has been in our mobility software products. Wireless products contributed approximately 43% of our total revenue in fiscal 2005 as compared to 28% of total revenues in fiscal 2004. We currently sell our products primarily through direct sales. To a lesser extent, we sell our products through resellers, both domestically and internationally.

We completed our initial public offering in September 1997, with net proceeds of approximately \$6.2 million. Prior to our initial public offering, our working capital requirements were met through the sale of equity and debt securities and, to a lesser extent, product revenue and a line of credit. We have sustained significant operating losses in every fiscal period since inception and expect to incur substantial quarterly operating losses in the future. Our limited operating history makes the prediction of future operating results difficult if not impossible. Future operating results will depend on many factors, including the demand for our products, the level of product and price competition, our ability to expand our existing distribution channels and to create new distribution channels, and our ability to develop and market new products and control costs. There can be no assurance that our revenue will grow or be sustained in future periods or that we will ever achieve profitability.

### **Critical Accounting Policies and Estimates**

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate estimates, including those related to bad debts, inventories and income taxes, on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, involve the more significant judgments and estimates used in the preparation of our financial statements:

We recognize revenue in accordance with the American institute of Certified Public Accounts Statement of Position ("SOP") 97-2, "Software Revenue Recognition," and SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104").

Under SOP 97-2, we recognize software license agreements when persuasive evidence of an agreement exists, delivery of the product has occurred, the license fee is fixed or determinable and collection is probable. Our license agreements generally have a fixed term and the license revenue is recognized ratably over the term of each license.

Under SAB 104, we recognize revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery of the product has occurred or services have been rendered, the sales price is fixed or determinable and collection is probable. We recognize revenues at time of shipment of our products and sales are recorded net of discounts and returns.

We maintain allowances for doubtful accounts for estimated bad debts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventories are recorded at the lower of cost or market on a first-in, first-out basis. Write-downs of inventories to market value are based upon obsolescence, as well as assumptions about future demand and market conditions.

We generally warrant our products for a specific period of time, usually one year, against material defects. We provide for the estimated future costs of warranty obligations in costs of goods sold when the related revenue is recognized. The accrued warranty costs represent our best estimate at the time of sale of the total costs that we will incur to repair or replace product parts, which fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. Actual warranty costs could differ from the estimated amounts. On a quarterly basis, we review the accrued balances and update the historical warranty cost trends. If we were required to accrue additional warranty cost in the future, it would negatively affect operating results. As of September 30, 2005, we had no product under warranty and our warranty reserves were zero.

The carrying value of our deferred tax assets are dependent upon our ability to generate sufficient future taxable income in certain tax jurisdictions. Should we determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Currently, our deferred tax assets are fully reserved.

## **Results of Operations**

### *Revenue*

Total revenue consists of a combination of gross revenue from the sale of annual contracts for NotifyLink, revenue from the sale of services related to our Visual Got Mail Solution, revenue from the sale of telephony equipment related to our Visual Got Mail Solution and revenue from royalties on patents we own. The revenue from the service contracts is recognized on a straight line basis over the term of the contract. Revenue from the Visual Got Mail Solution service is recognized in the month the service is supplied. Revenue from the telephony equipment is recognized when the equipment is shipped and revenue from royalties is recognized upon the receipt of payment. Revenue from the sale of NotifyLink for the fiscal year ended September 30, 2005 increased to \$2,104,745 from \$1,004,047 for the fiscal year ended September 30, 2004. Revenue from the sale of the Visual Got Mail Solution service for the fiscal year ended September 30, 2004 decreased to \$1,377,269 from \$1,665,727 for the fiscal year ended September 30, 2004. Revenue from the sale of the Visual Got Mail Solution equipment for the fiscal year ended September 30, 2004 increased to \$1,417,010 from \$377,762 for the fiscal year ended September 30, 2004. Royalty revenue was \$154,975 in fiscal 2004 with no royalty income occurring in fiscal 2005.

In the fiscal year ended September 30, 2005, our revenue was highly concentrated to a single customer with 57% of our revenue coming from the sale of our Visual Got Mail Solution service and CPE to a single competitive provider of local phone services. In fiscal 2005, we increased the sales of NotifyLink consisting of smaller dollar sales to a higher volume of customers, so that it represented 43% of total sales compared to 28% in fiscal 2004. This increase was primarily due to increased sales and marketing efforts. The revenue from the service component of the Visual Got Mail Solution declined slowly throughout fiscal 2005 as a result of our customer announcing a decision to terminate its marketing efforts for the voice mail product that our Visual Got Mail Solution supports in July 2004. Although we experienced a steady but slow decline of monthly revenue in

fiscal 2005, we cannot predict the future revenue of the Visual Got Mail Solution other than to consider the product to be on the decline and have a limited life. We began fiscal 2005 with a significant inventory of CPE inventory that was owned by our customer but remained in our custody pending delivery instructions. A majority of the inventory was declared obsolete and disposed of in fiscal 2005 resulting in a deferred revenue recognition of \$1,417,010 on our income statement. We have received a request to dispose of the remaining inventory that will result in a similar accounting treatment in the first fiscal quarter of fiscal 2006. If the demand for the Visual Got Mail Solution service were to cease or decline at an accelerated rate, the loss of the on-going service revenue would have a materially adverse affect on our business.

The Visual Got Mail Solution and NotifyLink accounted for 57% and 43% of total revenues in fiscal 2005, respectively. In fiscal 2004, the Visual Got Mail Solution and NotifyLink accounted for 66% and 28% of total revenues, respectively.

#### *Cost of Revenue*

Cost of revenue consists of the cost to manufacture our Visual Got Mail Solution products, the hosting center costs to support the service portion of our Visual Got Mail Solution and the cost of re-sale software related to NotifyLink. Cost of revenue increased to \$1,283,791 in the fiscal year ended September 30, 2005 from \$686,701 in the fiscal year ended September 30, 2004. This increase was significantly impacted by the historical manufacturing costs of the CPE that was taken to income based on our customer's decision to obsolete the CPE product. Historically, we manufactured and sold CPE product to one customer that paid for the finished product upon delivery to the Notify warehouse. Notify suspended the gross margin on the CPE in deferred revenue until a fulfillment order was received to ship individual CPE units to specific end users; a service we provided for a separate fee. Our customer's decision to obsolete and dispose of the CPE eliminated the fulfillment obligation and released the gross margin from deferred income.

The gross margin decreased somewhat to 74% in fiscal 2005 from 81% in fiscal 2004. This decrease in gross margin primarily occurred because of the significant revenue recognition in fiscal 2005 of lower margin CPE sales combined with the higher margin Visual Got Mail service revenue and software sales versus the mix in fiscal 2004.

#### *Research and Development*

We incurred \$1,040,197 and \$1,034,221 in research and development expenses in fiscal 2005 and 2004, respectively. Our development efforts were devoted to improving our software product, porting our solution to new devices released by device manufacturers, and creating new products within the NotifyLink family. Our software engineering development is located in our offices in Canfield, Ohio. We believe that our future success, if any, depends significantly on our ability to continue to enhance our existing wireless products and to develop new products and, therefore, we intend to continue to incur research and development costs. We expect that our research and development efforts will be focused in wireless software as our wireline products are mature and their market declining.

#### *Sales and Marketing*

Sales and marketing expense consists primarily of personnel, show, travel costs and sales commissions related to our sales and marketing efforts. Sales and marketing expenses increased to \$1,702,454 for the fiscal year ended September 30, 2005 from \$957,493 for the fiscal year ended September 30, 2004. This increase was attributable primarily to the increases in both sales personnel and sales commissions. The NotifyLink product line requires more brand awareness than our traditional products so our marketing efforts have expanded accordingly. The sales process for NotifyLink also involves a customer trial period that, in turn, requires an initial installation process involving assistance from customer service personnel so we have added customer service personnel to meet the demand.

We believe that sales and marketing expenses may continue to increase in future quarters if we continue to emphasize an in-house sales force, which we believe is necessary to implement our NotifyLink strategy. Also, any growth of NotifyLink will require more sales support as we attempt to expand our existing referral base and create new distribution channels.

### *General and Administrative*

General and administrative expense consists of general management and finance personnel, occupancy costs, professional fees and other general corporate expenses. General and administrative expenses increased to \$1,552,351 for fiscal 2005 from \$1,495,208 for fiscal 2004. Increases in compensation and consulting expenses were partially offset by reductions in corporate, accounting and legal costs.

### *Income Taxes*

There was no provision for federal or state income taxes in fiscal 2004 or 2005 as we incurred net operating losses. We expect to incur a net operating loss in future quarters and years. As of September 30, 2005, we had federal and state net operating loss carryforwards of approximately \$19,000,000 and \$4,500,000, respectively. The net loss carryforwards and certain research and development tax credit carryforwards will expire in tax years 2014 through 2025, if not utilized. Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits carryforwards before full utilization. For financial reporting purposes, deferred tax assets primarily related to the net operating carryforwards recognized under Financial Accounting Standard No. 109, "Accounting for Income Taxes," has been fully offset by a valuation allowance.

### *Redemption of Preferred Stock*

Holders of our outstanding Series A preferred stock had the right to require us to redeem any unconverted shares of Series A preferred stock at any time and from time to time during the period from July 20, 2003 to July 25, 2004. The per share redemption price was \$10.00 plus any accrued dividends. The holders of Series A preferred stock had the option to receive the redemption price in cash or in shares of our common stock, but we were not obligated to pay the redemption in cash unless our board of directors unanimously approved such payment in cash. The holders of our Series A preferred stock chose to exercise their right of redemption in the form of common shares. The outstanding Series A preferred shares were redeemed at an effective rate of 20 shares of common stock for each share of Series A preferred stock. The redemption date was July 20, 2004 at which time 461,000 Series A preferred shares were presented for redemption and on August 31, 2004, 9,220,000 shares of common stock were issued.

### *Release of Escrow Securities*

In connection with our initial public offering in August 1997, holders, who held founders stock or who acquired our stock in prior private offerings, agreed to place an aggregate of 1,233,870 of their shares into escrow. The securities were to be released to the holders in the event specified levels of pretax income were achieved for the years ending through September 30, 2003, or if we were acquired by or merged into another entity in a transaction in which the shareholders receive a specified consideration. Any securities remaining in escrow on December 31, 2003 were to be forfeited, which securities would then be contributed to our capital. At September 30, 2003, we had not attained any of the specified earnings or market price levels. Therefore, all escrowed shares were cancelled and extinguished as of December 31, 2003 based on our failure to achieve the financial milestones established when the shares were placed in escrow.

### **Liquidity and Capital Resources**

During fiscal 2005, we financed our operations through a combination of gross margin from sales of product and services and existing cash balances. Our ability to fund our recurring losses from operations depends upon the success of our NotifyLink wireless e-mail notification and wireless e-mail notification market solutions and the continuation of the current Visual Got Mail Solution program, and/or raising other sources of financing. We improved the sales of NotifyLink to \$2,104,745 in the fiscal year ended September 30, 2005 from \$1,004,047 in the fiscal year ended September 30, 2004. We continue to receive income from the service portion of our Visual Got Mail Solution although that revenue stream has an uncertain future as the customer has terminated its

marketing efforts for the product that our service supports. Consequently, we consider the Visual Got Mail Solution as a declining product. We do not believe that our existing cash balances are sufficient to fund our operations through September 30, 2006 and we will have to increase the sales of NotifyLink or secure additional financing. If we are unable to achieve NotifyLink revenue improvements or secure financing, we will have to restructure our business in order to reduce costs.

In the event we require additional capital, we cannot predict whether we will be able to obtain financing on commercially reasonable terms, if at all. Any future financings may take the form of debt or equity securities or a combination of debt and equity, including convertible notes or warrants. In the event we are required to obtain additional financing, we cannot predict whether we could successfully conclude a financing with any new investors. Minimally, we expect that any additional financing could result in a substantial dilution of the equity and voting interests of our current shareholders.

At September 30, 2005, we had cash and cash equivalents of \$424,228. Over the last four years, we have financed our operations primarily through sales of equity and income from operations. The net cash used by operating activities equaled \$580,606 in the fiscal year ended September 30, 2005 versus net cash used in operating activities of \$253,245 in the fiscal year ended September 30, 2004. We anticipate that we will have a negative cash flow from operating activities in future quarters and years.

Net cash provided/(used) by investing activities changed from an inflow of \$392,547 in fiscal 2004 to an outflow of \$36,791 in fiscal 2005 due to purchases of property and equipment of \$43,991 partially offset by proceeds from the sale of equipment.

We had no off balance sheet arrangements as defined by Item 303(c) of Regulation S-B.

#### **ITEM 7. Financial Statements**

Our audited financial statements appear beginning on page F-1 of this report.

#### **ITEM 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

#### **ITEM 8A. Controls and Procedures**

##### **(a) Evaluation of Disclosure Controls and Procedures.**

Our chief executive officer and our chief financial officer, after evaluating our disclosure controls and procedures (as defined in the rules and regulation of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this Annual Report on Form 10-KSB, have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

##### **(b) Changes in Internal Control Over Financial Reporting.**

During the period covered by this Annual Report on Form 10-KSB, we upgraded our contract control software to manage the increase in active customer contracts. The new control software features integrated revenue recognition, billing and receivables programs. No other significant changes were made in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 8B. Other Information**

We did not hold an annual meeting of shareholders during fiscal 2005. Therefore, in accordance with Rule 14a-5(f) under the Exchange Act and our bylaws, our board of directors shall determine a date a reasonable period prior to our next annual meeting of shareholders by which date all shareholder proposals for such annual meeting must be submitted.

**PART III**

**ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act**

**Directors and Executive Officers**

Our directors and executive officers and their ages as of September 30, 2005 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
<b>Directors and Executive Officers:</b>		
Paul F. DePond .....	52	Chief Executive Officer, President and Chairman
Gerald W. Rice .....	57	Chief Financial Officer and Secretary
Rhonda Chicone .....	41	Vice President of Product Development
Gordon Faulmann .....	42	Vice President of Business Development
Harold S. Blue (2) .....	43	Director
David A. Brewer (1)(2) .....	52	Director
Andrew H. Plevin (1)(2) .....	41	Director
Inder Tallur .....	40	Director
David Kvederis .....	57	Director

- (1) Member of the audit committee of the board of directors.
- (2) Member of the compensation committee of the board of directors.

**Biographical information for directors and executive officers:**

*Paul F. DePond*, our founder, has served as our President, Chief Executive Officer and Chairman of our board of directors since our inception in August 1994. From September 1992 through May 1994, Mr. DePond served as Vice President of Corporate Marketing at Telebit Corporation, a supplier of high speed modems and dialup remote access products. From January 1991 through September 1992, Mr. DePond served as Vice President of Marketing at Alantec Corporation, a manufacturer of networking products. Mr. DePond received a Bachelors of Science Degree in Electrical and Computer Engineering from the University of Michigan, Ann Arbor in 1980 and Masters Degree in Computer Science from the University of Michigan, Ann Arbor in 1980.

*Gerald W. Rice* has served as our Chief Financial Officer and Secretary since August 1994. From November 1993 to June 1996, he owned Comprehensive Business Services, a financial services company franchise. From April 1992 to April 1993, Mr. Rice served as Controller at Surface Sciences Instruments, a manufacturer of capital equipment for surface chemical analysis. From June 1990 to April 1992, Mr. Rice was Vice President of Finance and Secretary of Applied Dielectrics, a manufacturer of microwave circuit boards. Mr. Rice received an A.A. from Ohlone College in 1969 and a B.A. in Accounting from California State College of Stanislaus in 1971.

*Rhonda Chicone* has served as our Vice President of Product Development since July 2001. From October 2000 to July 2001, Ms. Chicone served as our Director of Engineering and from October 1999 to October 2000, she served as our Engineering Manager. From January 1999 to October 1999, Ms. Chicone served as one of our senior software engineers. From September 1996 to January 1999, she served as President of Tech-Xpress Enterprises, Inc. Ms. Chicone received a Science degree in Computer Science from Youngstown University in 1985 and a Masters of Science in Technology from Kent University in 2002.

*Gordon S. Faulmann* has served as our Vice President of Business Development since November 2004. Mr. Faulmann served as Director of Marketing with Motient Communications from March 2000 to November 2004, Channel Sales Manager with BellSouth Mobility/Cingular from September 1995 until March 2000, Marketing Manager with American Signature Technologies from October 1994 until September 1995 and Field Director of Marketing Research with the Florida State University from July 1988 until December 1992. Mr. Faulmann graduated from the Florida State University with a BS degree in Business Administration/Finance in 1991.

Biographical information for directors:

*Harold S. Blue* has served as one of our directors since July 2001. From July 2004 to the present, Mr. Blue has been serving as Chief Executive Officer and a director of Inoveris, LLC. From January 2002 until November 2004, Mr. Blue served as a Partner and President of Commonwealth Group Holding, Inc., an investment and merchant bank. From January 2001 until January 2002, Mr. Blue was a business consultant to Commonwealth Associates, L.P. From February 1993 to December 2000, Mr. Blue served as Chairman and Chief Executive Officer of ProxyMed, Inc., a healthcare information systems company. From 1990 to 1993, Mr. Blue was founder and Chief Executive Officer of Health Services, Inc., a physician practice management company, which was sold to InPhyNet Medical Management, Inc. From 1984 to 1988, Mr. Blue was the founder and President of Best Generics, a generic pharmaceutical distributor, which was sold to IVAX Corporation in 1988 at which time Mr. Blue joined IVAX as a director. From 1979 to 1984 he was the founder and Chief Executive Officer of Budget Drugs, a pharmacy chain in South Florida.

*David A. Brewer* has served as one of our directors since February 2000. Since January 1999, Mr. Brewer has served as general manager for Aragon Ventures LLC, a private equity investment firm. Mr. Brewer has been Chairman of the End Poverty Foundation, a charity organization, since January 2001. From November 1999 to present, Mr. Brewer has served as Chief Executive Officer of Explore Holdings LLC, a private equity investment firm, and from July 1995 to present he has served as a managing member of Inktomi LLC, an internet research company. From September 1996 to December 1998, Mr. Brewer served as President, Chief Executive Officer and director of Explore Technologies, Inc., an educational toy manufacturer. From February 1996 to May 1996, Mr. Brewer served as President, Chief Executive Officer, Chief Financial Officer and director of Inktomi Corporation, an internet software developer.

*Andrew H. Plevin* has served as one of our directors since February 1998. Since September 2000, he has served as managing partner of Carnegie Hill Venture Partners, a private equity investment firm. From November 1997 to August 2000, Mr. Plevin served as President, Chief Executive Officer and Chief Financial Officer of Core Software Technology, Inc.

*Inder Tallur* has served as one of our directors since November 2003. Since 2003, he has served as a Partner of ComVest Investment Partners. Mr. Tallur served as Director of Research of Commonwealth Associates, L.P. from 1995 until 2003. Mr. Tallur attended Tulane University's A.B. Freeman School of Business from 1992 to 1994 where he received an MBA and attended Boston College in 1995 where he received an MS in finance. Mr. Tallur also worked for Digital Equipment Corporation from 1990 to 1991 and HCL HP India, a subsidiary of Hewlett Packard from 1986 to 1990. Mr. Tallur received a BE in electronics from Visvesvaraya Regional College of Engineering, Nagpur, India in 1987.

*David Kvederis* has served as one of our directors since February 2005. He is the founder of BankServ, where he has served as President and Chief Executive Officer since 1996. Before his 15-year association with Wells Fargo (1982 to 1996), Mr. Kvederis served six years with Mellon Bank in Pittsburgh and six years with Continental Illinois Bank in Chicago. Mr. Kvederis received an MBA from the University of Chicago in 1976.

As previously reported in our Current Report on Form 8-K filed on October 20, 2004, Michael Ballard resigned as one of our directors on October 14, 2004. We would like to thank Mr. Ballard for his service as a director.

We have a separately-designated standing audit committee that was established in accordance with Section 3(a)(58)(A) of the Exchange Act. Messrs. Brewer and Plevin currently serve as members of the audit committee, and Mr. Ballard served as a member of the audit committee during fiscal 2005 until his resignation. Each member of our audit committee is "independent" as defined under the National Association of Securities Dealers' listing standards. The board of directors has determined that Mr. Brewer is an "audit committee financial expert" as defined in Item 401(e) of Regulation S-B promulgated by the Securities and Exchange Commission.

All executive officers serve at the discretion of our board of directors. All directors are elected annually and serve until the next annual meeting of shareholders or until the election and qualification of their successors. There are no family relationships between any of our directors or executive officers.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the our executive officers and directors and persons who own more than ten percent of a registered class of our equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. Executive officers, directors and greater than ten percent shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file. Based solely on its review of copies of such forms received by us, or written representations from certain reporting persons, the Company believe that, except as noted above, during the fiscal year ended September 30, 2005 all filing requirements applicable to our officers, directors and ten percent shareholders were fulfilled.

Gordon Faulmann and David Kvederis were each delinquent in the filing of a Form 3 to report their initial ownership of our securities upon becoming subject to the reporting requirements of Section 16(a).

### **Code of Ethics**

We have adopted the Notify Technology Corporation Code of Ethics for Principal and Executive and Senior Financial Officers (“Code of Ethics”). The Code of Ethics applies to our principal executive officer, our principal financial officer, our principal accounting officer or controller, and persons performing similar functions and responsibilities who shall be identified by our audit committee from time to time.

The Code of Ethics is available at or website, located at <http://www.notifycorp.com>.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website, at the address specified above.

## ITEM 10. Executive Compensation

### Summary Compensation Table

The following table sets forth information for the three most recently completed fiscal years concerning the compensation of (i) the Chief Executive Officer and (ii) all other executive officers of the Company who earned over \$100,000 in salary and bonus in the fiscal year ended September 30, 2005 (together the “Named Executive Officers”).

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)(1)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Restricted Stock Awards (\$)	Securities Underlying Options (#)	LTIP Payouts (\$)	
Paul F. DePond Chief Executive Officer	2005	\$225,865	\$106,900	—	—	250,000	—	\$23,944
	2004	231,415	62,854	—	—	—	—	19,965
	2003	224,485	10,000	—	—	400,000	—	15,046
Gerald W. Rice Chief Financial Officer	2005	\$170,658	\$ 33,975	—	—	75,000	—	\$25,112
	2004	170,992	21,328	—	—	—	—	19,394
	2003	165,576	7,500	—	—	125,000	—	16,934
Rhonda Chicone Vice President, R&D	2005	\$100,502	\$ 31,550	—	—	75,000	—	\$ 5,557
	2004	102,906	20,575	—	—	—	—	3,539
	2003	100,375	2,500	—	—	150,000	—	1,756
Gordon Faulmann(2) Vice President of Business Development	2005	\$ 84,922	—	—	—	75,000	—	\$ 678
	2004	—	—	—	—	—	—	—
	2003	—	—	—	—	—	—	—

(1) Represents payments of health insurance premiums on behalf of the Named Executive Officers.

(2) Mr. Faulmann was appointed as our Vice President of Business Development in November 2004.

### Option Grants in Last Fiscal Year

The following tables set forth certain information for the Named Executive Officers with respect to grants and exercises in fiscal 2005 of options to purchase Common Stock of the Company:

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
Paul F. DePond	250,000	52.6%	\$0.26	12/1/14
Gerald W. Rice	75,000	15.8%	\$0.26	11/8/14
Rhonda Chicone	75,000	15.8%	\$0.26	11/8/14
Gordon S. Faulmann	75,000	15.8%	\$0.26	11/8/14

### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

None of the Named Executive Officers exercised an outstanding stock option in fiscal 2005. The following table sets forth certain information for the Named Executive Officers with respect to securities underlying unexercised options at the end of fiscal 2005.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Paul F. DePond	—	—	1,190,278	309,722	—	—
Gerald W. Rice	—	—	367,639	92,391	—	—
Rhonda Chicone	—	—	370,000	100,000	—	—
Gordon S. Faulmann	—	—	—	75,000	—	—

### **Director Compensation**

Our directors do not currently receive any cash compensation for service on the board of directors or any committee thereof. Directors are eligible for option grants under our 1997 Stock Plan. During the fiscal year ended September 30, 2005, no directors received option grants.

### **Employment Agreements and Change-in-Control Arrangements**

In July 2004, we entered into an amended and restated employment agreement with Mr. DePond. The agreement provides for a base annual salary of \$225,000. Under the agreement, Mr. DePond is also eligible to receive annual bonuses based upon targets approved by our board of directors.

In the event that Mr. DePond's employment with the Company is terminated without cause within twenty-four (24) months following a change of control or at any time apart from a change of control, Mr. DePond is entitled to receive severance compensation equal to a continuation of his salary for a period of twelve (12) months. Mr. DePond will also be paid the maximum amount of his bonus for the fiscal year in which such involuntary termination occurs that could have been received had he satisfied all conditions necessary to earn such maximum amount of the bonus during the remainder of such fiscal year. In addition, Mr. DePond is entitled to receive 100% Company-paid dental and life insurance coverage and reimbursement for all premium payments paid under COBRA for continuing health insurance coverage as provided to Mr. DePond and his dependents immediately prior to such termination until the earlier of (i) twelve (12) months following such termination, or (ii) the date Mr. DePond becomes covered under another employer's dental, life or health insurance plan. In lieu of such reimbursements, Mr. DePond may, at his sole election, receive a one-time cash payment equal to the total amount of such premium payments Mr. DePond would be required to make for twelve (12) months following such termination. Mr. DePond is also entitled to receive outplacement services for a period of up to six (6) months following such termination with a maximum obligation to the Company of \$9,000 for such services. Mr. DePond is not entitled to severance compensation in the event of a termination for cause or voluntary resignation. In the event of a termination due to disability, Mr. DePond is entitled to receive only those severance or disability benefits as are established under the Company's then existing severance and benefits plans and policies. In the event of a termination due to Mr. DePond's death, Mr. DePond is entitled to receive a one-time cash payment equal to Mr. DePond's base annual salary minus the amount Mr. DePond is entitled to receive under the Company-paid life insurance policy.

In July 2004, we entered into an amended and restated employment agreement with Mr. Rice that provides for a base annual salary of \$170,000. Under the agreement, Mr. Rice is also eligible to receive annual bonuses based upon targets approved by our board of directors.

In the event that Mr. Rice's employment with the Company is terminated without cause within twenty-four (24) months following a change of control or at any time apart from a change of control, Mr. Rice will be entitled to receive severance compensation equal to a continuation of his salary for a period of six (6) months. Mr. Rice will also be paid the maximum amount of his bonus for the fiscal year in which such involuntary termination occurs that could have been received had he satisfied all conditions necessary to earn such maximum amount of the bonus during the remainder of such fiscal year. In addition, Mr. Rice is entitled to receive 100% Company-paid dental and life insurance coverage and reimbursement for all premium payments paid under COBRA for continuing health insurance coverage as provided to Mr. Rice and his dependents immediately prior to such termination until the earlier of (i) six (6) months following such termination, or (ii) the date Mr. Rice becomes covered under another employer's dental, life or health insurance plan. In lieu of such reimbursements, Mr. Rice may, at his sole election, receive a one-time cash payment equal to the total amount of such premium payments Mr. Rice would be required to make for six (6) months following such termination. Mr. Rice is also entitled to receive outplacement services for a period of up to six (6) months following such termination with a maximum obligation to the Company of \$9,000 for such services. Mr. Rice is not entitled to severance compensation in the event of a termination for cause or voluntary resignation. In the event of a termination due to disability, Mr. Rice is entitled to receive only those severance or disability benefits as are established under the Company's then

existing severance and benefits plans and policies. In the event of a termination due to Mr. Rice's death, Mr. Rice is entitled to receive a one-time cash payment equal to Mr. Rice's base annual salary minus the amount Mr. Rice is entitled to receive under the Company-paid life insurance policy.

In July 2004, we entered into an employment agreement with Ms. Chicone that provides for a base annual salary of \$100,000. Under the agreement, Ms. Chicone is also eligible to receive annual bonuses based on targets approved by our board of directors.

In the event that Ms. Chicone's employment with the Company is terminated without cause within twenty-four (24) months following a change of control or at any time apart from a change of control, Ms. Chicone will be entitled to receive severance compensation equal to a continuation of her salary for a period of twelve (12) months. Ms. Chicone will also be paid the maximum amount of her bonus for the fiscal year in which such involuntary termination occurs that could have been received had she satisfied all conditions necessary to earn such maximum amount of the bonus during the remainder of such fiscal year. In addition, Ms. Chicone is entitled to receive 100% Company-paid dental and life insurance coverage and reimbursement for all premium payments paid under COBRA for continuing health insurance coverage as provided to Ms. Chicone and her dependents immediately prior to such termination until the earlier of (i) twelve (12) months following such termination, or (ii) the date Ms. Chicone becomes covered under another employer's dental, life or health insurance plan. In lieu of such reimbursements, Ms. Chicone may, at her sole election, receive a one-time cash payment equal to the total amount of such premium payments Ms. Chicone would be required to make for twelve (12) months following such termination. Ms. Chicone is also entitled to receive outplacement services for a period of up to six (6) months following such termination with a maximum obligation to the Company of \$9,000 for such services. Ms. Chicone is not entitled to severance compensation in the event of a termination for cause or voluntary resignation. In the event of a termination due to death or disability, Ms. Chicone is entitled to receive only those severance or disability benefits as are established under the Company's then existing severance and benefits plans and policies.

In November 2004, we entered into an employment agreement with Mr. Faulmann that provides for a base annual salary of \$96,000. Under the agreement, Mr. Faulmann is also eligible to receive annual bonuses based on targets approved by our board of directors.

In the event that Mr. Faulmann's employment with the Company is terminated without cause within twelve (12) months following a change of control, Mr. Faulmann will be entitled to receive severance compensation equal to a continuation of his salary for a period of six (6) months. Mr. Faulmann will also be paid the maximum amount of his bonus for the fiscal quarter in which such involuntary termination occurs that could have been received had he satisfied all conditions necessary to earn such maximum amount of the bonus during the remainder of such fiscal quarter. In addition, Mr. Faulmann is entitled to receive reimbursement for certain medical expenses until the earlier of (i) six (6) months following such termination or (ii) the date Mr. Faulmann becomes covered under another employer's group health, dental or life insurance plan. In the event that Mr. Faulmann's employment with the Company is terminated without cause apart from a change of control, Mr. Faulmann is entitled to receive severance compensation equal to a continuation of his salary for a period of three (3) months. Mr. Faulmann will also be paid the maximum amount of his bonus for the fiscal quarter in which such involuntary termination occurs that could have been received had he satisfied all conditions necessary to earn such maximum amount of the bonus during the remainder of such fiscal quarter. Mr. Faulmann is not entitled to severance compensation in the event of a termination for cause or voluntary resignation. In the event of a termination due to disability, Mr. Faulmann is entitled to receive only those severance or disability benefits as are established under the Company's then existing severance and benefits plans and policies. In the event of a termination due to Mr. Faulmann's death, Mr. Faulmann is entitled to receive a one-time cash payment equal to Mr. Faulmann's base annual salary minus the amount Mr. Faulmann is entitled to receive under the Company-paid life insurance policy.

The foregoing agreements define a "change of control" as (i) the acquisition of more than 30% of our voting securities by any person or group; (ii) a change in a majority of our board of directors occurring within a two year period; or (iii) the approval by our shareholders of a transaction which would result in a transfer of more

than 50% of our voting power, a sale of all or substantially all of our assets, or a liquidation; provided, however, that a public offering of our common stock does not constitute a change of control. The agreements define “cause” as an act of dishonesty in connection with employment; a conviction of a felony that will detrimentally affect our reputation or business; and willful and gross misconduct injurious to us. The agreements define “disability” as the inability to perform duties under the agreement due to mental or physical illness determined to be total and permanent by a physician.

#### ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of our common stock and Series A preferred stock as of December 16, 2005, by (i) each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of that class of our stock, (ii) each of our directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group.

The table is based on information provided to us or filed with the Securities and Exchange Commission (“SEC”) by our directors, executive officers and principal shareholders. Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting and investment power with respect to shares. Shares of common stock and Series A preferred stock, as indicated in the table, issuable upon exercise of options or warrants that are currently exercisable or are exercisable within 60 days after December 16, 2005, are deemed outstanding for purposes of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage of any other shareholder. Unless otherwise indicated, the address for each shareholder listed in the following table is c/o Notify Technology Corporation, 1054 S. De Anza Blvd., Suite 105, San Jose, California 95129.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned		Shares of Series A Preferred Stock Beneficially Owned (Underlying Preferred Units)		Shares of Common Stock Beneficially Owned (Assuming Preferred Stock Conversion)	
	Number (1)	Percentage (1)	Number (2)	Percentage (2)	Number (3)	Percentage (3)
Entities and persons affiliated with						
Commonwealth Associates Group Holdings LLC (4)(5)(6) . . . . .	3,677,490	24.7%	75,683	100.0%	4,434,320	28.3%
c/o Commonwealth Associates, L.P. 830 Third Avenue New York, NY 10022						
Entities and persons affiliated with						
RMC Capital, LLC (7) . . . . .	2,350,000	16.4	—	*	2,350,000	16.4
c/o RMC Capital, LLC 1640 Powers Ferry, Suite 125 Marietta, GA 30067						
David A. Brewer (8) . . . . .	1,215,634	8.7	—	*	1,215,634	8.7
Paul F. DePond (9) . . . . .	1,428,170	9.4	—	*	1,428,170	9.4
Gordon Faulmann (10) . . . . .	31,250	*	—	*	31,250	—
Gerald W. Rice (11) . . . . .	420,620	2.9	—	*	420,620	2.9
Rhonda Chicone (12) . . . . .	412,250	2.9	—	*	412,250	2.9
Andrew Plevin (13) . . . . .	165,180	1.2	—	*	165,180	1.2
Harold S. Blue (14) . . . . .	22,323	*	3,203	100.0	54,353	*
Inder Tallur (15) . . . . .	8,929	*	1,281	100.0	21,739	*
David Kvederis . . . . .	—	—	—	—	—	—
All directors and executive officers as a group (9 persons) . . . . .	3,704,356	21.8	4,484	100.0	3,749,196	22.0

\* less than 1%

- (1) Applicable percentage of ownership is based on 13,968,995 shares of our common stock outstanding as of December 16, 2005, together with applicable options and warrants for such shareholder.
- (2) Applicable percentage of ownership is based on options to purchase 9.2685 units outstanding as of December 16, 2005, in which each unit consists of 10,000 shares of Series A preferred stock and a warrant to purchase 35,000 shares of common stock (a "Preferred Unit").
- (3) Applicable percentage of ownership is based on 13,968,995 shares of our capital stock outstanding as of December 16, 2005, together with applicable options or warrants for such shareholder.
- (4) Includes shares beneficially owned by Commonwealth Associates Group Holdings, LLC ("CAGH"), Commonwealth Management, LLC ("Commonwealth Management"), Commonwealth Associates, L.P. ("Commonwealth"), ComVest Management, LLC ("ComVest Management"), ComVest Venture Partners, L.P. ("ComVest"), Michael Falk, Keith Rosenbloom and Inder Tallur. CAGH is the sole member of Commonwealth Management, which is the general partner of Commonwealth, and ComVest Management, which is the general partner of ComVest. Mr. Falk is the chairman and principal member of CAGH and a managing member of each of Commonwealth Management and ComVest Management. According to the Schedule 13D filed on July 29, 2004, by ComVest, ComVest Management, Commonwealth, Commonwealth Management, CAGH and Mr. Falk, Mr. Falk shares voting and dispositive power over the shares held by ComVest and Commonwealth. Mr. Rosenbloom is a manager of ComVest Management. Mr. Tallur is a member of CAGH and a director of Notify.
- (5) Common stock consists of (i) 2,800,000 shares held by ComVest, (ii) 608,151 shares issuable to ComVest upon exercise of outstanding common stock warrants, (iii) 90,650 shares issuable to ComVest upon exercise of warrants that are issuable upon exercise of an option to purchase 2.59 Preferred Units, (iv) 119,864 shares issuable to Commonwealth upon exercise of warrants that are issuable upon exercise of an option to purchase 3.424707 Preferred Units, (v) 38,684 shares issuable to Mr. Falk upon exercise of the warrants that are issuable upon exercise of an option to purchase 1.105267 Preferred Units, (vi) 11,212 shares issuable to Mr. Rosenbloom upon exercise of the warrants that are issuable upon exercise of an option to purchase 0.320367 Preferred Units, (vii) 4,485 shares issuable to Mr. Tallur upon exercise of the warrants that are issuable upon exercise of an option to purchase 0.128147 Preferred Units and (viii) 4,444 shares issuable to Mr. Tallur upon exercise of options. Common stock excludes 48,282 shares issuable to other employees of CAGH, or its affiliates, upon exercise of warrants that are issuable upon exercise of options to purchase an aggregate of 1.379645 Preferred Units. Commonwealth disclaims beneficial ownership of such shares.
- (6) Series A preferred stock consists of (i) 25,900 shares issuable to ComVest upon exercise of an option to purchase 2.59 Preferred Units, (ii) 34,247 shares issuable to Commonwealth upon exercise of an option to purchase 3.424707 Preferred Units, (iii) 11,052 shares issuable to Mr. Falk upon exercise of an option to purchase 1.105267 Preferred Units, (iv) 3,203 shares issuable to Mr. Rosenbloom upon exercise of an option to purchase 0.320367 Preferred Units, and (v) 1,281 shares issuable to Mr. Tallur upon exercise of an option to purchase 0.128147 Preferred Units. Series A preferred stock excludes 13,792 shares issuable to other employees of CAGH, or its affiliates, upon exercise of options to purchase an aggregate of 1.379645 Preferred Units. Commonwealth disclaims beneficial ownership of such shares. Percentage beneficial ownership for the Series A preferred stock is shown as 100% because no shares of Series A preferred stock are outstanding and under the SEC rules derivative securities held by a shareholder are only deemed outstanding for purposes of computing the percentage ownership of such shareholder.
- (7) Common stock includes 350,000 shares issuable upon exercise of warrants.
- (8) Includes 43,333 shares issuable upon exercise of options.
- (9) Includes 1,280,555 shares issuable upon exercise of options.
- (10) Includes 31,250 shares issuable upon exercise of options.
- (11) Includes 395,417 shares issuable upon exercise of options.
- (12) Includes 401,250 shares issuable upon exercise of options.
- (13) Includes 54,444 shares issuable upon exercise of options.

- (14) Common stock consists of (i) 11,212 shares issuable to Mr. Blue upon exercise of the warrants that are issuable upon exercise of an option to purchase 0.320367 Preferred Units and (ii) 11,111 shares issuable upon exercise of options. Series A preferred stock consists of 3,203 shares issuable to Mr. Blue upon exercise of an option to purchase 0.320367 Preferred Units. Percentage beneficial ownership for the Series A preferred stock is shown as 100% because no shares of Series A preferred stock are outstanding and under the SEC rules derivative securities held by a shareholder are only deemed outstanding for purposes of computing the percentage ownership of such shareholder.
- (15) Common stock consists of (i) 4,485 shares issuable to Mr. Tallur upon exercise of the warrants that are issuable upon exercise of an option to purchase 0.128147 Preferred Units and (ii) 4,444 shares issuable upon exercise of options. Series A preferred stock consists of 1,281 shares issuable to Mr. Tallur upon exercise of an option to purchase 0.128147 Preferred Units. Percentage beneficial ownership for the Series A preferred stock is shown as 100% because no shares of Series A preferred stock are outstanding following the redemption and under the SEC rules derivative securities held by a shareholder are only deemed outstanding for purposes of computing the percentage ownership of such shareholder.

### Equity Compensation Plan Information

The following table sets forth information with respect to our 1997 Stock Plan as of September 30, 2005.

	(a)	(b)	(c)
	Number of Securities to be Issued upon Exercise of Outstanding Warrants, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available or Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders . . . . .	3,333,667	\$1.173	140,995
Equity compensation plans not approved by security holders . . . . .	N/A	N/A	N/A
<b>Total</b> . . . . .	<u>3,333,667</u>	<u>\$1.173</u>	<u>140,995</u>

## ITEM 12. Certain Relationships and Related Transactions

### July 2001 Private Placement

On July 20, 2001, we completed a preferred stock and warrant financing. In the financing, we sold shares of our Series A preferred stock convertible into an aggregate of 5,010,000 shares of our common stock and warrants to purchase an aggregate of 1,753,500 shares of common stock at an exercise price of \$1.00 per share. The proceeds from the financing, net of the placement agent's commission, were approximately \$4,509,000.

We issued to ComVest Venture Partners, L.P. a warrant to purchase 118,151 shares of common stock on May 15, 2001 in connection with ComVest Venture Partners' commitment to invest in the financing the difference between \$5,000,000 and the aggregate amount of money invested by all other investors in the financing. In the financing, ComVest purchased approximately \$1,400,000 of securities. In addition, we granted Commonwealth Associates, L.P., the placement agent for the financing, an option to purchase (i) shares of Series A preferred stock convertible into an aggregate of 926,850 shares of common stock and (ii) a warrant to purchase 324,397 shares of common stock.

Holders of our outstanding Series A preferred stock had the right to require us to redeem any unconverted shares of Series A preferred stock at any time and from time to time during the period from July 20, 2003 to July 25, 2004. The per share redemption price was \$10.00 plus any accrued dividends. The holders of Series A preferred stock had the option to receive the redemption price in cash or in shares of our common stock; provided, however, that we were not obligated to pay the redemption price in cash unless our board of directors unanimously approved such payment in cash. If all holders of outstanding Series A preferred stock as of July 20, 2004 had elected to redeem for cash, the aggregate redemption price would have totaled \$4,610,000. Had we

failed to pay the entire redemption price for a cash redemption that was unanimously approved by our board of directors, the redemption price would have increased by five percent (5%) for each thirty (30) day period (and for a pro rata percentage for any portion thereof) during which we failed to make such payment, subject to certain periods during which we could have cured our default.

Per an agreement entered into in connection with the financing, we prepared and filed with the Securities and Exchange Commission a registration statement covering the resale of the shares of common stock underlying all securities issued in connection with the financing. Also pursuant to such agreement, we appointed Messrs. Harold S. Blue and Inder Tallur as Commonwealth Associates' designees to our board of directors. The agreement to appoint two Commonwealth Associates' designees to our board of directors expired upon the redemption of the Series A preferred stock for common stock described below. We have covenanted to provide Commonwealth Associates, L.P. with finder's fees in connection with certain future financings.

On July 20, 2004, the holders of Series A preferred stock chose to redeem their shares of Series A preferred stock for shares of common stock and each holder of Series A preferred stock requesting redemption received shares of common stock equal to a redemption conversion price of \$0.50 per share.

We believe that all of the transactions set forth above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

### **ITEM 13. Exhibits.**

#### *(a) Exhibits*

- 3.1.1 Amended and Restated Articles of Incorporation of Registrant as filed with the Secretary of State of California on September 2, 1997. (incorporated herein by reference to Exhibit (3.2) to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on March 14, 1997)
- 3.1.2 Certificate of Amendment to the Registrant's Articles of Incorporation as filed with the Secretary of State of California on March 3, 1998. (incorporated herein by reference to Exhibit (3.1.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 3.1.3 Certificate of Amendment to the Registrant's Articles of Incorporation as filed with the Secretary of State of California on July 12, 2001. (incorporated herein by reference to Exhibit (3.1.2) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 3.1.4 Certificate of Determination, Preferences and Rights of Series A Preferred Stock as filed with the Secretary of State of California on July 13, 2001. (incorporated herein by reference to Exhibit (3.1) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 3.2 Amended and Restated Bylaws of Registrant. (incorporated herein by reference to Exhibit (3.2) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 4.2 Form of warrant issued to subscribers in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.1) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 4.3 Form of option issued to the placement agent in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.2) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 4.4 Form of warrant underlying the option issued to the placement agent in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.3) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)

- 10.4 Form of Indemnification Agreement. (incorporated herein by reference to Exhibit (10.5) to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on March 14, 1997)
- 10.6 Registrant's 1997 Stock Plan, as amended effective March 26, 2003, and form of stock option agreement. (incorporated by reference to Exhibit (4.1) to the Registrant's Registration Statement on Form S-8 Reg. No 333-108868, filed on September 17, 2003)
- 10.7+ Nonexclusive Technology License Agreement between Registrant and Active Voice Corporation dated April 30, 1997. (incorporated herein by reference to Exhibit (10.10) to Amendment No. 2 to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on August 15, 1997)
- 10.12.1 Voice Mail Services Agreement, dated as of February 8, 2002, by and between the Registrant and AT&T Corp. (incorporated herein by reference to Exhibit (10.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended March 30, 2002, filed on May 15, 2002)
- 10.12.2 First Amendment to the Voice Mail Services Agreement, dated as of February 8, 2003, by and between the Registrant and AT&T Corp. (incorporated herein by reference to Exhibit (10.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2003, filed on May 14, 2003)
- 10.14 Lease, dated as of March 20, 2003 by and among Registrant, and Ching C. Poon and Jenny M. Poon. (incorporated herein by reference to Exhibit (10.15) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)
- 10.15 Lease, dated as of October 3, 2001 by and between Registrant and Colbur Tech, LLC. (incorporated herein by reference to Exhibit (10.16) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)
- 10.16 Amended and Restated Employment Agreement dated as of July 6, 2004 between Registrant and Paul DePond. (incorporated herein by reference to Exhibit (10.16) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.17 Amended and Restated Employment Agreement dated as of July 6, 2004 between Registrant and Gerald Rice. (incorporated herein by reference to Exhibit (10.17) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.18 Employment Agreement dated as of July 6, 2004 between Registrant and Rhonda Chicone-Shick. (incorporated herein by reference to Exhibit (10.18) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.19 Severance Agreement and Release dated September 30, 2004 between the Company and Gaylan I. Larson (incorporated herein by reference to Exhibit (10.19) to the Registrant's Current Report on Form 8-K, filed on October 1, 2004)
- 10.20 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of March 15, 2004 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.20) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.21 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of October 11, 2001 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.21) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.22 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of October 11, 2001 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.22) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.23 Employment Agreement dated November 15, 2004 between the Company and Gordon S. Faulmann (incorporated herein by reference to Exhibit (10.19) to the Registrant's Current Report on Form 8-K, filed on November 17, 2004)

- 10.24 Nonexclusive Technology License Agreement, dated as of November 24, 2003, by and between Registrant and NCR Corporation. (incorporated herein by reference to Exhibit (10.24) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, filed on December 22, 2004)
- 14.1 Code of Ethics for Principal Executive and Senior Financial Officers (incorporated herein by reference to Exhibit (14.1) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)
- 23.1 Consent of L.L. Bradford & Company LLC, independent registered public accounting firm
- 23.2 Consent of Burr, Pilger & Mayer LLP, independent registered public accounting firm
- 24.1 Power of Attorney (see page 33).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ Confidential treatment has been granted with respect to portions of these exhibits.

**ITEM 14. Principal Accountant Fees and Services**

**Summary of Fees**

The following table summarizes the approximate aggregate fees billed to us or expected to be billed to us by our independent auditors for our 2005 and 2004 fiscal years:

<u>Type of Fees</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>
Audit Fees .....	\$ 75,385(1)	\$22,170(1)
Audit-Related Fees .....	12,670(2)	21,835(3)
Tax Fees .....	17,067(4)	17,680(4)
All Other Fees .....	—	—
Total Fees .....	<u>\$105,122</u>	<u>\$55,785</u>

- (1) Includes audit fees billed to us by Burr, Pilger & Mayer LLP.
- (2) Includes \$12,670 billed to us by Burr, Pilger & Mayer LLP for review of our Registration Statement on Form SB-2.
- (3) Includes \$5,900 billed to us by Ernst & Young LLP and \$15,935 billed to us by Burr, Pilger & Mayer LLP for review of our Registration Statement on Form SB-2 and preparation of our Registration Statement on Form S-8.
- (4) Includes fees for fiscal 2004 and fiscal 2003 income tax preparation billed to us by Burr, Pilger & Mayer LLP.

**Pre-Approval of Independent Auditor Services and Fees**

Our audit committee reviewed and pre-approved all audit and non-audit fees for services provided by Burr, Pilger & Mayer LLP and L.L. Bradford & Company, LLC and has determined that the provision of such services to us during fiscal 2005 is compatible with and did not impair Burr, Pilger & Mayer LLP's or L.L. Bradford & Company, LLC's independence. Burr, Pilger & Mayer LLP provided quarterly audit services while L.L. Bradford & Company, LLC was engaged to perform the 2005 fiscal year-end audit. It is the practice of the audit committee to consider and approve in advance all auditing and non-auditing services provided to us by our independent auditors in accordance with the applicable requirements of the Securities and Exchange Commission.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### NOTIFY TECHNOLOGY CORPORATION

Dated: December 23, 2005

By:                   /S/ PAUL F. DEPOND                    
**Paul F. DePond**  
**President and Chief Executive Officer**

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Paul F. DePond and Gerald W. Rice and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys- in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Exchange Act of 1934, this report was signed by the following persons on the behalf of the registrant in the capacities indicated below and on the dates stated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/S/ PAUL DEPOND <b>Paul DePond</b>	President, Chief Executive Officer and Chairman (Principal Executive Officer)	December 23, 2005
/S/ GERALD RICE <b>Gerald Rice</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	December 23, 2005
/S/ DAVID BREWER <b>David Brewer</b>	Director	December 23, 2005
/S/ ANDREW PLEVIN <b>Andrew Plevin</b>	Director	December 20, 2005
/S/ HAROLD BLUE <b>Harold Blue</b>	Director	December 22, 2005
<b>Inder Tallur</b>	Director	
/S/ DAVID KVEDERIS <b>David Kvederis</b>	Director	December 19, 2005

**Notify Technology Corporation**  
**Financial Statements**  
**Years ended September 30, 2005 and 2004**

**Contents**

Report of Independent Registered Public Accounting Firm .....	F-2
Report of Independent Registered Public Accounting Firm .....	F-3
Audited Financial Statements:	
Balance Sheet .....	F-4
Statements of Operations .....	F-5
Statements of Shareholders' Equity (Deficit) .....	F-6
Statements of Cash Flows .....	F-7
Notes to Financial Statements .....	F-8

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Notify Technology Corporation

We have audited the accompanying balance sheet of Notify Technology Corporation as of September 30, 2005, and the related statements of operations, shareholders' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Notify Technology Corporation at September 30, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in Note 1. The 2005 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ L.L. BRADFORD & COMPANY, LLC

Las Vegas, Nevada  
November 18, 2005

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Notify Technology Corporation

We have audited the accompanying statements of operations, shareholders' equity (deficit) and cash flows of Notify Technology Corporation for the year ended September 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects and the results of operations and cash flows of Notify Technology Corporation for the year ended September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in Note 1. The 2004 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BURR, PILGER & MAYER LLP

Palo Alto, California  
November 3, 2004

**Notify Technology Corporation**

**Balance Sheet**

**September 30, 2005**

**Assets**

Current assets:

Cash and cash equivalents .....	\$ 424,228
Accounts receivable, net of allowance for doubtful accounts of \$20,000 .....	472,942
Other current assets .....	58,751
	<hr/>
Total current assets .....	955,921
Property and equipment, net .....	144,418
	<hr/>
Total assets .....	<u>\$ 1,100,339</u>

**Liabilities and Shareholders' Deficit**

Current liabilities:

Current portion of capital lease obligations .....	\$ 22,609
Accounts payable .....	47,650
Accrued payroll and related liabilities .....	328,535
Deferred revenue .....	1,287,866
Customer advances .....	30,039
Other accrued liabilities .....	139,484
	<hr/>
Total current liabilities .....	1,856,183
Long term portion of capital lease obligations .....	23,044
	<hr/>
Total liabilities .....	1,879,227

Commitments and contingencies (Note 7)

Shareholders' deficit:

Preferred stock, \$0.001 par value, 5,000,000 shares authorized	
Common stock, \$0.001 par value, 30,000,000 shares authorized, 13,968,995 shares issued and outstanding at September 30, 2005 .....	13,969
Additional paid-in capital .....	22,840,830
Accumulated deficit .....	<u>(23,633,687)</u>
Total shareholders' deficit .....	(778,888)
	<hr/>
Total liabilities and shareholders' deficit .....	<u>\$ 1,100,339</u>

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

**Notify Technology Corporation**  
**Statements of Operations**

	<u>Years Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Product revenue .....	\$ 3,527,343	\$1,605,107
Service revenue .....	1,491,121	1,768,017
Royalty revenue .....	—	154,975
Total revenue .....	<u>5,018,464</u>	<u>3,528,099</u>
Cost of revenues:		
Product cost .....	1,216,865	471,485
Service cost .....	66,926	215,216
Total cost of revenues .....	<u>1,283,791</u>	<u>686,701</u>
Gross profit .....	<u>3,734,673</u>	<u>2,841,398</u>
Operating costs and expenses:		
Research and development .....	1,040,197	1,034,221
Sales and marketing .....	1,702,454	957,493
General and administrative .....	1,552,351	1,495,208
Total operating costs and expenses .....	<u>4,295,002</u>	<u>3,486,922</u>
Loss from operations .....	(560,329)	(645,524)
Other (income) expense, net .....	(2,877)	10,384
Net loss .....	<u>\$ (557,452)</u>	<u>\$ (655,908)</u>
Basic and diluted net loss per share .....	\$ (0.04)	\$ (0.10)
Weighted-average shares used in computing net loss per share .....	13,933,461	6,388,908

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

**Notify Technology Corporation**  
**Statements of Shareholders' Equity (Deficit)**

	<b>Convertible Redeemable Preferred Stock</b>		<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Notes Receivable from Shareholders</b>	<b>Accumulated Deficit</b>	<b>Total Shareholders' Equity(Deficit)</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>				
Balance at September 30,								
2003 .....	<b>461,000</b>	<b>\$ 993,742</b>	<b>5,833,678</b>	<b>\$ 5,834</b>	<b>\$21,816,474</b>	<b>\$ —</b>	<b>\$(22,420,327)</b>	<b>\$ 395,723</b>
Expiration of escrow shares ...			<b>(1,239,683)</b>	<b>(1,240)</b>	<b>1,240</b>			<b>—</b>
Conversion of preferred stock to common stock .....	<b>(461,000)</b>	<b>(993,742)</b>	<b>9,220,000</b>	<b>9,220</b>	<b>984,522</b>			<b>—</b>
Net loss and comprehensive net loss .....							<b>(655,908)</b>	<b>(655,908)</b>
Balance at September 30,								
2004 .....	<b>—</b>	<b>—</b>	<b>13,813,995</b>	<b>13,814</b>	<b>22,802,236</b>	<b>—</b>	<b>(23,076,235)</b>	<b>(260,185)</b>
Exercise of Employee Options .....			<b>155,000</b>	<b>155</b>	<b>38,594</b>			<b>38,749</b>
Net loss and comprehensive net loss .....							<b>(557,452)</b>	<b>(557,452)</b>
Balance at September 30,								
2005 .....	<b>—</b>	<b>\$ —</b>	<b>13,968,995</b>	<b>\$13,969</b>	<b>\$22,840,830</b>	<b>\$ —</b>	<b>\$(23,633,687)</b>	<b>(778,888)</b>

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

**Notify Technology Corporation**

**Statements of Cash Flows**

	Years Ended September 30,	
	2005	2004
<b>Operating activities</b>		
Net loss	\$ (557,452)	\$ (655,908)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,413	114,151
(Gain) loss from sale of fixed assets	(5,943)	6,079
Forgiveness of shareholder loan	—	—
Changes in operating assets and liabilities:		
Accounts receivable, net	12,482	43,502
Inventories	—	—
Other current assets	(2,152)	44,808
Accounts payable	(16,362)	(44,936)
Accrued liabilities	(324,283)	102,511
Deferred revenue	206,691	643,038
Net cash provided by (used in) operating activities	(580,606)	253,245
<b>Investing activities</b>		
Expenditures for property and equipment	(43,991)	(46,453)
Decrease in restricted cash	—	436,000
Proceeds from sale of fixed assets	7,200	3,000
Net cash provided by (used in) investing activities	(36,791)	392,547
<b>Financing activities</b>		
Net proceeds from (payments on) short term loans	—	(162,750)
Proceeds from exercise of warrants	38,750	
Payments on capital leases	(23,246)	(13,726)
Net cash provided by (used in) financing activities	15,504	(176,476)
Net increase in cash and cash equivalents	(601,893)	469,316
Cash and cash equivalents at beginning of year	1,026,121	556,805
Cash and cash equivalents at end of year	\$ 424,228	\$1,026,121
Supplemental disclosure of non-cash transactions:		
Conversion of preferred stock to common stock	\$ —	\$ 993,742
Equipment purchased under capital lease	\$ 37,705	\$ —
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,318	\$ 4,655
Cash paid for income taxes	\$ 1,100	\$ 1,900

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

**Notify Technology Corporation**  
**Notes to Financial Statements**  
**September 30, 2005**

**1. Business and Basis of Presentation**

Notify Technology Corporation (the Company or Notify), incorporated in California in 1994, is a software developer of enterprise mobility solutions for wireless and wireline handheld devices supporting a variety of email platforms including Novell GroupWise, Microsoft Exchange, and various IMAP4 solutions.

The Company has incurred net losses since inception and may incur net losses and negative cash flow from operations for at least the next two or three years. The Company incurred losses of \$557,452 and \$655,908 for the years ended September 30, 2005 and 2004, respectively. The Company has an accumulated deficit of \$23.6 million as of September 30, 2005. During fiscal 2005, the Company financed its operations through the sale of its products and existing cash balances. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company is currently replacing its wireline products with wireless software products and researching and developing new products and enhancements to its existing NotifyLink product family. To date, the NotifyLink product line has not provided sufficient revenue to completely replace the wireline product revenue. If the Company's wireline revenues decline, it needs to improve the sales of NotifyLink to compensate. The success of the Company's business operations will depend upon a significant favorable market acceptance for its new wireless software products and its ability to obtain further financing. If the Company is unable to achieve profitable operations from its new software wireless products or obtain further financing, then its business may fail.

If additional funds are raised through the issuance of equity or debt securities, these securities could have rights that are senior to existing shareholders and could contain covenants that would restrict operations. Any additional financing may not be available in amounts or on terms acceptable to the Company, if at all.

**2. Summary of Significant Accounting Policies**

**Use of 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 amounts reported in the accompanying financial statements and notes thereto. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid, temporary investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are deposited in demand and money market accounts in two financial institutions in the United States.

**Accounts Receivable/ Allowance for Doubtful Accounts**

Accounts receivable are stated at net realizable value. Uncollectible receivables are recorded as bad debt expense when all efforts to collect them have been exhausted and recoveries are recognized when they are received. Historically, the bad debts have been insignificant and the allowance for bad debt approximates the average bad debt expense.

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

**Inventories**

Inventories are stated at the lower of cost or market on a first-in, first-out basis. The Company provides inventory allowances based on excess and obsolete inventories determined primarily by future demand forecasts. At September 30, 2005, the carrying value of the inventory was zero.

**Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets: five years for furniture and office equipment and three years for software and computer equipment. Leasehold improvements and assets under capital leases are amortized by the straight-line method over the shorter of the lease term or the estimated useful lives of such assets. Upon retirement or sale, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in the statement of operations. Repairs and maintenance are expensed as incurred.

**Long-Lived Assets**

The Company monitors the recoverability of long-lived assets based on estimated use factors such as future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets or realized upon sale. The Company's policy is to write down assets to its net recoverable amount, which is determined based on either discounted future net cash flows or appraised values, in the period when it is determined that the carrying amount of the asset is not likely to be recoverable.

**Income Taxes**

The Company accounts for income taxes under the liability method. The estimated future tax effect of differences between the basis in assets and liabilities for tax and accounting purposes is accounted for as deferred taxes. A valuation allowance has been established to reduce deferred tax assets as it is more likely than not that all, or some portion, of such deferred tax assets would not be realized. A full allowance against deferred tax assets is provided.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs were \$10,590 for the year ended September 30, 2005 and \$1,120 for the year ended September 30, 2004.

**Revenue Recognition**

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "Software Revenue Recognition," and SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104").

Under SOP 97-2, the Company recognizes software license agreements when persuasive evidence of an agreement exists, delivery of the product has occurred, the license fee is fixed or determinable and collection is probable. The Company's license agreements generally have a fixed term and the license revenue is recognized ratably over the term of each license.

Under SAB 104, the Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery of the product has occurred or services have

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

been rendered, the sales price is fixed or determinable and collection is probable. The Company recognizes revenues at time of shipment of its products and sales are recorded net of discounts and returns.

Service income is recognized on a straight-line basis over the period of the service agreement. Revenue from royalty agreements is recognized on receipt of payment.

Deferred revenue relates to products where title has transferred and payment has been received but the product has not been delivered to the customer, or software revenue that is being recognized over the contractual term of the license.

**Shipping and Handling Costs**

The Company includes fees billed to customers relating to shipping and handling in net sales. Shipping and handling costs are classified as a component of cost of sales.

**Research and Development**

Based on the Company's software development process, the time period between the establishment of technological feasibility and completion of the hardware component and the release of the product is short and capitalization of internal development costs has not been material to date.

**Concentration of Credit Risk**

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents held with financial institutions may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company performs ongoing credit evaluations and generally requires no collateral. The Company maintains reserves for credit losses, and such losses have been within management's expectations. As of September 30, 2005, one customer accounted for 31% of accounts receivable and 100% of the customer advances. Revenue from one customer accounted for 57% and 62% of total revenues for fiscal years ended September 30, 2005 and 2004, respectively.

**Fair Value of Financial Instruments**

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities. Based upon borrowing rates currently available to the Company for capital leases with similar terms, the carrying value of its capital lease obligations approximate fair value.

**Stock-Based Compensation**

Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement No.123," amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

## Notify Technology Corporation

### Notes to Financial Statements—(Continued)

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board Opinion No. 25 (APB 25), “Accounting for Stock Issued to Employees” and related interpretations. Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company’s stock and the exercise price.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 and SFAS 148 to stock-based employee compensation:

	Fiscal Years	
	2005	2004
Net loss, as reported . . . . .	\$(557,452)	\$ (655,908)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects . . . . .	—	—
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects . . . . .	(140,259)	(492,988)
Pro forma net loss . . . . .	(697,711)	\$(1,148,896)
Net loss per share—Basic and diluted:		
As reported . . . . .	\$ (0.04)	\$ (0.10)
Pro forma . . . . .	\$ (0.05)	\$ (0.18)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Expected dividend yield . . . . .	0.00%	0.00%
Risk-free interest rate . . . . .	3.47%	2.91%
Expected volatility . . . . .	132%	133%
Expected life (in years): . . . . .	3	4
Fair value at grant date . . . . .	\$0.215	\$0.189

The Company recognized no compensation expense in fiscal 2005 or in fiscal 2004 related to the grant of options to non-employees.

#### Net Loss Per Share

Net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of shares outstanding during the period.

Options to purchase 3,333,667 and 3,390,924 shares of common stock and warrants to purchase 1,871,651 and 1,871,651 shares of common stock were outstanding at September 30, 2005 and 2004, respectively, but were not included in the computation of diluted net loss per share as the effect would be antidilutive.

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

**Recent Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. During October 2003, the FASB issued Staff Position 46-6 which is effective for financial statements issued after October 9, 2003, and provides a broad deferral of the latest date by which all entities must apply FIN 46 to certain variable interest entities, to the first reporting period ending after December 15, 2003. The adoption of FIN 46 did not have a material impact on the financial position or results of operations of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25 and would require that such transactions be accounted for using a fair-value-based method and recognized as expenses in statement of operations. SFAS 123R requires that a modified version of prospective application be used, which requires that the fair value of new awards granted after the effective date of SFAS 123R, plus unvested awards at the date of adoption, be expensed over the applicable vesting period. The provisions of SFAS 123R will be effective for interim or annual reporting periods beginning after December 15, 2005 for companies that file as small business issuers. The adoption of SFAS 123R is expected to have a material impact on the Company's financial position and results of operations.

**3. Property and Equipment**

Property and equipment consist of the following:

	September 30, 2005
Furniture and office equipment .....	\$ 618,833
Software .....	49,962
Leasehold improvements .....	2,246
	671,041
Less accumulated depreciation and amortization .....	(526,623)
	\$ 144,418

Property and equipment includes \$89,232 of office equipment under capital lease with accumulated amortization of \$40,275 at September 30, 2005.

Depreciation and amortization expense was \$106,413 and \$114,150 for the years ended September 30, 2005 and 2004, respectively.

**4. Short-term Borrowings**

In September 2002, the Company entered into a purchase order assignment agreement with a financial institution that allowed for the assignment of purchase orders up to \$750,000. This agreement was terminated in May 2004.

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

**5. Capital Lease Obligations**

During the year ended September 30, 2003, the Company entered into three capital lease agreements for office equipment totaling \$51,528, with principal and interest (6.0%) payments due monthly. During the year ended September 30, 2005, the Company entered into one capital Lease for office equipment totaling \$37,705 with principal and interest (6.0%) due monthly.

Future minimum lease payments under the lease are as follows:

For the year ending September 30,	
2006 .....	\$ 24,951
2007 .....	19,151
2008 .....	<u>5,074</u>
Total minimum lease payments .....	49,176
Less: amount representing interest .....	<u>(3,523)</u>
Present value of net minimum lease payments .....	45,653
Less: current portion .....	<u>(22,609)</u>
	<u>\$ 23,044</u>

**6. Guarantees**

*Indemnification Agreements*

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, generally their business partners or customers, in connection with any U.S. patent, or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual anytime after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal.

The Company has entered into indemnification agreements with its directors and officers that may require the Company: to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of a culpable nature; to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified; and to obtain directors' and officers' insurance if available on reasonable terms, which the Company currently has in place.

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

*Product Warranty*

The Company warrants its products for a specific period of time, generally twelve months, against material defects. The Company provides for the estimated future costs of warranty obligations in cost of sales when the related revenue is recognized. The accrued warranty costs represents the best estimate at the time of sale of the total costs that the Company expects to incur to repair or replace product parts, which fail while still under warranty. The amount of accrued estimated warranty costs are primarily based on historical experience as to product failures as well as current information on repair costs. On a quarterly basis, the Company reviews the accrued balances and updates the historical warranty cost trends. The Company ceased shipping product in 2004 and had no product under warranty as of September 30, 2005. The following table reflects the change in the Company's warranty accrual during fiscal year 2005:

Warranty accrual, beginning of year .....	\$ 4,724
Charged to cost of sales .....	(4,353)
Actual warranty expenditures .....	<u>(371)</u>
Warranty accrual, end of year .....	<u>\$ —</u>

**7. Commitments and Contingencies**

The Company currently occupies two facilities under operating leases. The San Jose, California facility lease expires in March 2006 and the Canfield, Ohio facility lease expires in October 2006.

Future minimum lease payments are approximately as follows:

Year ending September 30, 2006 .....	\$57,195
	<u>\$57,195</u>

Facility rent expense totaled approximately \$177,000 and \$168,000 for the years ended September 30, 2005 and 2004, respectively.

In November 2003, NCR Corporation and Notify Technology Corporation entered into a non-exclusive license agreement that allows the Company to offer certain product features on its Enterprise Mobility Solution that are covered by a patent held by NCR. This agreement requires that a royalty payment be made to NCR based on the revenue from any NotifyLink product that is sold that uses the technology covered by the patent. Payments under this agreement were \$49,839 during the fiscal year 2005. Payments under this agreement in fiscal 2004 were not significant.

**8. Shareholders' Equity (Deficit)**

**Preferred Stock**

The Board of Directors has the authority, without any further vote or action by the shareholders, to provide for the issuance of 4,100,000 shares of preferred stock in one or more series with such designation, rights, preferences, and limitations as the Board of Directors may determine, including the consideration to be received, the number of shares comprising each series, dividend rates, redemption provisions, liquidation preferences, redemption and fund provisions, conversion rights, and voting rights, all without the approval of the holders of common stock.

## Notify Technology Corporation

### Notes to Financial Statements—(Continued)

#### Convertible Redeemable Preferred Stock

In July 2001, the Company's shareholders authorized and the Company completed an offering of Series A convertible redeemable preferred stock (Series A preferred stock) to a group of private investors. In connection with the offering, the Company issued 501,000 shares of Series A preferred stock at \$10 per share and issued warrants to purchase 1,753,000 shares of common stock for consideration of \$4.2 million, net of issuance costs. The Company has designated a total of 900,000 shares as Series A preferred stock.

Holders of our outstanding Series A preferred stock had the right to require the Company to redeem any unconverted shares of Series A preferred stock at any time and from time to time during the period from July 20, 2003 to July 25, 2004. The per share redemption price was \$10.00 plus any accrued dividends. The holders of Series A preferred stock had the option to receive the redemption price in cash or in shares of our common stock, but the Company was not obligated to pay the redemption in cash unless the Company's board of directors unanimously approved such payment in cash. If all holders of outstanding Series A preferred stock elected to redeem in cash, the aggregate redemption price would have totaled \$4,610,000. The holders of the Company's Series A preferred stock chose to exercise their right of redemption in the form of common shares. The outstanding Series A preferred shares were redeemed at an effective rate of 20 shares of common stock for each share of Series A preferred stock. The redemption date was July 20, 2004 at which time 461,000 Series A preferred shares were presented for redemption and 9,220,000 shares of common stock were subsequently issued on August 31, 2004.

In connection with the offering of Series A preferred stock, the Company issued options to purchase 9.2685 units at a price per unit of \$100,000 to the placement agent. Each unit consists of 10,000 shares of Series A preferred stock convertible into an aggregate of 100,000 shares of common stock with a warrant to purchase 35,000 shares of common stock. The option to purchase units expires in July 2008. The warrant is exercisable at any time through July 2008 at a price of \$1.00 per common stock. The preferred stock was valued at \$1.45 per share while the warrants were valued at \$1.38 per share. At September 30, 2005, all of these options were outstanding.

Additionally the Company also issued a seven year warrant to purchase 118,151 shares of common stock at an exercise price of \$1.00 per share to an investment fund in connection with the investment funds commitment to purchase Series A preferred stock for the amount of the difference between \$5 million and the aggregate amount of money invested by all other investors in the financing.

During fiscal 2003, 5,000 shares of Series A preferred stock were converted to 50,000 shares of common stock.

#### Common Stock

The following table summarizes shares of common stock reserved for future issuance by the Company:

	<u>September 30, 2005</u>
1997 Stock Option Plan .....	3,333,667
Warrant agreements .....	<u>1,871,651</u>
	<u>5,205,318</u>

## Notify Technology Corporation

### Notes to Financial Statements—(Continued)

In November 2000, the Company issued 376,865 shares of common stock and issued warrants to purchase 188,424 shares of common stock to a group of private investors, which included a director of the Company, for consideration of \$1.2 million, net of issuance costs. Of these warrants, 38,458 were exercised in July 2001, 7,690 expired on August 8, 2001 and 67,293 expired on November 5, 2001.

On July 20, 2001, an additional 337,439 warrants to purchase common stock were issued under the anti-dilution terms of the November 2000 private placement. In June and August 2002, 147,085 of these warrants were exercised and on July 20, 2004, the remaining 190,354 unexercised warrants expired.

#### Warrants to Purchase Common Stock

At September 30, 2005, the Company had the following warrants outstanding:

- Warrants to purchase 1,753,500 and 118,151 shares of common stock at an exercise price of \$1.00 were issued in connection with the July 2001 private placement to the placement agent and an investment fund, respectively. The warrant to purchase 1,753,500 shares of common stock expires in July 2008 and the warrant to purchase 118,151 shares of common stock expires in May 2008. In connection with the private placement, the Company also agreed that if it issues additional equity instruments at a price per share less than \$1.00, then the price and number of warrants shall be adjusted on a weighted-average basis.

#### 1997 Stock Option Plan

In January 1997, the Company adopted the 1997 Stock Plan (the Plan), which provides for the granting of stock options to employees, officers, consultants, and directors of the Company. Stock options are granted at fair market value on the date of grant with terms of up to ten years. Under the Plan, a total of 3,474,662 shares of the Company's common stock are reserved for issuance. Under the terms of these option grants, the options commence vesting upon the first anniversary of the date of employment and continue to vest ratably over the remainder of the four-year vesting period. Certain grants of options to employees after the initial grant of options to employees vest over three years. Certain grants to members of the Company's Board of Directors in compensation for their services vest over their current term of office of one year. The following table summarizes stock option activity:

	Shares Available for Grant	Options Outstanding	
		Number of Shares	Weighted-Average Price
Balance at September 30, 2003	345,211	3,284,451	\$1.453
Authorized	—	—	
Granted	(165,000)	165,000	\$0.230
Cancelled	58,527	(58,527)	\$1.379
Balance at September 30, 2004	238,738	3,390,924	\$1.396
Granted	(475,000)	475,000	\$0.260
Cancelled	377,257	(377,257)	\$2.465
Exercised	—	(155,000)	\$2.198
Balance at September 30, 2005	<u>140,995</u>	<u>3,333,667</u>	\$1.181

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

The following table summarizes outstanding and exercisable options at September 30, 2005:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted-Average Remaining Life in Years</u>	<u>Weighted-Average Exercise Prices</u>	<u>Number of Options Exercisable</u>	<u>Weighted-Average Exercise Prices</u>
\$0.220 – \$0.260 .....	1,600,000	8.24	\$0.251	881,007	\$0.250
\$0.320 – \$0.490 .....	514,667	6.04	\$0.333	504,378	\$0.331
\$0.800 – \$0.906 .....	13,000	3.59	\$0.882	13,000	\$0.882
\$1.600 – \$2.375 .....	903,000	5.70	\$1.603	903,000	\$1.603
\$2.750 – \$3.875 .....	126,000	4.92	\$3.241	126,000	\$3.241
\$6.125 – \$7.656 .....	32,000	4.03	\$6.805	32,000	\$6.805
\$8.813 .....	145,000	4.40	\$8.813	145,000	\$8.813
	<u>3,333,667</u>	6.86	\$1.181	<u>2,604,385</u>	\$1.440

**Escrow Securities**

In connection with the initial public offering in August 1997, holders, who held Founders stock or who acquired our stock in prior private offerings, agreed to place 1,233,870 of their shares into escrow. The securities were to be released to the holders in the event specified levels of pretax income were achieved for the years ending through September 30, 2003, or if we were acquired by or merged into another entity in a transaction in which the shareholders receive a specified consideration. Any securities remaining in escrow on December 31, 2003 were to be forfeited, which securities would then be contributed to our capital. At September 30, 2003, we had not attained any of the specified earnings or market price levels. Therefore, all escrowed shares were cancelled and extinguished as of December 31, 2003 based on our failure to achieve the financial milestones established when the shares were placed in escrow.

**9. Income Taxes**

Due to operating losses, there is no provision for income taxes for 2004 or 2003. The expected statutory tax benefit of 34% is offset by the inability to recognize an income tax benefit from the net operating losses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes are as follows:

	<u>Year Ended September 30, 2005</u>
Deferred tax assets:	
Net operating loss carryforwards .....	\$ 6,500,000
Research credit carryforwards .....	350,000
Other temporary differences .....	188,000
Total deferred tax assets .....	<u>7,038,000</u>
Valuation allowance .....	<u>(7,038,000)</u>
Net deferred tax assets .....	<u>\$ —</u>

**Notify Technology Corporation**  
**Notes to Financial Statements—(Continued)**

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, a valuation allowance in an amount equal to the net deferred tax asset has been established to reflect these uncertainties.

As of September 30, 2005, the Company had net operating loss carryforwards of approximately \$19,000,000 and \$4,500,000 for Federal and California tax purposes, which will expire in the years 2014 through 2025. As of September 30, 2005, the Company also had research and development tax credit carryforwards for federal and California tax purposes of approximately \$350,000 and \$260,000, respectively. The credits will expire in the years 2015 through 2025, if not utilized. Utilization of the net operating losses and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credit carryforwards before full utilization.

**10. Industry Segment, Customer, and Geographic Information**

The Company has one operating segment by which management evaluates performance. The Company sells its products primarily within the United States and Canada to business customers and to a long distance carrier.

All of the Company's long-lived assets are located in the United States.

## EXHIBIT INDEX

- 3.1.1 Amended and Restated Articles of Incorporation of Registrant as filed with the Secretary of State of California on September 2, 1997. (incorporated herein by reference to Exhibit (3.2) to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on March 14, 1997)
- 3.1.2 Certificate of Amendment to the Registrant's Articles of Incorporation as filed with the Secretary of State of California on March 3, 1998. (incorporated herein by reference to Exhibit (3.1.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 3.1.3 Certificate of Amendment to the Registrant's Articles of Incorporation as filed with the Secretary of State of California on July 12, 2001. (incorporated herein by reference to Exhibit (3.1.2) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 3.1.4 Certificate of Determination, Preferences and Rights of Series A Preferred Stock as filed with the Secretary of State of California on July 13, 2001. (incorporated herein by reference to Exhibit (3.1) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 3.2 Amended and Restated Bylaws of Registrant. (incorporated herein by reference to Exhibit (3.2) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001, filed on August 14, 2001)
- 4.2 Form of warrant issued to subscribers in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.1) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 4.3 Form of option issued to the placement agent in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.2) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 4.4 Form of warrant underlying the option issued to the placement agent in connection with the Registrant's July 2001 private placement. (incorporated herein by reference to Exhibit (4.3) to the Registrant's Current Report on Form 8-K, filed on July 23, 2001)
- 10.4 Form of Indemnification Agreement. (incorporated herein by reference to Exhibit (10.5) to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on March 14, 1997)
- 10.6 Registrant's 1997 Stock Plan, as amended effective March 26, 2003, and form of stock option agreement. (incorporated by reference to Exhibit (4.1) to the Registrant's Registration Statement on Form S-8 Reg. No. 333-108868, filed on September 17, 2003)
- 10.7+ Nonexclusive Technology License Agreement between Registrant and Active Voice Corporation dated April 30, 1997. (incorporated herein by reference to Exhibit (10.10) to Amendment No. 2 to the Registrant's Registration Statement on Form SB-2, Reg. No. 333-23369, filed on August 15, 1997)
- 10.12.1 Voice Mail Services Agreement, dated as of February 8, 2002, by and between the Registrant and AT&T Corp. (incorporated by reference to Exhibit (10.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended March 30, 2002, filed on May 15, 2002)
- 10.12.2 First Amendment to the Voice Mail Services Agreement, dated as of February 8, 2003, by and between the Registrant and AT&T Corp. (incorporated herein by reference to Exhibit (10.1) to the Registrant's Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2003, filed on May 14, 2003)
- 10.14 Lease, dated as of March 20, 2003 by and among Registrant, and Ching C. Poon and Jenny M. Poon. (incorporated herein by reference to Exhibit (10.15) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)

- 10.15 Lease, dated as of October 3, 2001 by and between Registrant and Colbur Tech, LLC. (incorporated herein by reference to Exhibit (10.16) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)
- 10.16 Amended and Restated Employment Agreement dated as of July 6, 2004 between Registrant and Paul DePond. (incorporated herein by reference to Exhibit (10.16) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.17 Amended and Restated Employment Agreement dated as of July 6, 2004 between Registrant and Gerald Rice. (incorporated herein by reference to Exhibit (10.17) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.18 Employment Agreement dated as of July 6, 2004 between Registrant and Rhonda Chicone-Shick. (incorporated herein by reference to Exhibit (10.18) to the Registrant's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2004, filed on August 12, 2004)
- 10.19 Severance Agreement and Release dated September 30, 2004 between the Company and Gaylan I. Larson (incorporated herein by reference to Exhibit (10.19) to the Registrant's Current Report on Form 8-K, filed on October 1, 2004)
- 10.20 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of March 15, 2004 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.20) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.21 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of October 11, 2001 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.21) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.22 Amendment No. 1 dated October 14, 2004, to Stock Option Agreement dated as of October 11, 2001 between the Company and Michael Ballard (incorporated herein by reference to Exhibit (10.22) to the Registrant's Current Report on Form 8-K, filed on October 20, 2004)
- 10.23 Employment Agreement dated November 15, 2004 between the Company and Gordon S. Faulmann (incorporated herein by reference to Exhibit (10.19) to the Registrant's Current Report on Form 8-K, filed on November 17, 2004)
- 10.24 Nonexclusive Technology License Agreement, dated as of November 24, 2003, by and between Registrant and NCR Corporation. (incorporated herein by reference to Exhibit (10.24) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, filed on December 22, 2004)
- 14.1 Code of Ethics for Principal Executive and Senior Financial Officers (incorporated herein by reference to Exhibit (14.1) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003, filed on December 29, 2003)
- 23.1 Consent of L.L. Bradford & Company LLC, independent registered public accounting firm
- 23.2 Consent of Burr, Pilger & Mayer LLP, independent registered public accounting firm
- 24.1 Power of Attorney (see page 33).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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+ Confidential treatment has been granted with respect to portions of these exhibits.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (SEC File Nos. 333-59307, 333-350660, 333-67520 and 333-108868) and on Form S-3 (SEC File Nos. 333-60552 and 333-71940) of our report dated November 18, 2005, relating to the consolidated financial statements of Notify Technology Corporation for the year ended September 30, 2005, which appears in this Annual Report on Form 10-KSB.

/s/ L.L. Bradford & Company LLC

Las Vegas, NV  
December 22, 2005

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (SEC File Nos. 333-59307, 333-350660, 333-67520 and 333-108868) and on Form S-3 (SEC File Nos. 333-60552 and 333-71940) of our report dated November 3, 2004, relating to the financial statements of Notify Technology Corporation for the year ended September 30, 2004, which appears in this Annual Report on Form 10-KSB.

/s/ Burr, Pilger & Mayer LLP

Palo Alto, California  
December 21, 2005

**Certification of Chief Executive Officer pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Paul F. DePond, certify that:

1. I have reviewed this annual report on Form 10-KSB of Notify Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 23, 2005

/s/ PAUL F. DEPOND

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**Paul F. DePond**  
**President and Chief Executive Officer**

**Certification of Chief Financial Officer pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Gerald W. Rice, certify that:

1. I have reviewed this annual report on Form 10-KSB of Notify Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 23, 2005

/s/ GERALD W. RICE

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**Gerald W. Rice**  
**Chief Financial Officer**

