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

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

or

[ ] TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-33037

NBO SYSTEMS, INC.

STATE OF MARYLAND (State or Other Jurisdiction of Incorporation or Organization)	55-0795927 (IRS Employer Identification Number)
3676 West California Avenue, Building D Salt Lake City, Utah (Address of Principal Executive Offices)	84104 (Zip code)

(801) 746-8000
(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:
common stock, Par Value $.0005
(Title of Class)

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"): Yes ____ No _X____

Check whether the issuer (1) 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 __X__ No _____

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not 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. [X]

State issuer's revenues and other income for its most recent fiscal year: $11,254,952.

The aggregate market value of the common stock held by non-affiliates as of March 31, 2006 was approximately $31,533,000.

As of March 31, 2006, there were 18,192,215 shares of the issuer's common stock, $0.0005 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Certain information required in Part III hereto is incorporated by reference to the issuer's definitive proxy statement relating to its 2006 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-KSB.

Transitional Small Business Disclosure Format (check one):

Yes ____ No __X__

NBO SYSTEMS, INC.

FORM 10-KSB ANNUAL REPORT

TABLE OF CONTENTS

Page

Forward-looking Statements

This Annual Report on Form 10-KSB, including information incorporated herein by reference, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects," "believes," "anticipates," "will," "estimate," "plans," "expects," "intends," and similar words and expressions are intended to identify forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Important language regarding factors which could cause actual results to differ materially from such expectations are disclosed in this Report, including without limitation under the caption "Risk Factors" beginning on page 12 of this Report. All forward-looking statements attributable to NBO Systems, Inc. are expressly qualified in their entirety by such language. We do not undertake any obligation to update any forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

We were incorporated in Utah on June 23, 1994 as Neighborhood Box Office, Inc. We changed our name to NBO Systems, Inc. on January 29, 2002 when we reincorporated in Maryland. Our principal executive offices are located at 3676 West California Avenue, Building D, Salt Lake City, Utah 84104. Our telephone number is (801) 746-8000. Our website is located at www.nbo.com. We also operate the following websites in connection with the operation of our business: www.thegiftcertificatecompany.com, www.thegiftcardcompany.com, www.giftcardbalance.com, www.myprepaidcard.info and www.childrens-heroes.com. The reference to our website addresses does not constitute incorporation by reference of the information contained on these sites and such information should not be considered to be part of this report.

We have registered the following names and logos as trademarks in the United States: “NBO Systems, Inc.” “NBO,” “Children’s Heroes,” and “Community Scrip Card.” All other trademarks, service marks or trade names appearing in this report are the property of their respective owners.

We are a developer, marketer and supplier of prepaid stored-value card programs including gift cards, corporate incentive and membership reward cards, and fund-raising cards. We market our programs to mall owners/developers and operators, restaurant chains, retailers, corporate incentive providers, membership reward programs and fund-raising organizations throughout the United States. Our business focuses primarily on mall gift certificates, mall gift cards and third party gift card order fulfillment services, which subjects us to typical retail seasonality curves. We experience sales for the majority of our products and services in the last two months of the year, specifically the period between Thanksgiving and Christmas. We are in the process of introducing newly developed products and services that may help smooth seasonality effects and provide a more even distribution of cash flows from operating activities throughout the year.

Our primary business model is comprised of several revenue channels. The most mature revenue channel is the mall channel, which provides comprehensive gift card and gift certificate products to shopping mall managers that are accepted and redeemable at all mall retail stores. We administer the entire program including accounting, banking, reconciliation and compliance with all applicable state and federal regulations. The shopping mall program was initiated in October 1998 utilizing gift certificates only. We transitioned to gift cards in 2001. Our gift certificate and gift card programs currently include malls managed by multiple owner/operators in various states across the nation.

Secondly, we provide all call center and Internet fulfillment of gift certificates and gift cards for clients of ValueLink, a subsidiary of First Data Corp, and third-party providers of their own dedicated, closed-end gift card programs such as Darden Restaurants, Inc. ("Darden"), a subsidiary of General Mills Restaurant, Inc. (“GMRI”). We are currently soliciting, negotiating, and finalizing additional business relationships with other national restaurant chains and retail outlets that typically have store locations in or near shopping malls across the United States.

Finally, we implemented the Children's Heroes fundraising channel using traditional scrip products (discounted gift certificates used for fundraising purposes) in 2003. We subsequently developed and tested the Community Scrip Card ("CSC"), a multi-merchant prepaid stored-value card used for fundraising purposes. We intend to complement and revolutionize the traditional scrip fundraising industry efforts with our CSC. We distribute the CSC through licensing and distributorship agreements with existing traditional scrip companies across the United States, as well as through direct marketing with our own personnel.

New business initiatives for 2006 and beyond are detailed in the sections below.

Principal Products and Services

We develop and market prepaid stored-value card programs that operate on the established payment systems operated by Visa and MasterCard (open networks) or on Discover (private dedicated networks). Our products and services address several different market segments for prepaid stored-value concepts, including universal mall gift cards, corporate incentive and membership reward cards, and cards utilized in fund-raising efforts.

For consumers, prepaid stored-value cards may be better categorized as either “dedicated” or “universal” cards. Dedicated cards are typically “branded” with a retail business’s name and are accepted only by that retail business at its specific retail locations. For example, the Blockbuster Entertainment gift card is a dedicated card that permits use only at Blockbuster retail locations. By contrast, multiple retail establishments accept universal cards as in the case of the shopping mall gift card.

The universal cards may operate in an open network environment, such as Visa or MasterCard, or, may be limited to multiple, specific retail establishments through the use of inclusion tables on a private dedicated network environment such as Discover. The universal cards that operate on the Visa and MasterCard payment systems are issued by national banks that are part of a national bank association and may be used at any merchant that accepts Visa or MasterCard. Universal Discover cards are issued by NBO on behalf of Discover and, if not restricted, may be used at any participating merchant that accepts Discover. The Discover platform also allows us to restrict the retail establishments in which the universal card may be used. Our ability to offer customers multiple network alternatives relieves us of the costs of maintaining our own infrastructure to support transaction payment processes. Additionally, our development, marketing, and fulfillment services place us in a central and neutral position among credit card associations, issuing banks and data processors. We intend to leverage this position and offer customers with opportunities to design prepaid stored-value card programs that meet their individual needs.

We continue to offer paper-based gift certificates to legacy customers, but over time, we expect that the paper-based gift certificate business will transition to card-based technology. The growing popularity of gift cards can be attributed, in part, to the convenience and flexibility provided to both purchasers and recipients. A gift card allows the purchase decision to be made by the card recipient. The card recipient, in turn, may avoid the inconvenience of exchanging or returning unwanted or duplicative merchandise.

Target Markets

Our primary target markets for our card programs consist of:

- owners and operators of shopping malls;
- consumers who prefer to shop on-line via the Internet;
- fulfillment for third-party companies that develop and manage individual retailers' dedicated card programs (i.e., programs in which the gift cards can only be used in the stores of the issuing retailer or its affiliates);
- businesses and organizations that sponsor incentive and loyalty rewards programs;
- high volume retailers such as grocers, convenience stores and pharmacies; and
- the non-profit fund-raising sector, particularly K-12 and university-based educational institutions.

Shopping Mall Universal Gift Cards

Our product delivery to owners/developers and operators of shopping malls has consistently shifted from gift certificate products to gift card products. Our gift card programs may be tailored specifically to the larger owner/operators of multiple shopping malls, as well as individual, independent shopping malls.

A universal mall gift card issued on an open network environment, such as Visa or MasterCard, may be used at a specific shopping mall (or a group of specific shopping malls) and would be valid at any store within the shopping mall, as well as any retail establishment that accepts Visa or MasterCard.

A universal gift card issued on a private dedicated network environment, such as Discover, would be valid only at specific retailers identified in a group, such as retail stores in a specific mall, through the use of inclusion tables, who accept Discover as a payment type for merchandise or services. If an inclusion table is not used, the Discover card would be considered an open network card.

Fulfillment Services

We provide Internet and call-center fulfillment services for dedicated closed network gift cards for our partners such as ValueLink and Darden. In 2005, we added 11 new ValueLink clients including Burger King to our dedicated closed network card order fulfillment program, bringing the total number of ValueLink clients to 40.

Corporate Incentive and Membership Reward Cards

Over the last two years, we developed a multi-merchant prepaid stored-value card program. During the development process, subsequent to marketing efforts, we entered into agreements with 85 national and regional retail merchants having in excess of 40,000 brick and mortar retail consumer locations, in addition to the merchant's online retail operations. Each of the participating merchants provides us with rebates, varying from 3%-30%, whenever the multi-merchant card is presented for redemption at the merchant locations.

Sponsors of corporate incentive and membership rewards programs are increasing their use of prepaid stored-value cards. For businesses, prepaid stored-value cards may be in the form of incentive and reward cards given to employees for achieving specific goals or other general purposes. Our target customers for these cards are third-party providers of incentive, promotion and loyalty programs for a wide variety of entities, including financial institutions, subscription-based services and membership clubs.

For example, a membership reward card may be given to a member or customer of a business who satisfies the criteria of a particular program. Once these incentive and membership rewards cards are distributed by the sponsors, they function in the same manner as dedicated or universal gift cards.

We contract with program sponsors and administrators to provide the prepaid stored-value cards and associated administration of the cards as an important component of the overall corporate incentive and membership rewards programs. By using our prepaid stored-value cards, program sponsors are not required to maintain and manage the distribution of any inventory of goods, or the process to track the usage of incentive or reward systems. Instead, the program sponsor simply distributes the cards to the recipients, thereby relieving the sponsor of much of the logistical time and cost of the traditional incentive and membership rewards programs.

Retail Incentive Cards

The retail incentive card is another use for the multi-merchant prepaid stored-value card designed for mass-market retail distribution. Although we have not yet distributed any of these retail incentive cards, we are negotiating distribution agreements with marketing firms and credit card processors experienced in the retail industry. These third parties will market our retail incentive cards to high volume retail locations such as grocery stores, drug stores or convenience stores with which they already have relationships, or market our products to new retail outlets. Our retail incentive cards will be available in the checkout lines near the cash registers. We do not load value on the cards distributed through this channel until they are purchased. In order to load value on the cards at the time of purchase, we provide a software interface between the merchant's point-of-sale terminal and our distribution partner or our data base system, allowing all parties access to all required transaction data. Our distribution partners for this channel have completed development of the interface software into the point-of-sale terminals for many of the largest retail merchants in the country, making this a viable business channel for our multi-merchant card products. We believe our multi-merchant retail incentive card provides additional convenience and benefits to the consumer over single-retailer incentive cards competing in the same space.

Fund-Raising Cards

Non-profit organizations, including school-based groups such as PTAs, booster groups, support foundations, youth sports organizations and churches use discounted gift certificates and gift cards sold at face value to patrons to generate revenue to supplement tuition and to support extra-curricular activities including trips, music programs, and athletic teams. These discounted certificates and cards are known in the fund-raising industry as "scrip."

There is an inventory and capitalization burden using traditional scrip products. Therefore, the charitable fund-raising industry in the United States is increasingly making use of prepaid stored-value cards. We sell multi-merchant stored value cards in the fundraising channel as a supplement to traditional scrip products, useable at a variety of participating local and national merchants. We brand cards used in the K-12 schools under the "Children's Heroes" name, and label them as Community Scrip Cards (CSC).

We have agreements with merchants that allow us to receive rebates or discounts when our cards are presented for use at participating merchants. Non-profit organizations purchase the fundraising cards from us at face value and then re-sell the cards to parents, members and other supporters at face value. When a card is used at a participating merchant, the merchant receives the full value of the card as is typical in any debit card transaction. We track card usage activity and invoice the participating merchants for the agreed upon rebate or discount. Revenue sharing does not occur with the fundraising organization or the distributor until we receive the rebates or discounts from the participating merchant. The use of a multi-merchant stored-value card accomplishes the same fundraising objectives as traditional scrip products, but without the capitalization and inventory requirements.

Growth Strategy

Our objective is to become the leading provider of prepaid stored-value card programs. We intend to build upon our expertise as a developer of prepaid stored-value card systems and services to mall owners/developers, restaurant chains, incentive program providers and fund-raising institutions. In March 2006, we filed a provisional patent with the US Patent and Trademark Office for two separate patents relating to the customization, personalization and delivery of gift cards. Specifically, the personalization and customization could include the placement of text, photos and graphics of a customers choosing through our regular delivery channels together with un-manned kiosks. These two patents, among others being contemplated, can be integrated into any of the growth strategies detailed below and may provide enhanced revenue opportunities. We place significant value on the opportunities these patents represent. Key elements of our strategy include the following:

- *Expand Existing Mall Gift Card Programs*

  We intend to continue to provide gift card solutions to large and medium-sized shopping center owner/operators by introducing new programs that are more consumer-friendly, and more attractive revenue-sharing programs through the use of our new virtual mall concept. Of the approximately 3,500 indoor shopping malls located in the United States, we will concentrate our efforts on those malls having a minimum annual gift certificate or gift card sales volume of $250,000 or greater. We also plan to engage mall owner/operators in the use of our Virtual Mall as a revenue enhancement device to their existing operations.

- *Continue to Establish Merchant Rebate Agreements for use with the Multi-Merchant Card Applications*

  As part of our multi-merchant card strategy, we plan to continue to add additional anchor merchants to our current list of 87 participating merchants. These agreements are difficult and time-consuming to craft, and form one barrier to entry in the channel for potential competitors. We believe our existing relationships will facilitate further advancement in the marketplace.

- *Expand Corporate Incentive and Membership Reward Card Programs*

  We currently supply prepaid stored-value cards to providers of turnkey corporate incentive and membership reward programs. We intend to expand our marketing efforts of prepaid stored-value cards to companies that administer their own incentive and membership reward programs.

- *Establish a Direct Retail Presence for our Multi-Merchant Cards*

  We intend to market our prepaid stored-value cards through high-traffic retail locations, such as grocery stores, drug stores, convenience stores and entertainment venues. These companies market, distribute and manage card activation through the point-of-sale systems for prepaid cards, such as individual merchant cards or phone cards, for sale in grocery store checkout lines or in other retail establishments. The sale of prepaid telephone cards by other vendors at such locations is well established, and an increasing number of open and closed network gift cards from other vendors are now being sold through direct retail locations.

- *Expand the Gift Card Fulfillment Program*

  As we demonstrate the power, flexibility, and economy of our fulfillment model, we attract additional business from our existing partners such as ValueLink and we entice new customers through word-of-mouth referrals. We plan to expand our gift card order fulfillment business for dedicated prepaid stored-value gift cards primarily through our exclusive arrangement with ValueLink for ValueLink's customers. This increased volume of business has allowed us to leverage economies of scale in our operations. We will also continue to pursue order fulfillment business from outside ValueLink's existing customer base where non-compete agreements allow for such activities.

- *Promote our Fundraising Programs Through Distributorship Relationships or Directly Through Our Own Efforts*

  Fund-raising for schools, youth sports organizations, church and similar organizations is primarily a grass-roots activity, and we are pursuing opportunities to partner with firms who have already established strong distribution networks to market our multi-merchant rebate cards. We are marketing our stored-value multi-merchant cards as complementary or replacement products for traditional scrip products. Where feasible, we will market our products directly with existing resources and add staff as necessary.

Sales and Marketing

Our approach to sales and marketing varies by product and target market. We maintain an internal sales team supported by senior management, and also use third parties as distribution channels and extensions of our own sales force. We market our gift card programs and services to shopping malls and other retail merchants. Our gift cards are sold at mall customer service desks through mall-staffed dedicated terminals, through Internet websites that we operate and maintain, and through telephone orders to our in-house call center. Our marketing programs may be tailored specifically to one shopping mall, to a number of shopping malls owned by one owner/operator, to one retailer, or to multiple retailers. We market our multi-merchant card to high-volume outlets such as grocery stores and drug stores, and we hope to grow our business substantially from a small base with these retailers. We market our incentive cards to businesses that use them for employee incentive rewards programs and for customer loyalty rewards programs. We market our fund-raising cards to primary and secondary schools, colleges and universities and to their affiliated support organizations, as well as single purpose non-profit fundraising organizations, and we hope to grow our business substantially in this channel from a small base with these organizations. Finally, we market our Internet and call-center gift card fulfillment services to businesses that use proprietary closed system gift cards. We maintain several websites such as nbo.com, thegiftcardcompany.com, thegiftcertificatecompany.com, and childrensheroes.com to accommodate sales in each of the above-mentioned channels. Additionally, purchasers or recipients of a gift card can access our balance inquiry websites, www.giftcardbalance.com and www.myprepaidcard.info, to check the outstanding balance of funds available on their cards.

Our sales in each of the above channels position us in the areas of strongest growth in the prepaid stored-value card industry. Each channel has its strengths, and in addition, we have an underlying program that is common to each sales channel – our merchant rebate program. We have entered into rebate agreements with 85 national retail merchants having more than 40,000 retail consumer locations, who pay us a rebate on card redemptions in their stores in exchange for increasing customer traffic. Additionally, we created a virtual mall website that has more than 3,000 brand name merchandise products available for purchase and delivery at prices typically below brick-and-mortar retail prices. We have the flexibility to use the multi-merchant card rebates to enhance our own margins, or to create additional or enhanced revenue sharing opportunities with our distribution partners.

Operations and Strategic Relationships

We manage our prepaid stored-value card program operations in four basic categories:

- Program setup
- Sales and distribution
- Redemption
- Post-redemption activity, including analysis, reporting, and billing

Program Setup

Our operation steps for program setup vary, depending primarily on the platform or network that the card program will employ. For open-network programs, those that rely on the Visa or MasterCard networks, our first step is to define the new program with an issuing bank, the financial institution that is ultimately responsible for the underwriting of the card. We have relationships with several banks that underwrite our card programs, including Bank First, MetaBank, and Mercantile Bank. For dedicated-network programs, those that rely on the Discover network, we are considered the issuing partner through sponsorship by Discover.

Next, we work with the issuing bank's or network's data processor to establish card number ranges and other details. We have agreements with First Data Corporation and Metavante Corporation, two of the leading data processors in the industry, who handle large volumes of Visa, MasterCard, and Discover transactions. We secure network approval on the card design, including card artwork and terms and conditions. We then order the plastic cards themselves, through the data processors, and the processors prepare the cards for distribution by encoding their magnetic stripes and embossing card numbers.

Our setup steps for a closed-network program, such as a ValueLink gift card program, require us to form a connection to the ValueLink client's data processor, and then establish a shopping cart on the client's website to effect Internet and call center sales.

Sales and Distribution

We sell cards through a mall PC desktop counter-top unit ("CTU"), one of our websites, our call center, or in bulk to a business-to-business customer, corporate incentive program provider, or fundraising group. These entities present a credit card, cashier's check, wire transfer, or other form of payment. In exchange, they receive a card or group of cards loaded with value, ready to use. In programs where we are responsible for handling a credit card transaction in support of a prepaid card sale, we route the transaction through our credit card processor, Nova Information Systems ("NOVA"), an industry-leading gateway to the major credit card networks.

We use CTUs located in the malls as our primary mall gift card and gift certificate sales medium. The CTU software gives the consumer the choice of purchasing a gift card or paper gift certificate (where supported) by credit/debit card, check, or cash. When the customer presents a credit/debit card for payment, the most common payment source, the mall employee swipes the consumer's card at the CTU, which then transmits an authorization request to NOVA. Upon receipt of the applicable authorization, the CTU software charges the credit/debit card for the gift card face value, plus any applicable point of sale fees and taxes. We deposit the funds into a local bank account, often on the mall premises. At the end of each business day, we sweep the funds from the depository bank account into a holding account designated specifically for gift card obligations. These restricted bank accounts are maintained by the card-issuing bank or network designate and are separate from our operating accounts. The funds are remitted to merchants as consumers use the gift cards. We earn interest income on the deposited funds.

Redemption

The flow of funds from use of the funds lies solely within the domain of the merchant's credit card processors, the card networks, and the issuing bank's data processors. When a cardholder presents one of our cards at a merchant, that merchant authorizes the transaction using its own credit card processor and the network affiliated with the card. The data processor receives the authorization request, consults its database, and either approves or denies the purchase. The merchant later settles the transaction with the bank, triggering a transfer of funds from our holding accounts to the merchant. The transactions are high volume – we rely on the 'heavy iron' secure and redundant processing systems within the data processors to accommodate this traffic. We earn a portion of the interchange on the usage of the cards.

Post-Use Activity

The data processors relay usage information to us on a regular basis. We use the usage information to add value for our clients by supplying them with store-by-store usage reports, information on the payment sources used by cardholders to load value on the cards, and rebate generation, where appropriate. Our customers use this information to analyze spending trends and to gauge program performance. We rely on usage data to bill merchants for agreed-upon rebates, and to support our billing to our customers of account initiation and interchange fees.

Another important post-usage step is the calculation of merchant rebates. We match card usage against our list of participating merchants, and determine the rebate that relates to each transaction. The merchant rebates vary in percentage, in general from 3% to 30%. We deduct a technical services fee from each rebate up front, and then, depending on the program and sales channel, either retain the rest of the rebate, or calculate a split with our distribution partner from the appropriate channels mentioned above.

To support post-usage processing for the credit/debit card-registration program, we rely on our agreement with Card Commerce International ("CCI"), a leading supplier of transaction filtering and fraud check services. CCI scans all traffic from participating merchants, detects transactions from registered cards, and relays the usage activity to us for analysis, reporting, and billing. Filtering the large number of transactions is a burdensome task, requiring significant infrastructure and association certification. Our 5-year agreement with CCI, signed in 2002, relieves us of that burden.

In our strategic relationships with issuing banks, data processors, and networks (either open or closed), we have taken care to establish redundant agreements that assure smooth operations if one of the key relationships were to fail. As mentioned earlier, we offer customers a choice of platforms, and those multiple platforms give us access to multiple issuing banks and data processors that can support similar lines of business.

Customers

We have a broad customer base from a variety of product offerings, including mall owner/operators, restaurant and retail chains, corporate incentive and reward sponsors, and fund-raising organizations. As of December 2005, we provided gift certificates and gift card programs to a total of 77 shopping malls in 28 states. One mall customer, Glimcher Properties, represented 43% of total transaction volume in 2005. Our fulfillment operations for Darden products represented 15% of the total transaction volume in 2005. No other customers accounted for more than 10% of our total transaction volume in 2005. We expect to further diversify our customer base as we execute our growth strategy.

Competition

We face competition in each of our business channels, potentially from much larger financial services companies, that may choose to enter the prepaid stored-value card market.

With respect to mall gift cards in particular, we face competition from two basic sources: mall developers themselves, and alternate service providers. Many mall owner/operators currently manage their own gift card and gift certificate programs in-house. Our challenge is to convert these in-house competitors into customers by demonstrating the benefits of out-sourcing to us, with the potential of revenue sharing back to the mall owner/operator, and the cost savings and customer service benefits we can provide to the mall owners, thereby eliminating manpower and overhead associated with an in-house program.

We believe that with the availability of stored-value gift cards, and the complexities of administering such a detailed program, mall owner/operators who have chosen in the past to manage their own paper gift certificate programs may see the benefits of outsourcing this service if they want to convert from paper gift certificates to plastic gift cards expeditiously and with a lower administrative burden. Our stored-value gift card and gift certificate services provide a revenue sharing opportunity for the mall owner/operator that did not exist with a paper gift certificate program as recently as 2002, providing another incentive for mall owner/operators to do business with us. We have established four long-term contracts with significant mall owner/operators that previously managed their programs in-house.

The primary competitors in the mall gift certificate/card space are American Express and Mid-America Gift Certificate Company, a subsidiary of Mid-America Bank. Another direct competitor in the mall space is Store Financial Systems, based in Chicago, Illinois, a recent entry into the gift card provider business.

The most direct competitor to our universal multi-merchant gift card is the Persona card, marketed by American Express Incentive Services. This card offers rebates on purchases made at participating merchants, similar to our multi-merchant card.

Other potential gift card competitors include banks that already issue prepaid stored-value cards. Although most banks run only local or regional prepaid gift card programs, these programs are attracting the attention of national banks as well. Data processors are also entering the market, with First Data Corp. offering a ‘gift card in a box’ program, designed to allow customers to quickly configure and launch a customized gift card program.

In the order fulfillment arena we have a variety of competitors including Gift Check Solutions, GiftCertificates.com, and other primarily internet-based operations.

In the fundraising channel, in particular scrip fundraising, several firms compete with us, although we do not consider scrip fundraising to be a critical revenue channel. Great Lakes Scrip Center, (“GLSC”), is based in Grand Rapids, Michigan and has significant operations in Michigan, Indiana, Illinois, Ohio, and Wisconsin. GLSC is a potential national distribution partner for our CSC card.

Other scrip competitors are SchoolPop, (which in January 2004 purchased assets of The National Scrip Center, or NSC, based in Santa Rosa, California), Scrip Advantage based in Fresno, California (which recently filed for bankruptcy), and eScrip based in Auburn, California.

We compete in our target markets based primarily on cost, administrative efficiencies, processing capabilities, technology, and rebate programs.

Technology

We have developed and deployed proprietary software for our gift card and gift certificate programs. Our software is contractually protected through licensing agreements with the contracting entities (such as mall developers and merchants).

Magnetic Stripe Stored-Value Gift Cards

Magnetic stripe cards are most commonly used as credit cards and debit/ATM cards. This technology has an application in the gift giving industry as a "stored value" or debit card. The magnetic stripe card can be pre-loaded in fixed denominations or loaded at the time of purchase for any amount the customer chooses. While the magnetic stripe card is not as powerful or versatile as the latest smart card technology, magnetic stripe technology is widely accepted in the U.S. market, and is less costly than smart card technology. Accordingly, we believe magnetic stripe technology will continue to replace paper gift certificates and be the preferred technology in many applications until smart cards or other card technologies are more widely accepted and become less costly.

Onsite Systems

Our Onsite Systems consist mainly of multiprocessor Dell severs running Windows XP Advanced Server and are used to provide services for MS-SQL databases, credit card processing, a modem pool offering a secured redundant connection method for point-of-sale devices, web services, anti-virus software management, accounting software and e-mail services. Servers running a UNIX operating system are used for security and twenty-four hour network monitoring. Our network utilizes network-attached storage, a reliable tape backup system, a secure firewall and intrusion detection system, and a virtual private network gateway. Many of our systems utilize redundant servers and equipment to enhance reliability. We utilize three T1 Internet connections from three separate providers to ensure redundant network services. Failure on any T1 link is automatically detected and resolved.

Software Methodology

Our software design allows several modular applications to run on outlet computer systems (point-of-sale systems) simultaneously. This modular design approach allows us to develop custom point-of-sale solutions and can be configured to accept a variety of payment methods. For example, one point-of-sale system can be configured to accept cash only while another, running the same software modules, can be configured to accept cash, credit and debit cards.

Our software uses industry standards for both client-server deployment and for host-based systems. Additionally, where applicable, we interface to third party systems using application program interfaces, or APIs. API's are used for real-time communication with software systems of strategic partners, credit card processors and batched file transfers for other systems where real-time events are not required.

Furthermore, software has been developed to connect with various networks using dial-up, DSL, frame relay and Ethernet. Additionally, many of our outlets contain local databases, allowing for temporary off-line operation in the event a network connection interruption occurs.

Point-of-Sale Systems

Our Point-of-Sale Systems deployed in the field consist of mall-employee manned systems residing on a desk or counter top, known as Dual-Advantage Counter Top Units, or CTUs.

CTUs are point-of-sale devices used for issuing gift cards or gift certificates in the field. This system allows clients to move from paper gift certificates to gift cards at will. This design reduces the number of configurations deployed in the field. This reduces technical support training and manpower costs for computer integration. CTUs are configured to either use our credit card processing services or free standing Verifones.

Intellectual Property

We currently rely on a combination of trademark, copyright, and trade secret law and contractual restrictions with our customers, suppliers and consultants to protect our intellectual property rights. We have filed for several federal applications with the US Patent and Trademark Office for the trademarks and service marks relating to the marketing and sale of our products and services. These applications include “Children’s Heroes” and “Community Scrip Card.”

We have licensed, and may license in the future, elements of our trademarks, trade dress and similar proprietary rights to third parties. While we attempt to ensure that these business partners maintain the quality of our brand, they may take actions that could materially and adversely affect the value of our proprietary rights or reputation.

In March 2006, we filed a provisional patent with the US Patent and Trademark Office for two separate patents relating to the customization, personalization and delivery of gift cards. Specifically, the personalization and customization could include the placement of text, photos and graphics of a customers choosing through our regular delivery channels together with un-manned kiosks. These two patents, among others being contemplated, can be integrated into any of the growth strategies detailed below and may provide enhanced revenue opportunities. We place significant value on the opportunities these patents represent.

Government Regulation

The gift card and the gift certificate industries are regulated primarily by state law and vary substantially from state to state. Some states under their abandoned property laws seek to escheat unredeemed gift certificates and gift cards and some states exempt gift certificates and gift cards from the abandoned property laws. Some states regulate expiration dates of gift cards and gift certificates and other states have no provisions for expiration dates. Some states regulate the type and amount of charges that may be applied to gift certificates and gift cards and other states have no regulations. Some states apply money transmitter licensing regulations to issuers of gift cards and gift certificates and others do not. In some states, the state Attorney General and private plaintiffs attempt to regulate gift certificates and gift cards through lawsuits in an attempt to apply a state’s unfair business practices laws or other consumer protection legislation to the gift certificates and gift card business. Finally, some members of Congress have suggested federal legislation to regulate gift cards, although no federal legislation has been enacted to date. We expect that a number of state legislatures will continue to be active in regulating gift cards and gift certificates.

We are continually reviewing legislation enacted from time to time by the various states and we attempt to monitor material instances of litigation affecting gift certificates and gift cards. We make a concerted effort to comply with the laws of the various states and to adapt our business practices from time to time in response to changes in the laws and the results of litigation.

Employees

As of December 31, 2005, we had 52 total employees, consisting of 38 full-time employees and 14 part-time seasonal temporary employees. Our operations staffing varies with seasonal demand. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe our relationship with our employees is good.

Available Information

Our primary Internet website address is www.nbo.com. We make available, free of charge on or through this website, our Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. We also operate the following websites in connection with the operation of our business: www.thegiftcertificatecompany.com, www.thegiftcardcompany.com, www.giftcardbalance.com, www.myprepaidcard.info and www.childrensheroes.com. Information contained on these websites is not part of this Annual Report on Form 10-KSB.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before purchasing our common stock, you should carefully consider the risks described below in addition to the other information in this Report. Our business prospects, results of operations, liquidity or financial position may be materially and adversely affected due to any of the following risks. The risks described below are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business prospects, results of operations, liquidity or financial position. The value of our common stock could decline due to any of these risks, and you could lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this Report, including our financial statements and related notes.

This Report contains forward-looking statements based on the current expectations, assumptions, estimates and projections about our industry and us. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this Report. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Since inception, we have incurred net losses and negative cash flows from operating activities.

Since inception of operations in June 1994, we have incurred net losses and negative cash flows from operating activities. As of December 31, 2005, we have incurred cumulative losses of approximately $40.1 million. In recent years, we have been financing our operations, in part, through loans extended by existing stockholders, in exchange for which we have issued promissory notes providing for interest at annual rates of between 17 and 30 percent. The aggregate amount of such loans was approximately $6.2 million as of December 31, 2005. We may need to raise additional funds to continue to operate our business if we are unable to generate positive cash flows from our operating activities. We may not be able to obtain such financing on terms favorable to us, if at all. Any additional capital raised through the sale of equity or convertible debt securities would dilute the ownership interests of our then-existing stockholders. Any additional capital raised through debt financing would result in increased interest expense and would likely subject us to financial and other covenants that restrict our ability to operate our business. If financing is unavailable when required or is not available upon acceptable terms, we may not be able to develop or enhance our products and services, marketing efforts or operational infrastructure, which may, in turn, prevent us from achieving profitability and/or continuing in business

If we are not successful in marketing our products and services, our results of operations will suffer.

We have expended few funds on marketing and advertising to date. We anticipate a significant increase in sales and marketing expenditures particularly for our new products and services to be offered in 2006. We have not developed or tested any targeted, integrated, multi-media marketing program that would include print, radio, television or on-line components to build brand awareness and drive sales. Our future growth and profitability will depend in large part upon our ability to:

- create greater awareness of our products and services and the ways in which consumers and corporations may purchase them;
- identify the most effective and efficient level of spending for each product in each market;
- determine the appropriate creative message and media mix for marketing expenditures;
- effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment;
- select the right markets in which to market; and
- convert consumer awareness into actual store visits, on-line visits and product purchases.

If we are not successful in implementing our marketing program, our results of operations will be adversely affected.

At present, we have a fairly limited number of customers. To continue in business and achieve profitability, we need to expand our customer base.

There are a limited number of shopping mall properties in the United States that would likely have sufficient gift card and gift certificate volume for us to be able to establish profitable gift card/certificate programs at such properties. Our target market for gift card/certificate programs is further limited as a result of owners/operators of some of the largest malls in the United States developing their own gift card and/or gift certificate programs, as have many large retailers. Further, there has been a significant amount of consolidation in the shopping mall commercial real estate industry. The prospect of further consolidation creates the risk that we may lose some of our existing mall owner/operator customers.

We maintain a non-compete agreement with ValueLink, limiting the customer base available for fulfillment contract services. At this time, we are unable to offer fulfillment services to direct ValueLink competitors.

Existing and/or proposed federal and state laws and regulations regarding gift certificates, gift cards and other prepaid stored-value cards have limited (and may further limit) the manner in which we operate our gift, incentive and fund-raising card programs and our revenues.

Existing and/or proposed federal and state laws and regulations have limited and may in the future further limit the manner in which we are able to operate our gift, incentive and fund-raising card programs. For example, a bill was recently introduced in the U.S. Senate and referred to the Committee on Banking, Housing and Urban Affairs. This proposed legislation, referred to as the Fair Gift Card Act, would, if adopted, preclude us from being able to impose fees, such as the monthly maintenance fees we charge, for non-use or inactivity of gift certificates or gift cards, except in limited circumstances. Further, the proposed legislation would make it unlawful for gift certificates or gift cards to have an expiration date of less than five years from the date of purchase. Some states have already enacted legislation eliminating expiration dates or maintenance fees, and additional states may enact similar legislation in the future. In other states, the statute of limitations before a gift certificate expires is minimally three years from the date of issuance of the gift certificate. We cannot recognize revenue from unused gift certificates until the statute of limitations expires. Accordingly, if the statute of limitations is increased or expiration dates are eliminated then this would extend the time before we would be able to recognize revenue from unused gift certificates and gift cards, which would negatively affect our results of operations.

We currently recognize revenue from the funds underlying unused gift certificates and gift cards, known in our industry as "breakage." Through their unclaimed property laws (also known as abandoned property or escheat laws), some states seek to escheat or claim as abandoned property the funds associated with the obligation related to gift certificates and gift cards that remain unclaimed or unused for a legally specified amount of time. According to the leading U.S. Supreme Court case, Texas v. New Jersey, 379 U.S. 674 (1965), a state may escheat the unclaimed property held by a company if either (1) that company keeps records indicating that the addresses of the property owners are located in that state, or (2) the company does not keep such records, but is domiciled in that state. As a Maryland corporation, we are subject to Maryland's unclaimed property laws, which expressly exempt gift certificates from escheat. We have relied on the ruling in Texas v. New Jersey and our Maryland domicile to determine that the breakage we hold is exempt from escheat or delivery to the states.

However, approximately 14 states have enacted unclaimed property laws that both provide for the escheat or the delivery of funds underlying the obligation related to gift certificates or gift cards and contain so-called "transactional jurisdiction" provisions. Such "transactional jurisdiction" provisions authorize a state to escheat unclaimed property that was initially sold or distributed within such state. The legal validity of "transactional jurisdiction" provisions is in question given the ruling in Texas v. New Jersey. One federal district court has held that transactional jurisdiction is invalid to the extent it conflicts with Texas v. New Jersey. However, the state courts in two states have upheld the validity of transactional jurisdiction. In future years, as the dormancy periods for the years in which the gift cards and gift certificates were issued expire, the potential amount might become material.

We face the risk that some of the states that have enacted "transactional jurisdiction" provisions will attempt to enforce such provisions and escheat the funds associated with the unused gift certificates and gift cards that we hold. If such states are successful in applying such laws, our business prospects, results of operations, liquidity, and financial position would be adversely affected. Furthermore, some of the states which have not enacted "transactional jurisdiction" provisions might enact such provisions in the future. If additional states enact "transactional jurisdiction" provisions and the unclaimed property laws of such states provide for the escheat of gift certificates or gift cards, our business prospects, results of operations, liquidity, and financial position may further be adversely affected. The potential amount subject to escheat to the states that have transactional jurisdiction statutes that do not exempt gift cards and gift certificates at the end of our last fiscal year is not material.

Since we do not have long-term agreements with our vendors and suppliers, we may not be able to secure adequate supplies, which could disrupt our operations and have an adverse affect on our business prospects, liquidity, financial position and results of operations.

We purchase 100% of our materials used for our products and services from outside vendors. These vendors, in turn, contract for our orders with multiple factories for the production of our certificate and card stock. Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply, quality or acceptable pricing on a long-term basis. Our vendors could discontinue sourcing products for us at any time. If the vendors were to discontinue their relationship with us, or if the factories with which they contract were to suffer a disruption in their production, we may be unable to replace the vendors in a timely manner, which could result in short-term disruption to our inventory flow as we transition our orders to new vendors or factories. Disruption in inventory could, in turn, disrupt our operations and have an adverse effect on our business, financial condition and results of operations.

We may undertake acquisitions to expand our business that may pose risks to our business and dilute the ownership of our existing stockholders.

We may, in the future, evaluate opportunities to acquire other businesses, products or technologies that would complement our current offerings, or enhance our capabilities. We have no experience making acquisitions and we may not realize the anticipated benefits of any acquisitions we do undertake. Acquisitions that we may potentially make in the future may entail a number of risks that could materially and adversely affect our business prospects, liquidity, financial position, and results of operations, including:

- problems integrating the acquired operations, technologies or products with our existing business and products;
- costs associated with acquiring another business;
- diversion of management’s time and attention from our core business;
- the need for financial resources above our planned investment levels;
- overestimation of potential synergies or a delay in realizing those synergies;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack prior experience;
- the potential loss of key employees of the acquired company; and
- potential litigation arising from the acquired company’s operations before the acquisition.

We could be required to use a substantial portion of our available cash to consummate any acquisition. Any future acquisitions also could cause us to incur debt or contingent liabilities or cause us to issue equity securities that would reduce the ownership percentages of existing stockholders. Furthermore, acquisitions could result in adverse tax consequences, substantial depreciation, deferred compensation charges, in-process research and development charges, impairment of goodwill or the amortization of amounts related to deferred compensation and to identifiable purchased intangible assets, any of which would negatively affect our operating results.

Our success is highly dependent on general economic conditions since consumer gifts are highly discretionary.

Our business is subject to changes in general economic conditions. Since purchases of our products and services are dependent upon discretionary spending by the users of our gift, incentive and fund-raising cards, our financial performance is sensitive to changes in overall economic conditions that affect consumer spending. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A general or perceived slowdown in the United States economy or uncertainty to the economic outlook could reduce discretionary spending or cause a shift in consumer discretionary spending to other products or services. Any of these factors would likely cause us to delay or slow our expansion plans, result in lower transaction volumes and revenues and adversely affect our liquidity and profitability. A nationwide economic downturn could adversely impact our busiest selling season and reduce the expected revenues and other income we expect to receive to fund our operations.

The execution of our growth strategy depends on our ability to retain key personnel, including our executive officers, and to attract qualified personnel.

The successful implementation of our business model and growth strategy depends on the continued contributions of our senior management and other key personnel, including Keith A. Guevara, our President and Chief Executive Officer. We have $2,000,000 in key man life insurance on Mr. Guevara. We believe future success will also depend, in part, upon the ability to attract, retain and motivate qualified personnel.

If we are unable to protect our intellectual property, which is essential to our business, we may not be able to compete effectively.

We believe our copyrights, service marks, trademarks, trade secrets, and similar intellectual property are critical to our success. In a highly competitive industry with relative ease of entry into the marketplace, we rely on trademark, copyright and other intellectual property laws to protect our proprietary rights and maintain our product differentiation. We also depend on trade secret protection through confidentiality and license agreements with our employees, licensees, licensors and others. We may not have agreements containing adequate protective provisions in every case, and the contractual provisions that are in place may not provide us with adequate protection in all circumstances. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brands, products and services and competitive advantages and result in decreased revenues. Despite our efforts to protect our intellectual property rights, intellectual property laws afford us only limited protection. A third party could copy or otherwise obtain information from us without authorization. Accordingly, we may not be able to prevent misappropriation of our intellectual property or to deter others from developing similar products and services. Further, monitoring the unauthorized use of our intellectual property rights is difficult. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in further substantial costs and diversion of resources, may result in counterclaims or other claims against us and could negatively impact our financial position, liquidity, business prospects, and results of operations. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States..

Damage or long-term disruption to our information systems would substantially harm our business.

We depend heavily on our communications and information systems, which, despite our adoption of industry-standard security measures, are vulnerable to potential systems failures, unauthorized file access, telecommunications provider failures, and power failures. Any damaging failure or long-term interruption of our systems, including those associated with new systems implementations or system upgrades, will significantly harm our business, including our sales, distribution, purchasing, inventory control, merchandising and financial controls.

Consumer-information privacy regulations could subject us to state penalties or litigation, damage our reputation, and deter current and potential users from using our products and services.

Under certain circumstances, we currently obtain and retain personal information about consumers who purchase cards on our websites, phone in orders to our call center, or register cards on our websites for theft-cancellation or loss-replacement services. Federal, state and foreign governments have enacted or may enact laws or regulations regarding the collection and use of personal information, possibly including enforcement and redress provisions. We have implemented programs and procedures designed to protect the privacy of consumers and have established security features to protect our user database and websites. However, our security measures may not prevent all possible security breaches. If third persons were able to penetrate our network security and gain access to, or otherwise misappropriate, our users' personal information, it could harm our reputation and, therefore, our business, and we could be subject to liability. Such liability could include claims for misuse of personal information. These claims could result in litigation, our involvement in which, regardless of the outcome, could require us to expend financial resources and limit our operational growth.

Increased accounting and financial reporting requirements, as an SEC reporting entity, could stress our internal accounting system and system of internal controls sufficient to potentially impair the accuracy of our financial results or impair our ability to prevent fraud.

The risks associated with financial reporting have come to the forefront in recent years. Any failure to effectively implement adequate controls or meet the growing systems and staffing needs of our accounting and finance functions could result in errors in our published financial reports or in other failures to comply with our obligations as a public company, including the requirements of the Sarbanes-Oxley Act of 2002. Based upon our size and scope of operations, we are not required to comply with Sarbanes-Oxley Section 404 until the Company's first fiscal year ending on or after July 15, 2007, which would require our compliance by December 31, 2007. Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud within the Company. Our intent is to operate within the confines of the requirement to ensure effective internal controls within the organization. As we have been a non-listed public company, we have had limited accounting personnel and other resources with which to address our internal controls and procedures. Our reporting obligations will increase significantly should we become a listed public company, placing a considerable strain on our management, operational and financial resources and systems for the foreseeable future. We are currently developing and improving our internal accounting systems, particularly our operational, financial, communications and management controls and our reporting systems and procedures. We expect to devote significant resources to ensure that our administrative infrastructure and system of internal controls remain adequate for a listed public company. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting. Non-compliance with Sarbanes-Oxley can result in litigation, public scrutiny, and/or lost revenues, significantly limiting opportunities for future growth.

ITEM 2. DESCRIPTION OF PROPERTY

Our headquarters are located at 3676 West California Avenue, Building D, Salt Lake City, Utah, 84104. This facility consists of 20,142 square feet of leased office space. The term of the lease was renegotiated in 2005 to extend through July 31, 2007. We lease the headquarters facility from 5B Bangerter LLC at a base monthly rent of $16,117. We believe that our facilities are adequate for our current needs. However, we may require additional space in the future, which may not be available on commercially reasonable terms or in the location we desire.

ITEM 3. LEGAL PROCEEDINGS

a. Ripperda, et al v. NBO, Inc., et al, Circuit Court Twentieth Judicial Circuit of Illinois, St. Clair County, Case No. 04L91

On February 13, 2004, Thomas Ripperda, et al, filed an action in Illinois State Court in St. Clair County, Illinois, against the Company in connection with gift cards sold at the St. Clair Square Mall in St. Clair County, Illinois. The plaintiff's complaint seeks to establish a class action. The complaint alleged that the term "valid thru" appearing on the face of the gift card next to the expiration date of the gift card is misleading in violation of the Illinois unfair business practices laws. The plaintiff sought a return of all administrative fees charged against his gift card prior to the "valid thru" date.

On October 11, 2005, together with codefendants, the Company entered into a Memorandum of Understanding with the plaintiff's attorney for the settlement of this litigation. Under the terms of the settlement, the Company denied any wrongdoing or liability whatsoever, and, the Company will make payments to cardholders who paid administrative fees and submit a satisfactory claim, not to exceed $50 per card. Amounts not claimed by cardholders will be paid to charity. The Company does not expect its share of the settlement amount to exceed $90,000.

On November 22, 2005 the Court preliminarily approved the settlement and conditionally certified a class for settlement purposes.

On February 21, 2006, the Court issued a final order and judgment approving the settlement. The claims deadline was March 22, 2006 resulting in payable claims of $72,353. The claims payment deadline is April 21, 2006. The unclaimed settlement amounts are to be paid to charity by May 22, 2006.

b. WildCard Systems, Inc., Claim for Indemnification

WildCard Systems, Inc. (“WildCard”) is a credit card transaction processor. The Company entered into an agreement with WildCard for the right to use the MasterCard-branded gift cards sold at the St. Clair Square Mall and for card transaction processing in connection with these gift cards. WildCard in turn contracted with Bank of America and Bank of America issued the gift cards that were sold at St. Clair Square Mall. The term “valid thru” appearing on the face of the card are words required by Bank of America on the face of the card.

Thomas Ripperda, the plaintiff described above, named Bank of America as a defendant together with the Company when he filed his complaint against the Company in connection with the gift cards sold at St. Clair Square Mall. Bank of America has been defending the lawsuit parallel to the Company’s defense of the lawsuit. WildCard has not been named as a defendant in the lawsuit.

WildCard informed the Company that Bank of America had asserted a claim for indemnification against WildCard in connection with Bank of America’s expenses and possible liability arising from the lawsuit filed by Thomas Ripperda against Bank of America. WildCard in turn asserted a claim to indemnification against the Company with respect to Bank of America’s claim against WildCard. The Company denied liability.

The Company has also asserted a right to indemnification from WildCard for its costs and liabilities, if any, incurred in the litigation with Thomas Ripperda. WildCard rejected the Company’s claim for indemnification.

Since the agreement with WildCard contains an arbitration clause, WildCard invoked the right to arbitrate the dispute. WildCard and the Company agreed to settle the arbitration matter, including the following items: 1) The Company will contribute one-third of the funds necessary to settle the Ripperda litigation; 2) Both WildCard and the Company will dismiss their claims in arbitration; and 3) WildCard and the Company will be responsible for their own costs and attorney’s fees.

The settlement will be effective upon the final settlement of the litigation in Ripperda. Both the Company and WildCard Systems, Inc., will dismiss their arbitration claims. The Company will make no additional payment in connection with the settlement of the arbitration.

Except as described above, we are not a party to any material threatened or pending legal proceedings, which if adversely determined, would have an adverse material effect on our business prospects, financial position, liquidity or results of operations. From time to time, however, we may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including, but not limited to, employee, customer and vendor disputes.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Currently no public trading market exists for shares of our common stock. However, we currently meet all of the requirements for the NASDAQ Over the Counter Bulletin Board (“OTCBB”), but we do not meet the requirements of NASDAQ Capital Market (“Capital Market”). We intend to solicit reputable market makers to make a market in our common stock and begin trading in 2006 either on the OTCBB or, if we subsequently meet the requirements, in the Capital Market. However, we reserve the right to delay such actions in light of unforeseen events or changing market conditions. We cannot assure that we will be able to procure the services of reputable market makers. We may elect to defer our support for trading our common stock until we make an initial public offering of our common stock. At the present time, we have not filed a registration statement and we have not commenced the process leading to an IPO.

Holders

As of March 31, 2006, there were approximately 692 stockholders of record of our common stock.

Dividends

We have not declared nor paid cash dividends on our common stock in the past two fiscal years or in any subsequent period. We do not anticipate paying cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings, if any, to support operations and to finance the growth and development of our business. Any future determination relating to our dividend policy will be made in the discretion of our Board of Directors and will depend upon a number of factors including, our results of operations, financial position, liquidity, capital requirements, contractual and legal restrictions and other factors the Board of Directors may deem relevant.

Equity Compensation Plan Information

The equity compensation plan information required by this Item is set forth in Part III, Item 11 of this Annual Report on Form 10-KSB.

Recent Sales of Unregistered Securities

For the year ended December 31, 2005, we issued the following securities without registering the securities under the Securities Act of 1933, as amended:

We borrowed money from existing stockholders, all of whom are accredited investors, and issued promissory notes in return. In connection with these loans, we issued 1,565,883 warrants to purchase shares of common stock at various strike prices. As of December 31, 2005, borrowings from stockholders totaling $6,203,475 remain outstanding. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 7,168 shares of preferred stock as stock dividends on previously issued preferred stock in the amount of $67,200. This issuance did not constitute a sale because the recipients did not pay any consideration and did not make any election either to receive the shares or to receive other payment. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 20,826 shares of common stock in the amount of $68,744 according to the terms of an employment agreement for one of the Company’s officers. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 4,188 shares of common stock in the amount of $16,753 according to the terms of a compensation agreement related to an equity offering of the Company's common stock. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 817,750 shares of common stock in connection with a private placement generating total proceeds of $1,743,000. The Company incurred offering costs of $31,784. Net proceeds to the Company were $1,711,216. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 165,592 shares of common stock in connection with the exercise of warrants generating total proceeds of $496,776. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We issued 125,000 shares of common stock in connection with the conversion of $250,000 of notes payable. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

We granted options to purchase an aggregate of 135,000 common shares, vesting over a 5-year period, expiring after 10 years, at an average exercise price of $3.70 per share to our employees. These options were issued under Section 4(2) of the Securities Act of 1933, as amended.

We returned 295,500 incentive stock options previously issued to employees to the pool available for issuance as a result of employee terminations.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to such financial statements included elsewhere in this Form 10-KSB. The following discussion contains forward-looking statements that involve risks and uncertainties. Readers should not place undue reliance on these forward-looking statements. These forward-looking statements are based on current expectations and actual results could differ materially from those discussed herein. Our actual results could differ materially from those predicted in these forward-looking statements, and the events anticipated in the forward-looking statements may not actually occur. Although we believe the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Form 10-KSB to conform these statements to actual results or to reflect the occurrence of unanticipated events, unless required by law.

Basis of Presentation

The financial statements included in this Form 10-KSB along with the footnotes and this management's discussion and analysis present audited results for the years ended December 31, 2005 and 2004, respectively.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

We believe the application of accounting policies, and the estimates inherently required in connection with the application of such policies, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

How We Generate Revenues and Other Income

With respect to our various gift card programs, we derive revenue and other income from a number of sources, including:

- Enrollment or point of sale fees charged to purchasers of cards issued in connection with one of our card programs. These fees are an additional expense to the consumer and are deposited with the proceeds from the card sales regularly in accounts swept by us.
- Payment system interchange and transaction fees in connection with card transactions.
- Rebates paid by merchants who participate in our card programs.
- Interest on funds held in reserve for the payment of transactions with the prepaid, stored-value cards.
- Monthly administrative fees and renewal fees charged on inactive prepaid, stored-value cards.
- Remaining amount inquiry fees.
- Fees charged to sponsors of employee incentive and customer rewards programs.
- "Breakage" resulting from prepaid, stored-valued cards that expire or are never used.

Historically, we expect to receive approximately 10% of the value loaded on our multi-merchant cards back in the form of maintenance fees, expiration fees, remaining amount inquiry fees and other administrative fees.

With respect to our various gift certificate programs, we derive revenue and other income from a number of sources, including:

- Interest income on funds held in reserve until utilized for gift certificate transactions by the customer.
- Breakage resulting from unused or unusable gift certificates.

We also record revenue from the sale of third-party closed-end gift cards and gift certificates. We purchase these gift cards and gift certificates at a discount as inventory and in turn resell them to customers or provide them to clients of ValueLink through our call center and internet fulfillment website. We record revenue equal to the sales price of the gift cards and gift certificates sold or the fulfillment fee paid to us by ValueLink and the shipping and handling charges.

Revenue Recognition/Cost of Goods

Gift Card Fees

We recognize several different types of fees related to our gift card programs. The timing of the revenue recognition varies depending on the type of fee being charged.

Point of Sale Fees

During 2005, in some cases, we began charging an up-front point of sale convenience fee on the sale of gift cards in retail establishments. This fee is charged to the customer at the time they purchased the gift card. We recognize revenue from the point of sale convenience fee ratably over the life of the gift card or gift certificate. If the gift card or gift certificate is fully used, any remaining balance of deferred point of sale convenience fee is recognized as revenue at that time.

Interchange and Transaction Fees

We record interchange transaction or processing fees earned in connection with card usage transactions as revenues when received. We begin to recognize material revenues on multi-merchant card sales approximately seven months from the date of sale. The issuing bank and card processor calculate the fees owed to us and submit the fee revenue to us from the restricted bank accounts on a regular basis, typically monthly.

Monthly Administrative Fees, Renewal Fees, and Expiration Fees

Our multi-merchant cards are governed by the rules of, and approved by, the member bank associations (Visa and MasterCard) and Discover. The member bank associations and their related issuing financial institutions require us to fund the value of the multi-merchant cards within 24 to 48 hours from the sale of the multi-merchant card. We sweep the depository funds from the mall owner/operator deposit accounts and hold the funds in restricted bank accounts. The issuing bank or financial institution sweeps the funds reserved for gift card usage from our restricted cash accounts to be held for future multi-merchant card usage. We show the funds on our balance sheet as restricted cash. We record an offsetting liability labeled gift certificates/gift cards payable on our balance sheet. The multi-merchant card-issuing bank makes a perpetual daily reconciliation to net new sales against usage and fees owed to us.

The average life of all multi-merchant cards is approximately 3 to 4 months. Consumers use most multi-merchant cards (approximately 85% to 90%) before any maintenance fees or expiration fees are imposed. For those multi-merchant cards that are not fully used by a particular date (which may vary from mall to mall), we charge a monthly administrative maintenance fee (typically $2.50 per month) to the card per the Terms and Conditions (imprinted on the multi-merchant card and in a separate document provided at the point of sale) until the remaining amount on the multi-merchant card is zero or until the card reaches the expiration date, subject to the requirements of local law which might place restrictions on fees. Our experience shows that approximately 8% of the face value of all multi-merchant cards sold will be returned to us in the form of maintenance fees. We record revenue from monthly administrative fees in the month in which they are charged. Cardholders may check the remaining balance on their card or reload amounts on an existing card by calling us at the phone number listed on the back of the card or through our website. We charge a fee to the cardholder to check the remaining card balance or to reload funds on the existing card. Such inquiry fees and renewal fees are recognized at the time balance inquiry is made or an amount is reloaded on the existing card.

The multi-merchant card has a maximum life of 18 months based on the "Valid thru" (or other similar phrase) date imprinted on the face of the multi-merchant card. The issuing banks mandate this expiration date. Upon expiration of the card, the issuing bank holding the funds for our multi-merchant cards remits to us the funds remaining as an expiration fee, which we record as revenue when received. Our experience shows that approximately 2% of the face value of all multi-merchant cards sold will be returned to us in the form of expiration fees.

The up front convenience fees, monthly administrative maintenance fees and the expiration fees enable us to provide the multi-merchant card service to consumers and cover our up-front costs. We record gift card maintenance and expiration fees as revenue in the period earned.

Rebates Paid by Merchants

We have developed a multi-merchant prepaid stored value card program in which we have entered into agreements with 85 national and regional retail merchants where the prepaid cards can be used. Each of the participating merchants provides us with rebates, varying from 3% to 30%, whenever the multi-merchant card is presented for redemption at the merchant location. We record rebate income as revenue net of any revenue sharing agreements with third parties in the period received. We apply estimates when compiling quarter-end or year-end results due to timing of receipts of receivable invoices or amounts due to us.

Incentive and Customer Reward Program Fees

We contract with third-party providers of incentive, promotion and loyalty programs for a wide variety of entities, including financial institutions, subscription-based services, and membership clubs, to provide the prepaid stored-value cards and associated administration of the cards. Generally, we charge an up front fee per card issued in the incentive programs. Revenue from the up front fees is recognized ratably over the life of the card. If the prepaid stored-value card is fully used, any remaining balance of deferred up front fee is recognized as revenue at that time.

Other Income – Gift Certificate Breakage

For gift certificates, we record the gross transaction volume on our balance sheet as restricted cash. We adjust the restricted cash liability as we offset new gift certificate sales against our payment to retailers of gift certificates they present to us for payment. We earn and retain all of the interest income from the restricted bank accounts. With interest rates at their current levels, revenue from interest income is not material.

We do not record the full amount of the mall gift certificate sale as revenue. We recognize the majority of our other income from unused or unusable gift certificates, known in the industry as "breakage". We classify breakage as "Other Income" in our statement of operations. We recognize income from breakage upon expiration of the gift certificate, or when no expiration date exists, upon the extinguishment of the liability per the applicable state statute of limitations, for which we use an average of three years from the date of issuance. We have tracked usage and breakage patterns since inception. Our historical analysis indicates that we receive approximately 4% of the gift certificate gross transaction volume in the form of breakage. However, this breakage income is deferred a minimum of 12 months from the sale date to several years from the sale date, based on the existence or non-existence of an expiration date on the gift certificate. As we record breakage income in the statement of operations in the applicable period, we record a corresponding decrease in gift certificate liability.

Gift Certificate Processing Fees

Our sales history shows that typically 70% to 80% of the gift certificates are purchased with a credit or debit card, with the remainder being purchased with either cash or check. Each credit or debit card transaction is assessed a processing fee, which we show as a cost of revenue shown as merchant fees and charges in our statement of operations. We pay the processing fees and subsequently invoice the mall operator for the processing fees in the following month. We record revenue from the credit and debit card processing fees as merchant fees earned from retailers in our statement of operations.

Sale of Third-Party Gift Certificates and Gift Cards and Related Fulfillment Services

Because we pre-purchase third party gift certificate and gift card inventory, we bear all the financial risk associated with that inventory. Therefore, we record the entire transaction volume sold as revenue in our statements of operations. The associated cost of revenue is the discounted price we pay to the seller of the gift certificates and gift cards we purchase for re-sale.

Since we pre-purchase the entire inventory for traditional scrip, we record the face value amount of the scrip as revenue when sold. We offer no terms on traditional scrip products. Non-profit organizations purchasing the scrip products pay for the scrip electronically or by check before we ship out the product. Our cost of revenue is the pre-purchase amount of the scrip, less the agreed upon discount provided by the retailers. We also share the discount provided by the retailers with the non-profit organization. We exited the traditional scrip business entirely in the period ended June 30, 2005.

We record all fulfillment business transaction volume conducted for third parties as revenue. This channel, reflected as sale of third party gift certificates/cards in our statement of operations, currently constitutes approximately 62.3% of our revenues and other income. We derive the majority of the revenue from this channel from our Darden relationship. We expect the percentage of revenues in future periods to be reduced as we generate other revenue from new products and services that we anticipate selling through other business channels in 2006.

ValueLink, our leading fulfillment customer, pays us on a per card fulfilled basis, which we record as revenue in the appropriate period. Typically, we ship ValueLink's consumer orders from our facilities in Salt Lake City. Most orders are placed by consumers and corporations via our website or call center operators. We retain any shipping and handling margins from the fulfillment of the ValueLink products.

Stock Based Compensation

In accordance with Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock Based Compensation", expense is recognized in connection with the grant of stock options when issued to non-employees using the fair-value based method. The expense is equal to the fair value of the options, based on the Black-Scholes option-pricing model, at the grant dates and is expensed ratably over the vesting periods.

We account for our employee based compensation plans using the intrinsic value method, as prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, we record deferred compensation costs related to our employee stock options when the current market price of the underlying stock exceeds the exercise price of each stock option on the measurement date (usually the date of grant).

Restricted Cash

Restricted cash consists of funds held for the payment of issued and outstanding gift certificates and gift cards to customers. We maintain these funds at several financial institutions in depository bank accounts and associated sweep accounts. We are restricted from withdrawing the funds except for the redemption payment of issued and outstanding gift certificates and gift cards. We may not transfer the funds into our operating accounts until such time that the unredeemed gift certificates and gift cards qualify as breakage or estimated breakage. We determine breakage based on (1) expiration, (2) legal statute of limitations, or (3) the accumulation of sufficient historical data upon which to make reliable estimates. We record breakage by expiration or legal statute of limitations as income, and we remove a corresponding amount from gift certificates and gift cards payable. We remove the same amount from restricted cash and record it as unrestricted cash. We base estimated unredeemed gift certificates and gift cards ("estimated breakage") on our historical breakage data and we do not record it as income until the expiration date or the legal statute of limitations passes. However, we may transfer all or a portion of estimated breakage from restricted cash to unrestricted cash upon issuance of the gift certificate or gift card. Any estimated breakage amount transferred to unrestricted cash decreases the restricted cash balance but remains in gift certificates payable, until such estimated cash decreases the restricted cash balance but remains in gift certificates payable, until we recognize such estimated breakage as income. At such time, we reduce the amount of gift certificates and gift cards payable by a corresponding amount.

Our Primary Business Channels

The Shopping Mall Channel

The gift giving industry in the U.S. amounted to approximately $385 billion in sales in 2004. Accurate figures for 2005 are not yet available. According to our research, in 2004, sales of gift certificates and prepaid, stored-value gift cards totaled approximately $96.25 billion, or 25% of the entire gift giving industry. Gift certificate sales amounted to $38.5 billion or 40% of the $96.25 billion. Gift card sales were $57.75 billion or 60%. 89% or $85.6 billion of the 2004 gift certificate and gift card sales consisted of sales derived from individual retailers' closed network programs. The remaining 11% or $10.6 billion were in the form of universal gift certificates and gift cards.

Although gift certificate sales have been growing at an annual rate of 11% to15% since 1993 and reached 20% annual growth in 2004, gift cards are rapidly replacing traditional paper gift certificates because of their greater flexibility and convenience. We anticipate by 2008, gift cards will represent 80% of the total amount of sales of gift cards and gift certificates.

Approximately 3,500 covered or indoor shopping malls and 37,000 outdoor shopping centers or outlets (often referred to as strip centers), exist in the United States. Approximately 15 major commercial property developers own about 1,500, or 42.9%, of the indoor malls. Smaller commercial property developers or independent owner/operators own or manage the remaining mall properties. Several of the larger indoor-mall property owners/developers, with interests in roughly half of the indoor malls, manage their own gift certificate/card programs. The owner/operators of the remaining indoor malls either outsource their gift certificate/card programs or do not currently have such programs.

We intend to grow our mall gift card business as we have done over the last several years. However, as a percentage of total transaction volume and total revenues, we expect the mall channel percentages to decrease as other business channels produce higher transaction volumes and revenues. We also anticipate a decrease in mall gift certificate business as the industry shifts to mall stored-value gift cards.

We have been marketing our gift card programs, and related fulfillment services, to targeted mall owner/operators since October 2001. Our typical mall owner/operator does gift certificate/card volume averaging $500,000 per year. We currently service 77 mall properties in 28 states across the nation. We have serviced in excess of 100 malls in 38 states in recent years; however, the commercial real estate market, particularly shopping malls, experienced a significant amount of consolidation. The largest mall developers are buying even more shopping mall properties from large to mid-size owner/operators. Typically, the largest mall developers have the resources to manage their gift certificate or gift card programs in-house. That consolidation has resulted in a loss of business for us each of the last several years. We have been able to make up some of the losses by adding new shopping mall clients to our portfolio, but our transaction volumes decreased in 2005 from 2004. The industry consolidation is outside of our control. We typically collect termination fees when our contracts are not renewed due to consolidation. We are contractually unable to force an acquiring mall company to continue with our gift certificate or gift card program.

As a result of our efforts to convert our gift certificate customers to gift cards, our gift certificate business has been declining, both in terms of volume and in terms of the percentage of our business. We anticipate 2006 gift certificate gross transaction volume will decrease compared to 2005 due to the number of our mall owner/developer customers converting from paper gift certificate programs to gift card programs. Our gift card programs may be tailored specifically to the owners/developers of one or more shopping malls, as well as individual and multiple retailers.

We believe the introduction of our Virtual Mall in 2005 should begin to enhance revenue sharing opportunities in 2006 with our existing mall clients, as well as differentiate us from our competition in acquiring new mall gift card business. Our multi-merchant gift card approach, discussed in detail below, allows us to receive rebates from gift cards redeemed at participating merchants within the mall properties. These revenue-enhancing measures will be crucial to our sales efforts as the gift card regulatory and legislative environment continues to change and become less friendly towards monthly fees and expiration/breakage issues.

Early in 2005, we changed the economic structure of our mall gift card contracts to become less reliant on monthly maintenance fees and focus more on up-front point of sale fees to consumers, which is sometimes paid for by the mall owner/operator. We recognize point of sale fee revenue ratably over the life of the cards. Up front fees improve our cash flow as we do not have to wait for a period of time to charge fees to the card. Generally, monthly maintenance or administrative fees are not charged until approximately 7 to 13 months after the sale of the card, whereas the up front fees are charged at the time the card is sold to the customer. Up front fees also help to mitigate some of the risk being imposed by various state legislatures in attempting to restrict the use of monthly maintenance fees as a method of recouping our cost of administrating the gift card programs. In some cases, the point of sale fees have resulted in decreased sales as consumers may be reluctant or unwilling to pay for the gift card services. However, we have found that this approach reduces or legal liability and makes our programs more consumer friendly.

Up front fees for stored value card services, versus monthly maintenance fees, are becoming the norm in the industry as more consumer advocate groups lobby their legislators to enact gift card fee changes. We have provided mechanisms for gift card registration; thereby enabling us with the ability to notify consumers that their card is nearing expiration and that replacement, for a fee, is an option. This helps to protect consumers from losing the full value on the gift card. We have also added reloadability as an option to consumers who wish to continue using their gift card as a debit card.

If federal, state or local legislation is enacted that exposes us to increased liability, we are prepared to exit the mall gift card business to focus on our other stored value products that do not have such onerous restrictions. Our new contracts now provide us with the ability to renegotiate or terminate the contract if the economics are unfavorable to us, based on legislative changes enacted into law.

Fulfillment Services

We are the exclusive provider for Internet and call-center fulfillment services for dedicated closed network gift cards for our partners such as ValueLink and Darden. We also fulfill third party merchant gift certificates and gift cards through our own direct marketing efforts.

Our total number of ValueLink clients grew from 21 in 2004 to 40 at December 31, 2005. Material volumes have occurred for such clients as Chart House Restaurants, Landry's Restaurants, 99 Restaurant, Red Robin, O'Charley's, Joe's Crab Shack, Ruby Tuesday and Rainforest Café. We anticipate an increase in ValueLink clients in 2006 and a corresponding increase in revenues, with such notable names as Burger King, which launched in February 2006.

Darden Restaurant concept sales (Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones and Seasons 52) grew from approximately $4.7 million in 2004 to approximately $6.2 million in 2005.

We also plan to pursue fulfillment opportunities on our own that do not infringe upon our non-compete agreement with ValueLink. In 2005, we reduced the number of merchants for which we fulfill gift certificates and gift cards by 15.5%, yet increased transaction volume by 26.9%. We will continue to focus our efforts on business which produces acceptable margins to our company while discontinuing unprofitable operations.

Incentive and Loyalty Rewards

Many businesses, large and small, use gift cards in connection with employee incentive and customer loyalty rewards programs. In the past, businesses have typically been unable to negotiate discounts on these gift card bulk purchases.

Beginning in late 2005, we began marketing our multi-merchant card programs to businesses that use them for employee incentive and customer loyalty rewards programs. We are negotiating distribution agreements with marketing firms and credit card processors experienced with corporate incentive and customer loyalty rewards programs. These third parties essentially act as resellers, marketing our business-to-business multi-merchant card programs to businesses with which they have or are seeking relationships. These third-party resellers either pay for the cards prior to our shipment or pass on the prepaid cost to the businesses sponsoring the incentive or customer loyalty rewards programs. We believe a significant portion of our sales and revenues will be derived from business-to-business multi-merchant card programs going forward. We believe we can significantly improve the volume of orders for these programs by providing revenue sharing (in the form of rebates provided by participating merchants) to the program sponsors. Gift cards for incentive and loyalty reward programs are typically exempt from the restrictive legislation being enacted against retail gift card sales. We intend to shift more of our focus on these products going forward.

In 2005, we entered into agreements with companies such as WIN Management, LLC, Centrix Financial, ProPay Solutions, Jack Nadel, Inc., Lennar Corp/US Homes, and Discount Lifestyle Centers. We expect to commence programs with these companies in 2006 and anticipate significant volume increases in 2006 from various relationships involving our incentive and loyalty multi-merchant cards.

The Fund-Raising Channel

Our research indicates that a $20 billion fund-raising industry currently exists for school and youth non-profit organizations. There are approximately 120,000 K-12 schools in the United States. The average school participates in multiple event-based fund-raisers that allow the schools the opportunity to earn as little as a few thousand dollars to upwards of $100,000 per year, at a substantial cost in volunteer time (e.g., children going door-to-door, parent supervision, PTA and school administrator time). We believe that many parents across the United States are no longer comfortable having their children participate in fund-raising activities of this nature because of the attendant safety and security issues.

Today, in excess of 350 national merchant organizations, consisting of supermarkets, gas stations, restaurants and many other retail merchants, sell gift certificates and gift cards at discounts to support various non-profit organizations. The majority of merchants providing discounts to fund-raising organizations typically require full payment prior to shipment of the scrip. Large scrip companies during peak scrip ordering seasons must cover significant cash outflows. For example, assume a scrip company with $200 million in annual sales, did 60% of its annual volume in the Thanksgiving and Christmas season, as is typical of most retailers. The building of physical scrip inventory for hundreds of various merchants required to meet the holiday demand could require approximately $120 million of capital to finance the inventory. That is a significant cash flow concern and a security risk based on the value of the inventory itself.

Because of these limiting factors, we discontinued our traditional scrip re-seller business in June 2005. The traditional scrip business is not profitable for us, as it requires us to carry scrip inventory, which is capital and labor intensive. However, we believe that the scrip industry is fragmented and in need of leadership and innovative products. We intend to continue in this business by marketing our Community Scrip Card programs. We believe these stored value cards have all of the advantages of merchant rebates like traditional scrip, but do not carry the capitalization and inventory drawbacks. Our Community Scrip Card is very complementary to existing traditional scrip programs and can be used in conjunction with other scrip providers. We believe, eventually, that stored value products for fund raising purposes will be the medium of choice in the next several years. We intend to capitalize on the rapid growth by our own direct marketing efforts, or partnerships with third party distributors, if the economics are feasible.

In primary and secondary schools, the Community Scrip Card program is intended to complement or replace traditional scrip programs. We believe the Community Scrip Card has an advantage over other traditional fundraising products/services for the following reasons:

- consumers shop where they normally shop;
- consumers buy what they normally buy;
- consumers do not spend a penny more for normal purchases;
- consumers can conveniently raise funds for schools or causes for which they have an interest;
- children remain in the classroom, not going door-to-door selling candy, wrapping paper, trinkets and other non-essential products, generally at higher than average prices;
- the program eliminates scrip inventory requirements for various fund-raising organizations; and
- the program increases the efficiency of the ordering, distribution and managing process of scrip products.

Our Community Scrip Card program is designed to drive increased transactions, monthly visits, and incremental profit for shopping centers, restaurants and local merchants, while concurrently raising funds for community schools, youth sports, youth groups and other local non-profit organizations. We expect that the discounts/rebates offered by participating merchants will vary by product category and volume. High volume merchants such as supermarkets and gas stations typically offer discounts that average 3% to 5%. Other retailers such as clothing stores offer discounts that average 10% to 15%, with restaurants offering discounts that can be as high as 15% to 30%. The merchant discounts realized will be split between the school, our distribution partner and us.

Our Community Scrip Card multi-merchant card program eliminates all capitalization requirements because the cards are loaded with value when the schools order the cards. Upon redemption at a specific merchant, the merchant is paid in the same manner it is paid in any other credit/debit card transaction. We invoice the merchants for the applicable rebates and then share the revenue with the schools and our distribution partners. We believe that the benefits of our multi-merchant fund-raising card programs, including the elimination of the capitalization required for traditional scrip products, increase the profit margins available to fund-raising organizations and other efficiencies that will appeal to fund-raising organizations. We intend to pursue this channel vigorously in 2006.

Retail Distribution of Multi-Merchant Cards

The retail distribution of single merchant gift cards has become virtually ubiquitous at grocery stores, pharmacies, convenience stores and other high volume consumer traffic areas. The amount of space required to display all of these cards is limiting.

Retailers have to be discriminating in which cards they will offer for sale. We have obtained significant interest from some of the largest retail distribution points in the country to display and sell our multi-merchant stored value gift cards. Our solution provides the consumer with a card that is usable at all of our participating merchants, or “theme cards” which may have a limited number of retailers included for use. Examples are a Woman’s Card, a Gentleman’s Card, a Teen Card, etc. The cards can be tailored to virtually any target group’s needs. This also could provide the retailer some relief from a “shelf space” perspective. Our cards can replace the single retailer cards that currently take up so much display space. Our cards also offer revenue sharing to the retailer based on the merchant rebates we have successfully negotiated over the last two years. We have completed development but have not as yet sold any product. We intend to selectively roll out these multi-merchant card programs in 2006 and aggressively in 2007.

Results of Operations

Transaction Volume

The following figures are included for informational purposes only and are not included in the Company's statements of operations. Transaction volume does not represent revenues or other income of the Company. Rather, transaction volume represents the face value amount of the gift certificates and gift cards that we sell through our various business channels. Transaction volume is sometimes referred to as “sales.”

	Year Ended December 31, 2005	2004	Dollar Change	Percentage Change
Mall gift certificates	$ 4,065,000	$ 20,108,000	$ (16,043,000)	-79.8%
Mall gift cards	27,759,000	24,611,000	3,148,000	12.8%
NBO fulfillment (excluding ValueLink and Scrip)	6,425,000	4,895,000	1,530,000	31.3%
ValueLink	2,287,000	1,226,000	1,061,000	86.5%
Scrip	484,000	2,831,000	(2,347,000)	-82.9%
Fundraising Card	32,000	-	32,000	-
	$ 41,052,000	$ 53,671,000	$ (12,619,000)	-23.5%

Starting in 2004 and continuing into 2005, we experienced a major shift from mall gift certificate sales (-79.8%) to mall gift card sales (+12.8%). This was primarily a result of The Rouse Company and JP Realty being purchased by General Growth Properties. Our gift certificate sales for The Rouse Company and JP Realty ceased in mid-2004. The Rouse Company had been our largest mall customer, while JP Realty was our third largest customer. We replaced a significant potion of the lost Rouse and JP Realty gift certificate sales with gift card sales by Glimcher Properties, now our largest mall client, as well as other new independent mall owner/operators. We anticipate a further reduction in gift certificate sales as more properties convert to stored-value mall gift cards.

With the decline in gift certificate sales, we have developed new products and services to provide diversification away from the mall channel. We will continue to grow our mall gift card business, but anticipate less of a reliance on the mall channel for future growth in sales and revenue.

We also experienced a 31.3% increase in the number of third party gift certificates and gift cards fulfilled. The majority of this transaction volume resulted from year-over-year increases in Darden sales (Red Lobster, Olive Garden, Bahama Breeze and Seasons 52). Our contract with Darden was renewed through August 2006.

ValueLink transaction volume increased 86.5%. We expect 2006 ValueLink transaction volume to substantially exceed 2005 volumes.

The Scrip transaction volume decrease is a result of our decision to exit the traditional scrip business in favor of selling our Fundraising Card marketed as the Community Scrip Card and the Children’s Heroes Card. We transitioned all of our participating schools to other traditional scrip providers, sold our traditional scrip inventory and phased out traditional scrip operations as of June 30, 2005. Fundraising Card sales are being sold though one traditional scrip provider and through our own direct marketing efforts. We have not expended significant resources in 2005 but expect substantial increases in marketing and advertising, which we expect to result in increases in transaction volume of cards sold in 2006.

Overall transaction volume is down 23.5%. However, we anticipate increases in our overall transaction volume in 2006 compared to 2005 arising from our fundraising card, loyalty and incentive cards, and retail incentive cards.

Revenues and Other Income

We recorded revenues and other income from the various channels as follows:

	Year Ended December 31, 2005	2004	Dollar Change	Percentage Change
Sale of third party gift certificates/cards	$ 6,904,000	$ 7,701,000	$ (797,000)	-10.3%
Fees earned from customers	1,752,000	914,000	838,000	91.7%
Merchant fees earned from retailers	871,000	1,191,000	(320,000)	-26.9%
Miscellaneous Income	796,000	623,000	173,000	27.8%
Gift certificate breakage	781,000	1,528,000	(747,000)	-48.9%
Interest on restricted cash	151,000	50,000	101,000	202.0%
Total revenues and other income	$ 11,255,000	$ 12,007,000	$ (752,000)	-6.3%

Our Company is subject to typical retail seasonality. We sell the majority of our gift certificates and gift cards between Thanksgiving and Christmas every year. We have specific holiday spikes such as Easter, Mother's Day and Father's day, but the first three calendar months of the year typically represent only 10% of our transaction volume and revenues and other income. Approximately 90% of our full year revenues and other income are represented by the nine-month period ended December 31, 2005.

As noted in the transaction volume table above, we have achieved a significant increase in the volume represented by the sale of mall gift cards. We earned the majority of fees from the monthly maintenance fees and expiration fees from unused gift cards sold in prior periods. We have also been able to negotiate with malls to retain all or a portion of the point-of-sale fees assessed by malls upon the sale of the gift cards. In contrast, in our past contracts we generally allowed the malls to retain these point-of-sale fees. We expect the trend of increased fees to continue as we complete new mall contracts going forward and as we sell more gift cards than gift certificates.

Revenues and other income decreased approximately 6.3%. Other income is comprised solely of gift certificate breakage. Excluding other income, year over year revenues were flat despite a decrease in transaction volume of approximately 23.5%. The main reason for the reduction in the sale of third party gift certificates/cards is from our exiting the traditional scrip business. We will continue to exhibit period over period decreases in this line item through June 30, 2006. The fees we earned from customers in the form of maintenance fees and expiration fees on gift cards increased 91.7% as we transition to more gift card sales from gift certificate sales as mentioned above. We expect this upward trend to continue as our mall gift card business grows. Gift certificate breakage income will decrease in future periods coincident to our lost gift certificate transaction volume in 2004. As interest rates rise, we benefit from higher interest rates on our deposit accounts.

Cost of Revenues

Cost of Revenues and Other Income:

	Year Ended December 31, 2005	2004	Dollar Change	Percentage Change
Third party gift certificates/cards	$ 6,402,000	$ 7,118,000	$ (716,000)	-10.1%
Merchant fees and charges	1,438,000	1,604,000	(166,000)	-10.3%
Other	772,000	910,000	(138,000)	-15.2%
Commissions	382,000	544,000	(162,000)	-29.8%
Total cost of revenues and other income	$ 8,994,000	$ 10,176,000	$ (1,182,000)	-11.6%

Cost of revenues and other income decreased 11.6% compared to a 6.3% decrease in revenues and other income.

Cost of Revenues associated with third party gift certificates and cards represent the costs associated with providing outside gift certificates and gift cards to our fulfillment and scrip customers. Our inventory of outside vendors' cards and certificates are purchased directly from the vendors at a discount and then resold to outside customers. As noted above, we experienced decreases in sales, and consequently cost of revenues, associated with third party cards and certificates primarily due to our exit from the traditional scrip business.

Merchant fees and charges decreased as a result of the decrease in mall gift certificates sold as described above.

We pay a commission on mall gift cards sold (based on transaction volume and the number of cards sold) to mall owner/operators as an incentive to use our card programs. We accumulate these commissions and pay the commissions to the malls approximately one year following the completion of the card transaction year. However, in 2005, we changed our economic models to rely less upon monthly maintenance fees on gift cards and more on point of sale fees. Concurrently, we reduced the commission payouts due on expiration of the gift cards. These factors, along with the significant reduction in gift certificate sales, resulted in a 29.8% decrease in commissions paid in 2005.

Other Costs is comprised primarily of postage and handling costs associated with providing gift cards and certificates to our mall clients, and the cost of gift card and gift certificate stock. The largest change in these accounts from the prior year is due to the "hard costs" associated with providing our mall gift card products. We incur all of the up-front costs of the raw plastic, the embossing and encoding of the mall and multi-merchant CSC cards. As the number of gift cards issued increases annually, these hard costs increase proportionately. However, we have negotiated volume discounts based on bulk purchases of gift card stock, which resulted in the decrease in other costs of revenue of approximately 15.2%.

Gross Profit

Gross Profit for the related periods:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Dollar Change	Percentage Change
Revenues and other income	$ 11,255,000	$ 12,007,000	$ (752,000)	-6.3%
Cost of Revenues	(8,994,000)	(10,176,000)	1,182,000	-11.6%
Gross Profit	$ 2,261,000	$ 1,831,000	$ 430,000	23.5%
Gross Profit %	20.1%	15.2%		

Revenues and other income decreased 6.3% as detailed above. Cost of revenues and other income decreased 11.6% as detailed above. Collectively, gross profit increased 23.5%. We anticipate gross margins will be maintained at approximately 20% to 30% throughout 2006. Our shift in revenues away from traditional scrip, which carried a lower gross margin, combined with our transition from the sale of gift certificates to gift cards is reflected in the increase in gross profit.

Selling, General and Administrative

	Year Ended December 31, 2005	Year Ended December 31, 2004	Dollar Change	Percentage Change
Personnel	$ 3,100,000	$ 3,206,000	$ (106,000)	-3.3%
Professional Fees	1,012,000	483,000	529,000	109.5%
Rent and office expenses	665,000	677,000	(12,000)	-1.8%
Other Selling, General and Administrative Expenses	239,000	261,000	(22,000)	-8.4%
Depreciation and amortization	215,000	342,000	(127,000)	-37.1%
	$ 5,231,000	$ 4,969,000	$ 262,000	5.3%

Selling, general and administrative expenses increased 5.3% due primarily to an increase in legal fees incurred as a result of defending the litigation referenced in Note M to the financial statements. We experienced decreases in all other selling, general and administrative expenses. Excluding the increase in Professional Fees, selling general and administrative expenses would have decreased approximately 5.4%. Legal expenses are expected to return to levels in 2004 once the litigation referenced in Note M is concluded.

Professional fees may increase in connection with our refinement of our internal controls and the required, associated documentation. We will contract, as appropriate, with independent consultants to further strengthen our internal control environment. We cannot predict how federal and state regulatory activity may affect us, especially as state governments address the legal requirements associated with unclaimed property. We expect additional expenditures to protect and further our interests in this area.

Interest Expense

	Year Ended December 31, 2005	Year Ended December 31, 2004	Dollar Change	Percentage Change
Interest expense	$ 2,756,000	$ 819,000	$ 1,937,000	236.5%

Our interest expense increased 236.5%. Until such time that we achieve positive cash flow from operations, we will continue to raise working capital from debt and equity offerings. All of the working capital needed in excess of operating funds has been provided by loans from existing shareholders or additional equity investments that are discussed below. We sometimes must enter debt with interest rates that are not favorable to us, or loans with dilutive warrants to purchase common stock attached. Notes to stockholders as of December 31, 2005 bear interest at rates between 18 and 30 percent. In addition, the debt agreements have generally provided for the issuance of warrants to purchase our common stock and provisions to convert the debt to our common stock. In some cases, the conversion price has been less than the fair market value of our common stock, resulting in a beneficial conversion feature. In addition, the warrants issued in connection with debt financings and refinancings have been recorded as debt discounts or deferred financing costs. The debt discounts and deferred financing costs are recognized as interest expense over the life of the note. A significant portion of the interest expense recorded during 2005 resulted from the issuance of warrants as payment of interest, the amortization of debt discounts and deferred financing costs, and the beneficial conversion features. The following table details the interest paid during the year.

	Year Ended December 31, 2005	Year Ended December 31, 2004
Interest paid in cash plus change in accrued interest	$ 1,423,000	$ 794,000
Interest expense recorded due to beneficial conversion features and amortization of debt discounts and deferred finance costs	1,333,000	25,000
Total interest expense	$ 2,756,000	$ 819,000

Net Income (Loss)

Net Income (Loss) for the related periods is as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Dollar Change	Percentage Change
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (5,847,000)	$ (4,128,000)	$ (1,719,000)	-41.6%

Our 2005 transaction volume decreased 23.5% from 2004. Our revenues and other income decreased 6.3%. Despite the reduction in transaction volume, year-over-year revenues were flat, which is attributable to greater margins on gift cards than paper gift certificates. Cost of revenues and other income decreased 11.6%, gross profit increased 23.5% and our gross margin percentages increased to 20.1%. Additionally, we controlled our selling, general and administrative expenses, realizing a 5.3% year-over-year increase, including the increased costs of professional fees as noted above. However, these positive events were overshadowed by the high cost of capital for operating purposes as evidenced by the increase in interest expense related to fund raising activities. In order to obtain operating profitability, we must reduce general and administrative expenses and increase the transaction volume of gift cards sold. We must take steps to minimize interest expenses, which rose 236.5%. We were able to reduce our operating losses in 2005 to approximately ($3.0) million from ($3.1) million in 2004, even though we had a reduction of 23.5% in our transaction volume in 2005 from 2004. Non-operating expenses of approximately $2.8 million was a substantial increase from the approximate $869,000 non-operating expenses of 2004. This increase contributed significantly to the increase in net loss attributable to common stockholders of 41.6%. Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is discussed below.

EBITDA (Earnings before interest, taxes, depreciation and amortization)

	Year Ended December 31, 2005	2004	Dollar Change	Percentage Change
Net loss	$ (5,780,000)	$ (4,006,000)	$ (1,774,000)	-44.3%
Deduct interest expense	2,756,000	819,000	1,937,000	236.5%
Deduct income taxes	-	-	-	0.0%
Deduct depreciation and amortization	215,000	342,000	(127,000)	-37.1%
EBITDA	$ (2,809,000)	$ (2,845,000)	$ 36,000	1.3%

EBITDA is a common metric used to normalize financial results to make comparisons of companies easier and is sometimes referred to as an operating margin. It is a measure of controllable costs by a company and is considered by some, a more stable measure of a company's operations than net income, mainly because it removes non-cash expenses from the financial results. EBITDA is commonly used by investment bankers to evaluate the financial strength of a company and to establish a valuation for the company based on comparable companies in similar industries. However, EBITDA is a non-GAAP measurement and should not be used a replacement for GAA measurements such as net loss or cash flows from operating activities. Our EBITDA results improved 3.1%, an indicator of operational improvement in 2005, after taking into account the significantly reduced transaction volume and increased legal fees as discussed above.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment,* which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. A key provision of this statement is the requirement to measure the cost of employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period or vesting period). This standard becomes effective on January 1, 2006 for small business issuers. The Company will adopt SFAS No. 123R beginning in the Company's first fiscal quarter of 2006. The Company is assessing the impact of this statement and believes the adoption of SFAS No. 123R may have a material effect on the Company's financial position and results of operations.

We do not believe that other recently issued, but not yet effective, accounting standards if applicable to us, would have a material effect on our financial position, results of operations or liquidity.

Liquidity and Capital Resources

Our total costs and expenses are currently greater than revenues and other income. In addition, our operating activities have used cash rather than provided cash. We have had a history of losses and our accumulated deficit (since inception June 23, 1994) through December 31, 2005 was approximately $40.1 million. During the year ended December 31, 2005, we utilized approximately $1.8 million in cash from operating activities. At December 31, 2005 we had a deficit in working capital of approximately $10.3 million. Our ability to meet our obligations as they come due is dependent upon obtaining additional financing, as may be required and ultimately attaining sustained profitability. Our net losses increased by 41.6% or approximately $1.7 million to $5.8 million from $4.1million for the year ended December 31, 2005, when compared to the year ended December 31, 2004.

During 2005, we funded our operations from the sale of common stock and the issuance of convertible notes payable. We received proceeds of approximately $2.2 million from the sale of common stock and approximately $2.2 million from the issuance of notes payable. There can be no assurance that we will be able to obtain funding in the future from the issuance of common stock or from the issuance of notes payable.

In January 2006, we restructured several promissory notes to stockholders totaling approximately $1.7 million by reducing the annual interest rate on the notes and extending the maturities. We issued 15,000 warrants to purchase common stock of the Company at an exercise price of $2.00 in conjunction with the restructuring of these notes.

In March 2006, we entered into a promissory note with an existing stockholder for $1 million to be used for general operating purposes. In conjunction with this promissory note, we issued 30,000 warrants to purchase common stock of the Company at an exercise price of $2.50.

In March 2006, we entered into a promissory note with an existing stockholder for $100,000 to be used for general operating purposes. In connection with this promissory note, we issued 7,500 warrants to purchase common stock of the Company at an exercise price of $2.50.

In March 2006, we entered into a promissory note with an existing stockholder for $250,000 to be used for general operating purposes. In connection with this promissory note, we issued 10,000 warrants to purchase common stock of the Company at an exercise price of $2.00.

We continue to attempt to raise capital through private equity or debt offerings, as well as institutional investors until our operations provide sufficient cash to meet our needs. We are taking steps to improve profitability and increasing sales efforts. We can give no assurance that we will be successful in executing our plans to improve operations or obtain additional debt and equity financing. If we are unable to improve operations or obtain additional debt and equity financing, we may be required to restructure operations during 2006. We believe that if we are not able to obtain additional financing for the development of our overall business, we could restructure our operations to be profitable at the current level of sales. However, we can give no assurance that we will be able to continue operating without additional financing. Our ability to meet our debts as they come due is dependent on our obtaining additional financing as required, and ultimately on our ability to achieve our business plan and attain profitability. We currently operate without a line of credit and occasionally enter into short and long-term promissory notes with accredited investors, typically existing stockholders. These promissory notes often have conversion privileges into our common stock, easing debt service requirements. However, conversion privileges and warrants issued in conjunction with the notes dilute existing stockholders and increase our operating losses.

Off Balance Sheet Arrangements

The Company does not have any interests in off-balance sheet variable interest entities nor does it have any interests in non-exchange traded commodity contracts.

Contractual Obligations

The Company has various contractual obligations that are recorded as liabilities in its financial statements. From time to time, the Company also has employment commitments with its executive officers and others. Such commitments that may currently be outstanding with the Company's executive officers are described in Part III, Item 10, "Executive Compensation". The Company has entered into operating leases for its office facilities. The table below summarizes the obligations pursuant to these leases, assuming that all lease agreements run to full term, and the periods in which these obligations are scheduled are paid in cash.

	Payments Due By Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Current debt	$6,689,393	$6,689,393	-	-	-
Long-term debt	-	-	-	-	-
Operating leases	$408,271	$247,300	$159,041	$1,930	$ -
Total	$7,097,664	$6,936,693	$159,041	$1,930	$ -

Inflation

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented nor is it expected to in the next year.

ITEM 7. FINANCIAL STATEMENTS

The Company's financial statements required by this item are included in Part III, Item 14 of this Report.

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2005, our disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Since the most recent evaluation date, there have been no significant changes in our internal control structure, policies, and procedures or in other areas that could significantly affect our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

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

The information required by this Item is included in “Proposal No. 1: Elections of Directors”, “Management”, and “Section 16(a) Beneficial Ownership Reporting Compliance” sections of our Proxy Statement to be filed in connection with our 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item is included in the “Executive Compensation and Related Information” section of our Proxy Statement to be filed in connection with our 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Equity Compensation Plan Information

On January 22, 1997, we approved and adopted the 1997 Stock Option Plan, which is an exempt employee benefit plan under Rule 16b-3 promulgated under Section 16 of the Securities and Exchange Act of 1934, as amended. The 1997 Stock Option Plan is our only equity compensation plan. The following table provides information as of December 31, 2005 with respect to the shares of our common stock that may be issued under the 1997 Stock Option Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights[(1)]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Stockholders(1)	8,796,030	$2.2021	4,166,124(2)
Equity Compensation Plans Not Approved by Stockholders	NA	NA	NA
Total	8,796,030		4,166,124

(1) Consists of the 1997 Stock Option Plan.

(2) Consists of shares available for future issuance under the 1997 Stock Option Plan. As of December 31, 2005, an aggregate of 4,166,124 shares of our common stock were available for issuance under the 1997 Stock Option Plan.

The other information required by this Item is included in the "Security Ownership of Certain Beneficial Owners and Management" sections of our Proxy Statement to be filed in connection with our 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is included in the "Certain Relationships and Related Transaction" section of our Proxy Statement to be filed in connection with our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation for a Stock Corporation in the State of Maryland (Filed as Exhibit 2(a) to the Registrant’s Form 10-SBA filed on April 26, 2002, and incorporated herein by reference.)
3.2	Certificate of Ownership and Merger (Filed as Exhibit 2(b) to the Registrant’s Form 10-SBA filed on April 26, 2002, and incorporated herein by reference.)
3.3	Bylaws of NBO Systems, Inc. (Filed as Exhibit 2(c) to the Registrant’s Form 10-SBA filed on April 26, 2002, and incorporated herein by reference.)
3.4	Articles of Amendment of Articles of Incorporation (Filed as Exhibit 3.4 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
4.1	See Exhibits 3.1, 3.2, 3.3 and 3.4 for provisions of the Articles of Incorporation, as amended, and Bylaws for NBO Systems, Inc. defining the rights of holders of common stock of NBO Systems, Inc.
4.2	Amended 1997 Stock Option Plan (Filed as Exhibit 4.2 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
4.3	Warrant Agreement. The form of warrant agreement is substantially the same for all outstanding warrants consisting of Class A Warrants; Class B Incentive Warrants; Other Warrants (Filed as Exhibit 6(c) to the Registrant’s Form 10-SB filed on August 2, 2001, and incorporated herein by reference.)
10.1	Internet Gift Card(s) Agreement by and between NBO, Inc. and GMRI, Inc., dated as of August 4, 2000 (Filed as Exhibit 6(b) to the Registrant’s Form 10-SB filed on August 2, 2001, and incorporated herein by reference.)
10.2	License And Services Agreement dated July 31, 2002, with Card Commerce International, Inc. (Filed as Exhibit 10.2 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.3	Master Agreement dated October 10, 2002, with Metavante Corporation (Filed as Exhibit 10.3 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.4	Cash Card Issuer Agreement with Discover Financial Services, Inc., dated October 11, 2002. (Filed as Exhibit 10.4 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.5	Master Services Agreement Dated October 31, 2002, with IPS Card Solutions, Inc. (Filed as Exhibit 10.5 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.6	Stored Value Card Service Agreement Dated As Of April 1, 2003, With First Data Resources Inc. (Filed as Exhibit 10.6 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.7	Card Sponsorship Agreement between Registrant and BankFirst dated April 9, 2003 (Filed as Exhibit 10.7 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.8	Addendum Dated August 8, 2003, To The Internet Gift Card(s) Agreement Dated April 1, 2001, With GMRI, Inc. (Filed as Exhibit 10.8 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.9	Contract Services Agreement dated October 14, 2003, with Glimcher Properties Limited Partnership (Filed as Exhibit 10.9 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.10	ACH Origination Agreement with Florida Bank, N.A., dated December 30, 2003 (Filed as Exhibit 10.10 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.11	ODFI Originator Agreement dated as of March 19, 2004, with BANKFIRST (Filed as Exhibit 10.11 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.12	Marketer Agreement dated September 2, 2004, with First Federal Savings Bank of the Midwest dba Meta Payment Systems (Filed as Exhibit 10.14 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.13	Originating Depository Financial Institution Originator Agreement dated September 13, 2004, with First Federal Savings Bank of the Midwest dba Meta Payment Systems (Filed as Exhibit 10.15 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.14	First Amendment to Contract Services Agreement with Glimcher Properties Limited Partnership dated September 9, 2004 (Filed as Exhibit 10.16 to the Registrant’s Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)

10.15	Merchant Processing Agreement dated October 14, 2004, with NOVA Information Systems, Inc., and U.S. Bank, N.A. (Filed as Exhibit 10.17 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.16	Merchant Participation Agreement dated October 25, 2004 (Filed as Exhibit 10.18 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.17	Letter of Intent dated November 9, 2004, with Great Lakes Scrip Center, L.L.C. (Filed as Exhibit 10.19 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.18	Addendum August 8, 2004, to Internet Gift Cards Agreement dated April 1, 2001, with Darden GC Corp. (Filed as Exhibit 10.20 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.19	Premises Lease Amendment #1 dated October 27, 2004, with 5B Bangerter L.L.C. (Filed as Exhibit 10.21 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.20	Stored Value Product Agreement with Adaptive Marketing LLC, dated November 19, 2004 (Filed as Exhibit 10.22 to the Registrant's Form 10KSB filed on May 2, 2005 and incorporated herein by reference.)
10.21	Development and Consulting Services Agreement with First Data Corporation, dated January 11, 2005 (Filed herewith).
10.22	Amendment to the Development and Consulting Services Agreement with First Data Corporation dated March 24, 2005 (Filed herewith).
10.23	Amendment to Master Services Agreement with IPS Card Solutions, Inc., effective April 22, 2005 (Filed herewith).
10.24	Amendment 3 to Internet Gift Card Agreement dated July 22, 2005 (Filed herewith).
10.25	Lease Amendment #2 with 5B Bangerter, L.L.C. dated September 22, 2005 (Filed herewith).
10.26	Employer Services Agreement with A Plus Benefits dated October 13, 2005 (Filed herewith).
10.27	First Amendment to Cash Card Issuer Agreement with Discover Financial Services LLC dated November 22, 2005 (Filed herewith)
10.28	Second Amendment to Cash Card Issuer Agreement with Discover Financial Services LLC dated January 23, 2006 (Filed herewith)
14.1	NBO Systems, Inc. Code of Ethics dated April 4, 2004 (Filed herewith)
31.1	Section 302 Certification of Keith A. Guevara, Chairman, President and CEO
31.2	Section 302 Certification of Christopher Foley, Board Member and CFO
32	Certification pursuant to 18 U.S.C. Section 1350 of Keith A. Guevara and Christopher Foley

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is included in "Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm" section of our Proxy Statement to be filed in connection with our 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

INDEX TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of NBO Systems, Inc.

We have audited the accompanying balance sheets of NBO Systems, Inc. as of December 31, 2005 and 2004, and the related statements of operations, stockholders' deficit, and cash flows for the years ended December 31, 2005 and 2004, respectively. 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 audits.

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 audits 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 NBO Systems, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004 in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the financial statements, the Company has suffered recurring losses, has a working capital deficit of $10,323,825 and an accumulated deficit of $40,148,750 as of December 31, 2005, and had negative cash flows from operating activities of $1,792,008 for the year ended December 31, 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters also are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Tanner LC

Salt Lake City, Utah
March 24, 2006

NBO Systems, Inc.

BALANCE SHEETS

ASSETS

	December 31, 2005	December 31, 2004
CURRENT ASSETS		
Cash	$ 2,038,617	$ 152,910
Restricted cash	13,502,850	16,798,638
Accounts receivable, net of allowance for uncollectible accounts of $6,000 at December 31, 2005 and at December 31, 2004	516,579	598,604
Inventory	10,923	294,471
Prepaid expenses	76,999	136,206
Employee advances	3,635	5,159
Total current assets	16,149,603	17,985,988
PROPERTY AND EQUIPMENT, NET	373,997	548,026
OTHER ASSETS		
Deposits and reserves	290,312	333,478
Other assets	159,428	114,773
	449,740	448,251
	$ 16,973,340	$ 18,982,265

LIABILITIES AND STOCKHOLDERS' DEFICIT

	December 31, 2005	December 31, 2004
CURRENT LIABILITIES		
Gift certificates and gift cards payable	$ 13,646,020	$ 16,884,501
Accounts payable	4,579,935	3,065,340
Accrued liabilities	1,558,080	1,236,342
Notes to stockholders	6,203,475	1,000,750
Notes to officer	485,918	345,918
Total current liabilities	26,473,428	22,532,851
LONG-TERM LIABILITIES		
Notes to stockholders	-	4,100,000
Total liabilities	26,473,428	26,632,851
COMMITMENTS AND CONTINGENCIES (Notes B and M)		
STOCKHOLDERS' DEFICIT		
Convertible redeemable preferred stock, par value $1.00; authorized 1,000,000 shares; 78,838 and 71,670 shares issued and outstanding at December 31, 2005 and 2004, respectively; redemption value $2.20 per share.	78,838	71,670
Common stock, par value $0.0005; authorized 50,000,000 shares; 18,192,026 and 17,058,670 shares issued and outstanding at December 31, 2005 and 2004, respectively.	9,096	8,529
Subscriptions receivable	-	(17,900)
Deferred debt financing costs	(495,977)	-
Additional paid-in capital	31,056,705	26,588,832
Accumulated deficit	(40,148,750)	(34,301,717)
Total stockholders' deficit	(9,500,088)	(7,650,586)
	$ 16,973,340	$ 18,982,265

The accompanying notes are an integral part of these statements.

NBO Systems, Inc.

STATEMENTS OF OPERATIONS

	Year ended December 31, 2005	Year ended December 31, 2004
Revenues	$ 10,473,598	$ 10,479,503
Other Income	781,354	1,527,965
Total revenues and other income	11,254,952	12,007,468
Operating expenses		
Cost of revenues and other income	8,993,609	10,176,484
Selling, general and administrative expenses	5,231,450	4,968,044
Total operating expenses	14,225,059	15,144,528
Operating loss	(2,970,107)	(3,137,060)
Interest expense	(2,755,880)	(818,551)
Other expenses	(53,846)	(50,190)
Loss before income taxes	(5,779,833)	(4,005,801)
Income tax benefit	-	-
NET LOSS	$ (5,779,833)	$ (4,005,801)
Dividends on preferred stock	(67,200)	(122,156)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (5,847,033)	$ (4,127,957)
Net loss per common share -- basic and diluted	$ (0.34)	$ (0.25)
Weighted-average number of common shares outstanding -- basic and diluted	17,315,000	16,555,000

The accompanying notes are an integral part of these statements.

NBO Systems, Inc.

STATEMENTS OF STOCKHOLDERS' DEFICIT

Year ended December 31, 2005, and Year ended December 31, 2004

	Convertible redeemable preferred stock		Common stock						
	Number of Shares	Amount	Number of Shares	Amount	Subscriptions receivable	Deferred financing costs	Additional paid-in capital	Accumulated deficit	Total
Balance at January 1, 2004	65,155	$ 65,155	16,317,661	$ 8,159	$ (17,900)	$ -	$ 24,194,647	$ (30,173,760)	$ (5,923,699)
Preferred stock dividends	6,515	6,515	-	-	-	-	115,641	(122,156)	-
Common stock issued for									
Rescission of warrant exercise	-	-	(4,023)	(2)	-	-	(16,090)	-	(16,092)
Repayment of note payable	-	-	17,782	7	-	-	48,890	-	48,897
Exchange of warrants	-	-	155,111	78	-	-	(78)	-	-
Payment of interest	-	-	889	1	-	-	3,557	-	3,558
Cash (net of issuance costs of $67,638)	-	-	571,250	286	-	-	2,217,362	-	2,217,648
Common stock warrants issued for payment of interest	-	-	-	-	-	-	24,903	-	24,903
Net loss	-	-	-	-	-	-	-	(4,005,801)	(4,005,801)
Balance at December 31, 2004	71,670	71,670	17,058,670	8,529	(17,900)	-	26,588,832	(34,301,717)	(7,650,586)
Preferred stock dividends	7,168	7,168	-	-	-	-	60,032	(67,200)	-
Common stock issued for									
Services	-	-	25,014	13	-	-	85,484	-	85,497
Repayment of note payable	-	-	125,000	62	-	-	249,938	-	250,000
Cash (net of issuance costs of $31,784)	-	-	983,342	492	-	-	2,207,500	-	2,207,992
Common stock options and warrants issued for services and compensation	-	-	-	-	-	-	50,451	-	50,451
Common stock warrants issued for payment of interest	-	-	-	-	-	-	257,112	-	257,112
Deferred financing costs	-	-	-	-	-	(1,117,095)	1,117,095	-	-
Amortization of deferred financing costs	-	-	-	-	-	621,118	-	-	621,118
Proceeds from debt allocated to warrants and beneficial conversion feature	-	-	-	-	-	-	458,161	-	458,161
Write off of subscriptions receivable	-	-	-	-	17,900	-	(17,900)		
Net loss	-	-	-	-	-	-	-	(5,779,833)	(5,779,833)
Balance at December 31, 2005	78,838	$ 78,838	18,192,026	$ 9,096	$ -	$ (495,977)	$ 31,056,705	$ (40,148,750)	$ (9,500,088)

The accompanying notes are an integral part of these statements.

NBO Systems, Inc.

STATEMENTS OF CASH FLOWS

	Year ended December 31, 2005	Year ended December 31, 2004
Increase (decrease) in cash		
Cash flows from operating activities		
Net loss	$ (5,779,833)	$ (4,005,801)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	215,149	341,553
Loss on disposal of other assets and property and equipment	57,826	80,330
Common stock options and warrants issued for services and compensation	50,451	-
Common stock warrants issued for interest	257,112	24,903
Common stock issued for services	85,497	-
Common stock issued as payment of interest	-	3,558
Amortization of debt discount and deferred financing costs	1,075,425	-
Bad debt expense	17,027	12,327
Changes in assets and liabilities		
Accounts receivable	64,998	246,269
Employee advances	1,524	(2,081)
Inventory	283,548	21,352
Prepaid expenses and other assets	42,935	223,809
Accounts payable	1,514,595	891,703
Accrued liabilities	321,738	17,678
Total adjustments	3,987,825	1,861,401
Net cash used in operating activities	(1,792,008)	(2,144,400)
Cash flows (used in) provided by investing activities		
Purchase of property and equipment	(91,979)	(58,120)
Proceeds from sale of property, equipment, and other assets	7,816	19,806
Net cash used in investing activities	(84,163)	(38,314)
Cash flows provided by (used in) financing activities		
Increase (decrease) in advances on restricted cash	57,307	(3,611,569)
Proceeds from sale of common stock	2,207,992	2,201,556
Proceeds from notes to officer	240,000	-
Payments on notes to officer	(100,000)	(22,082)
Proceeds from notes to stockholders	1,925,000	3,731,392
Principal payments on notes to stockholders	(568,421)	(21,750)
Net cash provided by financing activities	3,761,878	2,277,547
Net increase in cash	1,885,707	94,833
Cash at beginning of year	152,910	58,077
Cash at end of year	$ 2,038,617	$ 152,910

The accompanying notes are an integral part of these statements.

NBO Systems, Inc.

STATEMENTS OF CASH FLOWS – CONTINUED

	Year ended December 31, 2005	Year ended December 31, 2004
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 1,165,746	$ 807,643
Cash paid during the period for income taxes	3,861	2,990
Noncash Investing and Financing Activities		
Transfers of fixed assets to other assets	(1,396)	(30,815)
Transfers of other assets to fixed assets	2,200	41,677
Preferred stock dividends	67,200	122,156
Stock issued to repay notes payable to stockholders	250,000	48,897
Proceeds from debt allocated to warrants and beneficial conversion feature	458,161	-
Deferred financing costs from refinance of convertible debt	1,117,095	-
Write off of subscriptions receivable	17,900	-

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Organization and business activity

NBO Systems, Inc. ("NBO" or the "Company") began operations in June 1994. From inception through March 31, 1999, NBO was considered a development stage company. Prior to that time, its activities had principally been related to market analysis, capital raising, research and development and other business planning activities. As such, the Company had no significant revenue from its planned principal operations. Prior to October 1998, the Company had generated limited revenue from the sale of kiosks and the licensing of software.

In October 1998, NBO entered into long-term exclusive agreements with certain mall property and retail owners in an effort to build a larger national presence in selling gift certificates. As a result of these contracts, the Company started significant gift certificate operations and was no longer considered a development stage company as of March 31, 1999. The Company has since entered into long-term exclusive agreements with certain mall property owners to provide stored-value gift card services. The Company also provides fulfillment services for third-party national retailer gift certificates and gift cards. The Company began providing services to the charitable fund raising sector through its Children's Heroes division in December 2002; however, operations related to this division are still under development. The Company has not generated significant revenues from this business channel to date.

In January 2002, the Company merged into its wholly owned subsidiary, NBO Systems, Inc., which was incorporated in the State of Maryland and thereafter filed a dba as The Gift Certificate Company. The effect of this transaction was to reincorporate the Company in the State of Maryland.

During 2003, the Company changed its fiscal year from March 31 to December 31.

2. Use of estimates

The preparation of the Company's financial statements, in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, including those related to estimated breakage (see Note A - Item 11), that affect the reported assets and liabilities, and the disclosure of contingent assets and liabilities as of the dates of the financial statements, and the reported revenues and expenses for the periods of presentation. Actual results could differ from those estimates.

3. Concentrations of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations.

The Company maintains its cash and restricted cash in bank deposit accounts, which typically exceed federally insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to significant credit risk on cash and restricted cash account balances.

We have a broad customer base from a variety of product offerings, including mall owner/operators, restaurant and retail chains, corporate incentive and reward sponsors, and fund-raising organizations. As of December 2005, we provided gift certificates and gift card programs to a total of 77 shopping malls in 28 states. One mall customer represented 43% of total transaction volume in 2005. Our fulfillment operations for one customer represented 15% of the total transaction volume in 2005. No other customers accounted for more than 10% of our total transaction volume in 2005.

4. Cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. See Note C for a discussion regarding accounting policies for restricted cash.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Other assets and prepaid expenses

Other assets consist of deposits and reserves, gift certificate and gift card stock, operating supplies, computer equipment components, and trademarks, and are recorded at cost, less accumulated amortization when applicable. Amortization of other assets and prepaid expenses is provided principally on the straight-line method over the estimated useful life of the related asset.

6. Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at the contractual amount, reduced by an allowance for doubtful accounts.

The allowance for doubtful accounts is established through a provision for losses charged to expense. Accounts receivable are charged against the allowance for doubtful accounts when management believes that collectibility is unlikely. The allowance for doubtful accounts is set at an amount management believes will be adequate to absorb possible losses on existing receivable balances deemed potentially uncollectible, based on evaluations of collectibility and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the accounts receivable portfolio, overall portfolio quality, review of specific problem receivables, and current economic conditions that may affect the customer's ability to pay.

A receivable is considered to be past due if any portion of the receivable balance has not been received by the contractual pay date. In some cases, where contractually permitted, interest is charged on receivables that are past due. Interest stops when the Company writes off an item as uncollectible. The Company writes off a receivable as uncollectible based upon the facts and circumstances of each receivable, with the primary factor being the likelihood of prevailing on the collection, and whether the expense for the collection efforts would exceed the amount owed.

7. Inventory

Inventory consists of gift certificates and gift cards purchased from third party retailers. Gift certificates and gift cards are recorded at cost (specific identification method).

8. Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

	Years
Furniture and fixtures	10
Kiosks	5
Support equipment	5
Office equipment	5
Software	5
Leasehold improvements	5

Expenditures for maintenance and repairs are expensed when incurred and betterments are capitalized. Gains and losses on sales of property and equipment are reflected in operations.

9. Net loss per common share

Basic earnings (loss) per share (EPS) is calculated using income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is similar to Basic EPS except that the weighted-average number of common shares outstanding is increased using the treasury stock method to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Such potentially dilutive common shares include stock options and warrants granted or sold, convertible preferred stock and convertible debt. Shares having an antidilutive effect on periods presented are not included in the computation of dilutive EPS.

The average number of shares of all stock options and warrants granted, all convertible notes to stockholders, and convertible preferred stock included in Notes H, K and L have been omitted from the computation of diluted net loss per common share because their inclusion would have been anti-dilutive for the years ended December 31, 2005 and 2004.

For the years ended December 31, 2005 and 2004, respectively, the Company had 8,796,030 and 7,915,849 potentially dilutive shares of common stock, respectively, not included in the computation of diluted net loss per common share because it would have decreased the net loss per common share. These options and warrants could be dilutive in the future.

10. Revenue recognition

Sale of Third-Party Gift Cards and Gift Certificates

The Company sells gift certificates and gift cards. Some sales are Company gift certificate or gift card stock, with the remainder being gift certificates or gift cards purchased through a third-party merchant that are issued on the third-party merchant's stock. The third-party merchant gift certificates or gift cards are purchased in bulk at a discount and re-sold at full face value. The full face value of the gift certificate or gift card sale is reported by the Company as revenue only when the Company has no responsibility or liability for the redemption of the gift certificates or gift cards sold.

Based on the preceding, for sales of third-party merchant gift certificates or gift cards, the Company records as revenue the amount received from the customer at the time of the sale. The amount that the Company pays the retailer is recorded as a cost of revenue.

Income from Gift Certificate Breakage

During 2002, the Company began recognizing income on unredeemed/unredeemable gift certificates or gift cards in accordance with contractual agreements. Gift certificates or gift cards that are not redeemed by the holder due to destruction, loss, maintenance fees or service charges, expiration or the expiration of the legal statute of limitations, or other reasons are subject to claim by the Company as unredeemed/unredeemable property. Gift certificates or gift cards that are not redeemed are referred to as “breakage.”

The Company recognizes income on gift certificate breakage at the end of the term of the period in which the Company is obligated to honor gift certificates, which ranges from one to seven years and is based on either the expiration date on the gift certificate or the applicable legal statute of limitation (applicable where state law prohibits expiration dates), which represents the extinguishment of the liability. Breakage income is recognized on paper gift certificates during the month following the expiration date. Breakage income is recognized on paper gift certificates with no expiration date based on the applicable legal statute of limitation.

The Company records and compiles the total cumulative amount of breakage based on total historical sales and breakage experience since the Company began selling paper gift certificates in October 1998 and gift cards in October 2001. The Company monitors historical breakage experience and makes estimates of future breakage and trends based on that historical experience. The Company makes operating cash decisions and realizes advances on restricted cash based upon those historical sales and breakage estimates. The Company does not use restricted cash in excess of the estimated amount of breakage calculated on historical sales for working capital purposes.

Gift Card and Gift Certificate Fees

Revenue is recognized on gift cards in the period in which the Company receives the maintenance fee, service charge, or expiration fee applied to the consumer’s gift card. During 2005, in some cases, the Company began charging an up-front point of sale convenience fee on the sale of gift cards in retail establishments. The Company recognizes revenue from the point of sale convenience fees ratably over the life of the gift card or gift certificate. If the gift card or gift certificate is fully used, any remaining balance of deferred point of sale convenience fee is recognized as revenue at that time. Point of sale convenience fees were not material in 2005, however the Company expects such fees to become a more significant portion of total revenues and other income in future periods. Merchant fee revenue earned from retailers is recognized when gift certificates or gift cards are sold. With respect to gift certificate or gift card service contracts, reimbursable merchant fee revenue is recognized as costs are incurred, and includes applicable fees earned through the date services are provided.

Interest Income

Interest income is recognized when earned.

11. Stock based compensation

In accordance with Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation", expense is recognized in connection with the grant of stock options when issued to non-employees using the fair-value based method. The expense is equal to the fair value of the options, based on the Black-Scholes option-pricing model, at the grant dates and is expensed ratably over the vesting periods. In connection with notes payable, the Company repriced existing warrants and granted stock options and warrants to non-employees, resulting in interest expense of $876,230 and $24,903 during the years ended December 31, 2005 and 2004, respectively. The Company also granted stock options and warrants to non-employees as payment for services of $50,451 during the year ended December 31, 2005.

The Company accounts for its employee based compensation plans using the intrinsic value method, as prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, the Company records deferred compensation costs related to its employee stock options when the current market price of the underlying stock exceeds the exercise price of each stock option on the measurement date (usually the date of grant). During the years ended December 31, 2005 and 2004, the Company did not grant any stock options to employees or members of the Company's Board of Directors with exercise prices below the market price on the measurement date.

An alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value based method prescribed by SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." If the Company used the fair value based method, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant as computed using the Black-Scholes option-pricing model. The deferred compensation calculated under the fair value based method would then be amortized over the vesting period of the stock option.

The following table illustrates the effect on net loss and net loss per common share as if the Company had elected to use the fair value based method to account for its employee stock-based compensation:

	Year ended December 31, 2005	Year ended December 31, 2004
Net loss attributable to common stockholders as reported:	$ (5,847,033)	$ (4,127,957)
Add: Stock based employee compensation included in reported net income, net of related tax effects	-	-
	(5,847,033)	(4,127,957)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(609,983)	(82,246)
Net loss attributable to common stockholders - pro forma:	$ (6,457,016)	$ (4,210,203)
Net loss per common share - as reported	$ (0.34)	$ (0.25)
Net loss per common share - pro forma	$ (0.37)	$ (0.26)

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

	Year ended December 31, 2005	Year ended December 31, 2004
Expected dividend yield	-	-
Expected price volatility	32.85%	29.44%
Risk-free interest rate	4.37%	4.62%
Expected life of options in years	10	10

12. New accounting pronouncements

EITF Issue No. 04-10 "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds" ("EITF Issue No. 04-10") was ratified in October 2004 and requires that operating segments that do not meet the quantitative thresholds as defined in SFAS No. 131, "Disclosures About Segments of Enterprise and Related Information" ("SFAS 131") can be aggregated only if aggregation is consistent with the objective and basic principles of SFAS 131, the segments have similar economic characteristics and the segments are similar in a majority of the aggregation criteria listed in SFAS 131. EITF Issue No. 04-10 was effective for fiscal years ending after September 15, 2005 and had no impact on the segment reporting for the Company.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—An Amendment of ARB No. 43, Chapter 4. SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company in the first quarter of 2006. The Company is currently evaluating the effect the adoption of SFAS 151 will have on its results of operations and financial position but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission postponed the effective date of SFAS 123R until the issuer's first fiscal year beginning after June 15, 2005. The Company will adopt SFAS 123R in the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and transition method to be used at the date of adoption. The transition method alternatives include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive method would require compensation expense to be recorded for all unvested stock options and restricted stock beginning with the first period restated. The Company is currently evaluating the method of adoption, the effect of adoption, and whether the adoption will result in amounts similar to the current pro forma disclosures under SFAS 123; however the Company believes the adoption of SFAS 123R will have a material impact on its financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and was required to be adopted in the third quarter of 2005. The adoption of SFAS 153 did not have a significant impact on the Company's results of operations and financial position.

EITF Issue No. 03-13 "Applying the Condition in Paragraph 42 of FASB No. 144, "Accounting for the Impairment on Disposal of Long-Lived Assets," in Determining Whether to Report Discontinued Operations" (EITF Issue No. 03-13), ratified in November 2004, provides application guidance on paragraph 42 of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" in determining whether to report discontinued operations. Specifically EITF Issue No. 03-13 addresses which cash flows are to be considered and what forms of involvement constitute significant continuing involvement in an asset, as well as specifying a period for reassessment. EITF Issue No. 03-13 was effective for fiscal periods beginning after December 15, 2004 and it did not have a significant impact on the Company's results of operations, cash flows or financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154). SFAS 154 replaces APB Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting and reporting of accounting changes and error corrections. It establishes retrospective application as the required method of reporting a change in accounting principle and the reporting of an error in most instances. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of 2006.

EITF Issue No. 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty," (EITF Issue No. 04-13) was ratified in September 2005 and requires "buy/sell" contractual arrangements entered into after March 15, 2006, or modifications or renewals of existing arrangements after that date, to be reported on a net basis in the results of operations and accounted for as non-monetary transactions. The Company does not expect this to have a significant impact on the Company's results of operations or financial position.

In November 2005, the FASB issued FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP 115-1), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005 and is required to be adopted in 2006. The Company is currently evaluating the effect that the adoption of FSP 115-1 will have on its results of operations and financial position but does not expect it to have a material impact.

Management does not believe that any other recently issued, but not yet effective, accounting standards will have a material effect on the Company's financial position and results of operations.

13. Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2005 and 2004, the Company expensed $19,313 and $2,701 respectively.

14. Shipping and Handling Fees

Our shipping and handling costs are included in cost of revenues and other income. Shipping and handling costs consist of postage expense from the shipment of gift cards and gift certificates from fulfillment services and from the sale of third-party gift cards and gift certificates.

NOTE B – GOING CONCERN

The Company has incurred net losses since inception and negative cash flows from operating activities. During the year ended December 31, 2005, the Company had negative cash flows of $1,792,008 from operating activities. At December 31, 2005, the Company had a deficit in working capital of $10,323,825 and an accumulated deficit of $40,148,750. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to meet its obligations as they come due is dependent upon its ability to obtain additional financing as required, and ultimately to achieve and sustain profitability.

The Company will continue to attempt to raise capital through private equity or debt offerings, as well as from institutional investors until internally generated profitability is achieved. The Company may establish a line of credit with a financial institution, or raise bridge financing until a liquidity event can be achieved. The Company is taking steps to improve profitability by restructuring contracts to increase the amount of revenue generated by each contract, and by minimizing costs on existing contracts. The Company is also expanding its available products and services to diversify the risk associated with having limited revenue sources.

There can be no assurance that the Company will be successful in executing its plans to improve operations or obtain additional debt or equity financing. If the Company is unable to improve operations or obtain additional debt and equity financing, it may be required to restructure operations during 2006. Management believes that if the Company were not able to obtain additional financing for the development of its overall business, operations could be restructured in order for the Company to be profitable at the current level of sales. However, there can be no assurance that the Company will be able to achieve its plan or to continue operating without additional financing.

NOTE C - RESTRICTED CASH

Restricted cash consists of funds held for the payment of obligations associated with issued and outstanding gift certificates and gift cards to customers. These funds are maintained at several financial institutions in depository bank accounts and associated sweep accounts held by NBO. The Federal Deposit Insurance Corporation insures balances amounting to $100,000 cumulatively, per institution. Uninsured balances aggregate to approximately $2,036,000 at December 31, 2005. Withdrawals of the funds are restricted to the payment to merchants in connection with the use of issued and outstanding gift certificates and gift cards and may not be transferred into operating accounts until such time that the unused gift certificates and gift cards are considered breakage or estimated breakage. Breakage is determined based on (1) expiration, (2) legal statute of limitation, or (3) the accumulation of sufficient historical breakage data upon which to make reliable estimates. Breakage by expiration or legal statute of limitation is recorded as income, and a corresponding amount is removed from gift certificates and gift cards payable.

The same amount is removed from restricted cash and recorded as unrestricted cash. Estimated unused gift certificates and gift cards ("estimated breakage") is based on Company historical breakage data and is not recorded as income until the expiration date or the legal statute of limitation passes. However, the Company may transfer cash equal to all or a portion of estimated breakage from restricted cash to unrestricted cash, meaning our general operating accounts, upon issuance of the gift certificate or gift card. Estimated breakage used is not recorded as income at that time. Any estimated breakage amount transferred to unrestricted cash decreases the restricted cash balance but remains in gift certificates payable, until such estimated breakage becomes actual breakage and is recognized as income. At such time, the amount of the obligation associated with gift certificates and gift cards payable is reduced by a corresponding amount.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment, at cost, are as follows:

	December 31, 2005	December 31, 2004
Furniture and fixtures	$ 269,626	$ 276,010
Kiosks and counter top units	52,304	58,003
Support equipment	250,897	332,236
Office equipment	586,640	754,957
Software	205,404	287,970
Leasehold improvements	145,660	152,237
	1,510,531	1,861,413
Less accumulated depreciation and amortization	(1,136,534)	(1,313,387)
	$ 373,997	$ 548,026

NOTE E - DEPOSITS AND RESERVES

As of December 31, 2005 and 2004, deposits and reserves totaled $290,312 and $333,478, respectively, consisting of:

	December 31, 2005	December 31, 2004
Gift card reserves	$ 266,667	$ 260,074
Office space letter of credit	-	50,369
General Deposits	23,645	23,035
	$ 290,312	$ 333,478

NOTE F - ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2005	December 31, 2004
Payroll and paid time off	$ 625,433	$ 628,745
Interest	593,420	395,480
Credit card merchant fees	197,464	192,707
Other	141,763	19,410
	$ 1,558,080	$ 1,236,342

NOTE G - NOTES TO OFFICER

The Company had notes payable of $390,000 and $250,000 at December 31, 2005 and 2004, respectively, to its chief executive officer and chairman of the Board of Directors. The notes are unsecured and bear interest at 10%. Additionally, the Company has various unsecured and non-interest bearing notes payable to its chief executive officer and chairman of the Board of Directors totaling $95,918 at December 31, 2005 and 2004. These notes payable are due on demand.

On October 26, 2005, the Company executed a short-term demand note with the President and Chief Executive Officer of the Company in the amount of $50,000 to fund additional operations. The note bears interest at an annualized rate of 10%. This note was retired in full on October 28, 2005, in the amount of $50,027. The Company recorded interest expense of $27.

NOTE H - NOTES TO STOCKHOLDERS

Notes due to Stockholders consist of the following:

	December 31, 2005	December 31, 2004
Unsecured notes to stockholders, with interest at 20%, in default, due on demand on the earlier of June 30, 1996 or upon the Company obtaining $3,000,000 of debt or equity financing. Because the notes are in default, the notes provided for the stockholders to receive an additional 5,208 shares of common stock for each $25,000 note payable at September 30, 1996.	$ 147,329	$ 190,750
Non interest-bearing unsecured note to a stockholder, in default, due on demand.	10,000	10,000
Unsecured note to stockholder, with interest at 22%, due January 15, 2005. Full principal amount was paid in January 2005.	-	100,000
Unsecured non-interest bearing note, due October 17, 2005. Holder to receive 50,000 warrants to purchase common stock of the Company, at $5.50 per share.	-	500,000

NOTE H - NOTES TO STOCKHOLDERS - CONTINUED

	December 31, 2005	December 31, 2004
Unsecured note to stockholder, with interest at 20%, due May 15, 2006. Holder received 5,000 warrants to purchase Common Stock at an exercise price of $3.00 per share. Convertible at $2.00 per share at option of Holder.	100,000	-
Unsecured notes to stockholder, with interest at 20%, due May 15, 2006. Holder received 5,000 warrants to purchase Common Stock at an exercise price of $3.00 per share. Convertible at $2.00 per share at option of Holder.	100,000	-
Unsecured notes to stockholder, with interest at 30%, due January 3, 2006. Holder received 33,333 warrants to purchase Common Stock at an exercise price of $4.00 per share. Convertible at $4.00 per share at option of Holder.	100,000	-
Unsecured notes to stockholder, with interest at 30%, due January 3, 2006. Holder received 66,666 warrants to purchase Common Stock at an exercise price of $4.00 per share. Convertible at $4.00 per share at option of Holder.	200,000	-
Unsecured notes to stockholder, with interest at 30%, due January 3, 2006. Holder received 66,666 warrants to purchase Common Stock at an exercise price of $4.00 per share. Convertible at $4.00 per share at option of Holder.	200,000	-
Unsecured note to stockholder, with interest at 22%, due January 24, 2006. Interest payments of $27,500 and the issuance of 5,000 warrants at an exercise price of $5.50 every 90 days.	500,000	500,000
Unsecured note to stockholder, with interest at 22%, due January 24, 2006. Interest payments of $27,500 and the issuance of 5,000 warrants at an exercise price of $5.50 every 90 days.	500,000	500,000
22% unsecured notes to stockholders, due January 24, 2006. Holders received 15,000 warrants to purchase Common Stock at an exercise price of $5.50 per share. In addition, the Holders shall receive 5,000 warrants every 90 days in conjunction with interest payments.	-	500,000
22% unsecured note to stockholder, due March 10, 2006. Holder received 700,000 warrants to purchase common stock at an exercise price of $4.00 per share per quarter as additional interest expense. Convertible at $4.00 per share at option of Holder.	-	2,100,000
18% unsecured note to stockholder, due April 4, 2006. Interest payments of $4,500 due every 90 days. Convertible at $4.00 per share at option of Holder.	100,000	-
22% (effective annual interest rate of 23%) unsecured note to stockholder, due April 6, 2006. Holder received 28,121warrants to purchase common stock at an exercise price of $5.50 per share upon issuance of the note. In addition, the Holder shall receive 5,000 warrants every 90 days in conjunction with interest payments.	-	500,000
17% unsecured note to stockholder, due April 6, 2005. Holder to receive 1,545 warrants to purchase common stock at $5.50 per share at repayment of the note.	-	100,000
17% (effective annual interest rate of 26%) unsecured note to stockholder, due April 13, 2005. Holder to receive interest payment and 28,121 warrants to purchase common stock of the Company at $5.50 per share, issued at note inception.	-	100,000

NOTE H - NOTES TO STOCKHOLDERS - CONTINUED

	December 31, 2005	December 31, 2004
20% unsecured note to stockholder, due May 31, 2006. Convertible at $2.00 per share at option of Holder.	500,000	-
22% unsecured note to stockholder, due August 16, 2006. Interest payments of $206,250 due every 90 days, and one interest payment of $142,363 on September 10, 2005. Holder receives 7,083 warrants to purchase Common Stock at an exercise price of $2.00 per share, every 90 days. Convertible at $2.00 per share at option of Holder.	3,750,000	-
Discount on notes payable	(3,854)	-
Subtotal	6,203,475	5,100,750
Less current portion of notes to stockholders	6,203,475	1,000,750
Long-term notes to stockholders	$ -	$ 4,100,000

On October 18, 2005, the Company retired a $500,000 promissory note to a stockholder by paying principal of $250,000 plus the associated interest expense, and converting the remaining outstanding balance of $250,000 to 125,000 shares of common stock of the Company, in addition to issuing warrants to purchase 50,000 shares of common stock of the Company with an exercise price of $5.50 per share.

During 2005, the Company refinanced a significant amount of its notes to stockholders. In connection with these refinances, the Company issued warrants to purchase 700,000 shares of common stock at an exercise price of $4.00 and issued warrants to purchase 110,000 shares of common stock at an exercise price of $2.00. In addition, the Company repriced 1,141,450 existing warrants held by the note holders as follows: 50,000 from an exercise price of $5.50 to $3.00; 63,121 from $5.50 to $2.00; 206,664 from $4.00 to $3.00; and 821,665 from $4.00 to $2.00. The issuance of the new warrants and the repricing of the existing warrants resulted in a financing cost of $1,117,095. This financing cost has been recorded as an offset to stockholders' deficit and is being recognized over the lives of the notes payable. During 2005, the Company recognized $625,118 of the deferred financing costs as interest expense, leaving a remaining balance of $495,977 in deferred financing costs as of December 31, 2005.

NOTE J - INCOME TAXES

The actual provision for (benefit from) income taxes is different than the amount computed by applying the statutory federal income tax rate to the loss before income taxes as follows:

	Year ended December 31, 2005	**Year ended December 31, 2004**
Benefit at statutory rates	$ (1,951,000)	$ (1,362,000)
Increase in valuation allowance	1,966,000	1,480,000
Other	-	(18,000)
State income tax benefit	(287,000)	(132,000)
Permanent nondeductible items	272,000	32,000
Total	$ -	$ -

NOTE J - INCOME TAXES - CONTINUED

In accordance with SFAS No. 109, the deferred tax assets and liabilities as of December 31, 2005 and December 31, 2004, are comprised of the estimated future tax benefit (provision) due to different financial reporting and income tax bases related to:

	December 31, 2005	December 31, 2004
Deferred tax assets		
Net operating loss carry forward	$ 13,056,000	$ 10,910,000
Research and development credit carry forwards	132,000	132,000
Asset reserves and accrued liabilities	655,000	89,000
Depreciation	24,000	24,000
Total deferred tax assets	13,867,000	11,155,000
Valuation allowance	(13,867,000)	(11,155,000)
Net deferred tax asset	$ -	$ -

The Company has concluded it is more likely than not that it will not be able to recognize the benefit of its operating loss and research and development credit carry forwards. Therefore, a full valuation allowance has been provided. At December 31, 2005, the Company had net operating loss carry forwards of approximately $35,000,000 and research and development credit carry forwards of approximately $132,000. The net operating loss and the research and development credit carry forwards expire from 2010 to 2025.

NOTE K – STOCKHOLDERS' DEFICIT

Subscriptions receivable

The Company has received promissory notes from three stockholders. These promissory notes bare interest at 10% and are collateralized by shares of common stock of the Company that are being purchased. Upon a public offering, these shares of common stock may be sold and the proceeds used to pay the notes to the Company. These subscriptions receivable are presented as reductions to stockholders' deficit in the accompanying balance sheets. These subscriptions receivable were written off as of December 31, 2005.

Common stock

During the year ended December 31, 2005, the Company:

- Issued 7,168 shares of preferred stock as dividends in the amount of $67,200.
- Issued 20,826 shares of common stock in the amount of $68,744 according to the terms of an employment agreement for one of the Company's officers.
- Issued 4,188 shares of common stock in the amount of $16,752 according to the terms of a compensation agreement related to an equity offering of the Company's common stock.
- Issued 817,750 shares of common stock in connection with a private placement generating total proceeds of $1,743,000. The Company incurred offering costs of $31,784. Net proceeds to the Company were $1,711,216.
- Issued 165,592 shares of common stock in connection with the exercise of warrants generating total proceeds of $496,776.
- Issued 125,000 shares of common stock in connection with the conversion of $250,000 of notes payable

NOTE K – STOCKHOLDERS' DEFICIT – CONTINUED

During the year ended December 31, 2004, the Company:

- Issued 17,782 shares of common stock at $2.75 per share to retire a $48,897 outstanding note payable. The note holder is also a stockholder of the Company and an accredited investor.

- Issued 889 shares of common stock for interest payable in the amount of $3,558. The note holder is also a stockholder of the Company and an accredited investor.

- Issued 155,111 shares of common stock upon the exercise of 456,205 Class B warrants with an exercise price of $2.64 in a cashless exercise of those warrants.

- Submitted amendments to the Articles of Incorporation of the Company to the State of Maryland to increase the total number of shares of common stock that the Company is authorized to issue to 50,000,000 with a $0.0005 par value per share. This increase is expressly authorized by Section 2-105(a)(12) of the Maryland General Corporation Law without action by the stockholders.

- Retired 4,023 shares of common stock due to the rescission of a warrant exercise.

- Issued 571,250 shares of common stock at $4.00 cash per share in connection with a private placement generating total proceeds of $2,285,000. The Company incurred issuance costs of $67,638 to facilitate the sale.

Preferred stock

Each outstanding share of preferred stock is convertible at any time into shares of common stock at a rate of 4.6875 shares of common stock for each share of preferred stock. The shares automatically convert into common stock upon the closing of an initial public offering of the Company's common stock.

The Company may, at its sole option, redeem all of the then outstanding shares of preferred stock at any time after August 21, 1997, upon 30 days notice, at a price of $2.20 per share, plus accrued stock dividends, if any. If the Company is successful in completing an initial public offering, the Company will register the shares of common stock the holders will receive upon the exercise of their conversion rights. The holders of shares of preferred stock are entitled to receive preferred stock dividends at an annual rate of 10% per share on or before August 31st of each year, commencing August 31, 1997. In the event of any liquidation, dissolution or winding-up of the Company, the holders of shares of preferred stock are entitled to receive, prior and in preference to, any distribution of any of the assets or surplus funds of the Company to the holders of shares of common stock or any other stock of the Company ranking on liquidation junior or subordinate to the preferred stock, an amount equal to $1.00 per share, plus accrued stock dividends, if any. Holders of shares of preferred stock have no voting rights.

The Company declared 10% stock dividends on the Company's preferred stock, which was paid to stockholders of record on August 31, 2005 and 2004. The dividends increased the accumulated deficit in the amount of $67,200 in 2005 and $122,156 in 2004.

NOTE L - STOCK OPTIONS AND WARRANTS

Common stock options

The Company has in place the 1997 Stock Option Plan (the "Plan") and in April 2004, the Board of Directors voted to amend the Plan to increase the number of shares of common stock reserved for issuance to an aggregate of 10,000,000 shares. The stockholders approved the revised Plan at the annual stockholders meeting in May 2004. As of December 31, 2005, the Company has 5,709,285 common stock options outstanding with exercise prices ranging from $.32 to $5.50 per share.

The term of each stock option may not be more than 10 years (5 years in the case of stock options granted to holders of 10% or more of the voting power of the Company's stock). The exercise price of the options shall not be less than the fair market value per share of common stock on the date of grant (110 percent of the fair market value in the case of stock options granted to holders of 10% or more of the voting power of the Company's stock).

NOTE L - STOCK OPTIONS AND WARRANTS - CONTINUED

The options issued prior to 2004 vest periodically through September 2007, based upon employee hire date. Shares issued in October 2004, and those going forward unless specifically mandated otherwise by the Board of Directors, vest over a 5-year vesting schedule from the date of the option grant.

Common stock warrants

The Company has the following common stock warrants outstanding as of December 31, 2005:

Class A Warrants

Beginning in November 1995 and concluding in March 1996, the Company offered for sale 66 Units at a price of $25,000 per Unit, in a private placement for bridge financing. Each Unit consisted of a $25,000 promissory note, 5,208 shares of the Company's common stock and Class A Warrants to purchase 5,208 shares of the Company's common stock at $2.40 per share.

Each Class A Warrant entitles the registered holder thereof to purchase one share of the Company's common stock at an exercise price of $2.40 per share during the period between the end of the 12th month and before the end of the 24th month after the completion date of an initial public offering of the Company's common stock. Unless extended by the Company at its discretion, all Class A Warrants will expire at the end of the 24th month after the completion of an initial public offering. The Class A Warrants are callable by the Company at any time the common shares have been trading at a price equal to or above $2.40 for a period of 30 consecutive trading days on an established exchange. Holders of these warrants have no rights, privileges or liabilities as a stockholder of the Company prior to exercise. The Company has 1,010,672 of Class A Warrants outstanding as of December 31, 2005.

Class B Warrants

The Class B warrants were issued in connection with a private placement started in December 1997. Each Class B Warrant entitled the registered holder thereof to purchase one share of the Company's common stock at an exercise price of $4.00 per share. The warrants expired in March 2003. The Class B Warrants were callable by the Company at any time the common shares had been trading at a price equal to or above $4.00 for a period of 30 consecutive trading days on an established exchange ending within 15 days of the date of redemption. Holders of these warrants had no rights, privileges or liabilities as a stockholder of the Company prior to exercise. Of the total 734,075 Class B Warrants, 31,001 were exercised prior to their expiration in March 2003. The remaining 703,074 Class B Warrants expired without being exercised.

In January 2003, as a result of an incentive offering to exercise the Class B Warrants prior to the March 2003 expiration date, 1,197 Class B Incentive Warrants were issued at an exercise price of $5.50 per warrant with an expiration date of January 17, 2008. No issuance costs were incurred. The incentive offering was made to accredited investors only.

Other warrants

The Company has issued warrants to purchase common stock of the Company for various reasons, most commonly in conjunction with notes payable. As of December 31, 2005, the Company has 3,086,745 warrants outstanding with exercise prices ranging from $2.00 to $5.50 per common share. 389,289 warrants are currently exercisable.

During the year ended December 31, 2005, in connection with the issuance of convertible notes payable, the Company issued 324,996 warrants with exercise prices between $2.00 and $4.00 and a combined fair value of $215,161. The issuance of the convertible notes and warrants resulted in a beneficial conversion feature of $243,000. The combined fair value of the warrants and beneficial conversion features of $458,161 was recorded as a debt discount and is being amortized over the term of the notes. During 2005, $454,307 of the debt discount was recorded as interest expense, resulting in a remaining debt discount of $3,854 at December 31, 2005.

During the year ended December 31, 2005 the Company refinanced certain notes to stockholders. As part of the refinance, warrants to purchase 810,000 shares of common stock with exercise prices from $2.00 to $4.00 per share were issued. In addition, 1,141,450 warrants already held by the note holders were repriced to exercise prices from $2.00 to $3.00 per share. The fair value of the new

NOTE L - STOCK OPTIONS AND WARRANTS - CONTINUED

warrants plus the incremental fair value of the repriced warrants totaled $1,117,095, which was recorded as deferred debt financing costs and is being amortized over the term of the notes. During 2005, $621,118 of the deferred debt financing costs was recorded as interest expense, resulting in remaining deferred debt financing costs of $495,977 at December 31, 2005.

During the year ended December 31, 2005, 215,887 warrants with exercise prices between $2.00 and $5.50 and a combined fair value of $257,112 were issued as payment of interest in connection with note agreements. These note agreements call for the quarterly issuance of a specified number of warrants. The fair value of the warrants issued is recorded as interest expense as the warrants are issued.

During the year ended December 31, 2005, 215,000 warrants with exercise prices of $2.00 and $4.00 and a combined fair value of $50,451 were issued in connection with services provided. The fair value of the warrants issued was recognized as general and administrative expense at the time services were provided.

Changes in the Company's common stock options and warrants are as follows:

	Warrants			Stock options		
	Number of shares	Exercise price	Weighted avg. exercise price	Number of shares	Exercise price	Weighted avg. exercise price
Outstanding at January 1, 2004	2,336,962	2.40-5.50	2.98	4,314,160	0.32-5.50	1.20
Granted	118,742	5.50	5.50	1,700,625	4.00-4.40	4.06
Exercised	(456,205)	2.64	2.64	-	-	-
Canceled or expired	(289,388)	2.64	2.64	(145,000)	2.40-5.50	3.98
Outstanding at December 31, 2004	1,710,111	2.40-5.50	3.29	5,869,785	0.32-5.50	1.96
Granted	1,565,883	2.00-5.50	2.66	135,000	2.00-4.00	3.70
Exercised	(165,592)	3.00	3.00	-	-	-
Canceled or expired	(23,657)	4.40	4.40	(295,500)	2.40-5.50	4.01
Outstanding at December 31, 2005	3,086,745	2.00-5.50	2.77	5,709,285	0.32-5.50	1.89
Exercisable at December 31, 2005	389,289	2.00-5.50	3.81	4,461,185	0.32-5.50	1.29
Exercisable at December 31, 2004	578,538	2.40-5.50	3.41	4,142,160	0.32-5.50	1.08

A summary of the common stock options outstanding as of December 31, 2005, is presented below:

Outstanding				Exercisable	
Range of exercise prices	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
$ .32-0.35	767,597	1.57	$ 0.33	767,597	$ 0.33
.80-0.88	2,921,875	1.56	0.88	2,921,875	0.88
2.00-2.80	245,000	2.53	2.43	225,000	2.62
4.00-4.40	1,694,813	8.40	4.10	486,713	4.17
$ 5.50	80,000	6.43	5.50	60,000	5.50
	5,709,285	3.71	$ 1.89	4,461,185	$ 1.29

NOTE L - STOCK OPTIONS AND WARRANTS – CONTINUED

A summary of the common stock warrants outstanding as of December 31, 2005 is presented below:

	Outstanding		Exercisable		
Range of exercise prices	Number of warrants outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price	Number of warrants outstanding	Weighted average exercise price
$ 2.00	1,049,369	*	$ 2.00	-	$ 2.00
2.40	1,010,663	*	2.40	-	2.40
3.00	442,256	0.19	3.00	165,592	3.00
4.00	195,833	*	4.00	-	4.00
4.40	224,659	0.57	4.40	222,500	4.40
5.50	163,956	0.01	5.50	1,197	5.50
	3,086,736		$ 2.76	389,289	$ 3.81

* The weighted average remaining contractual life in years cannot be calculated at this time. The associated terms provide for the warrants to be exercised no sooner than six months, but no later than twenty-four months after an initial public offering of the Company's common stock, which date is currently undetermined.

NOTE M - COMMITMENTS AND CONTINGENCIES

1. Litigation

a. Ripperda, et al v. NBO, Inc., et al, Circuit Court Twentieth Judicial Circuit of Illinois, St. Clair County, Case No. 04L91

On February 13, 2004, Thomas Ripperda, et al, filed an action in Illinois State Court in St. Clair County, Illinois, against the Company in connection with gift cards sold at the St. Clair Square Mall in St. Clair County, Illinois. The plaintiff's complaint seeks to establish a class action. The complaint alleged that the term "valid thru" appearing on the face of the gift card next to the expiration date of the gift card is misleading in violation of the Illinois unfair business practices laws. The plaintiff sought a return of all administrative fees charged against his gift card prior to the "valid thru" date.

On October 11, 2005, together with codefendants, the Company entered into a Memorandum of Understanding with the plaintiff's attorney for the settlement of this litigation. Under the terms of the settlement, the Company denied any wrongdoing or liability whatsoever, and, the Company will make payments to cardholders who paid administrative fees and submit a satisfactory claim, not to exceed $50 per card. Amounts not claimed by cardholders will be paid to charity.

On November 22, 2005 the Court preliminarily approved the settlement and conditionally certified a class for settlement purposes.

On February 21, 2006, the Court issued a final order and judgment approving the settlement. The claims deadline was March 22, 2006 resulting in payable claims of $72,353. The claims payment deadline is April 21, 2006. The unclaimed settlement amounts are to be paid to charity by May 22, 2006.

b. WildCard Systems, Inc., Claim for Indemnification

WildCard Systems, Inc. ("WildCard") is a credit card transaction processor. The Company entered into an agreement with WildCard for the right to use the MasterCard-branded gift cards sold at the St. Clair Square Mall and for card transaction processing in connection with these gift cards. WildCard in turn contracted with Bank of America and Bank of America issued the gift cards that were sold at St. Clair Square Mall. The term "valid thru" appearing on the face of the card are words required by Bank of America on the face of the card.

NOTE M - COMMITMENTS AND CONTINGENCIES - CONTINUED

Thomas Ripperda, the plaintiff described above, named Bank of America as a defendant together with the Company when he filed his complaint against the Company in connection with the gift cards sold at St. Clair Square Mall. Bank of America has been defending the lawsuit parallel to the Company's defense of the lawsuit. WildCard has not been named as a defendant in the lawsuit.

WildCard informed the Company that Bank of America had asserted a claim for indemnification against WildCard in connection with Bank of America's expenses and possible liability arising from the lawsuit filed by Thomas Ripperda against Bank of America. WildCard in turn asserted a claim to indemnification against the Company with respect to Bank of America's claim against WildCard. The Company denied liability.

The Company has also asserted a right to indemnification from WildCard for its costs and liabilities, if any, incurred in the litigation with Thomas Ripperda. WildCard rejected the Company's claim for indemnification.

Since the agreement with WildCard contains an arbitration clause, WildCard invoked the right to arbitrate the dispute. WildCard and the Company agreed to settle the arbitration matter, including the following items: 1) The Company will contribute one-third of the funds necessary to settle the Ripperda litigation; 2) Both WildCard and the Company will dismiss their claims in arbitration; and 3) WildCard and the Company will be responsible for their own costs and attorney's fees.

The settlement will be effective upon the final settlement of the litigation in Ripperda. Both the Company and WildCard Systems, Inc., will dismiss their arbitration claims. The Company will make no additional payment in connection with the settlement of the arbitration.

Except as described above, the Company is not a party to any material threatened or pending legal proceedings, which if adversely determined, would have an adverse material effect on the Company's financial condition or results of operations. From time to time, however, the Company may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including, but not limited to, employee, customer and vendor disputes.

2. Operating Lease

The Company has an operating lease for the Company's headquarters through July 2007 at a monthly base rent which includes all taxes on the property. The rental expense under all operating leases was $313,054 and $332,210, for the years ended December 31, 2005 and 2004, respectively.

Future minimum payments for all operating leases as of December 31, 2005 are as follows:

Year ending December 31,	Amount
2006	247,300
2007	152,950
2008	4,309
2009	1,782
2010	1,782
2011	148
	$ 408,271

4. Gift certificate contracts

The Company has entered into contracts with various entities relative to its gift certificate and gift card business that call for the Company to indemnify the customer against certain claims or charges that may arise from governmental agencies and due to other contingent circumstances. Management has determined that it is not possible to estimate the potential liability, if any, associated with these contracts and no liability is provided for in the accompanying financial statements. State legal statutes and other provisions of the law may change or be subject to other interpretations and could result in significant liability to the Company.

NOTE N – SIGNIFICANT CUSTOMERS

The Company is unable to compute exact revenues from customers since gift cards and gift certificates are generally sold to individuals; however, one mall customer, Glimcher Properties, accounted for approximately 43% of the combined total gift card and gift certificate transaction volume in 2005. The Company's fulfillment operations for Darden products represented 15% of the total transaction volume in 2005. No other customers accounted for more than 10% of the Company's total transaction volume in 2005 or 2004.

NOTE O – SUBSEQUENT EVENTS

In January 2006, the Company restructured several promissory notes to stockholders totaling $1,700,000 by reducing the effective annual interest rate and extending the maturities. The Company issued 15,000 warrants to purchase common stock of the Company at an exercise price of $2.00 in conjunction with the restructuring of these notes.

In March 2006, the Company entered into a promissory note with an existing stockholder for $1 million to be used for general operating purposes. In connection with this promissory note, the Company issued 30,000 warrants to purchase common stock of the Company at an exercise price of $2.50.

In March 2006, the Company entered into a promissory note with an existing stockholder for $100,000 to be used for general operating purposes. In connection with this promissory note, the Company issued 7,500 warrants to purchase common stock of the Company at an exercise price of $3.00.

In March 2006, the Company entered into a promissory note with an existing stockholder for $250,000 to be used for general operating purposes. In connection with this promissory note, the Company issued 10,000 warrants to purchase common stock of the Company at an exercise price of $2.00.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

NBO Systems, Inc.

By: /s/ Keith A. Guevara
Keith A. Guevara
Chairman/President/CEO

Dated: March 31, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Keith A. Guevara Keith A. Guevara *Principal Executive Officer	President, Chief Executive Officer and Chairman of the Board of Directors	March 31, 2006
/s/ D. Kent Jasperson D. Kent Jasperson * Principal Accounting Officer	Chief Accounting Officer, Secretary and Treasurer	March 31, 2006
/s/ Christopher Foley Christopher Foley	Chief Financial Officer and Director	March 31, 2006
/s/ Andrew Boyd-Jones Andrew Boyd-Jones	Director	March 31, 2006

EXHIBIT 31.1

CERTIFICATION

I, Keith A. Guevara, as Chief Executive Officer of NBO SYSTEMS, INC., certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 of NBO SYSTEMS, INC.;

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 annual 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 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 is made known to us by others within the company, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted pursuant to SEC Release Nos. 33-8545 and 34-51293]

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion 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

   (d) disclosed in this annual 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 and I have disclosed, based on our most recent evaluation of internal controls 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 controls 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 controls and over financial reporting.

Date: March 31, 2006

/s/ Keith A. Guevara
Keith A. Guevara
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION

I, Christopher Foley, as Chief Financial Officer of NBO SYSTEMS, INC., certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 of NBO SYSTEMS, INC.;

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 annual 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 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 is made known to us by others within the company, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted pursuant to SEC Release Nos. 8545 and 34-51293]

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion 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 annual 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 and I have disclosed, based on our most recent evaluation of internal controls 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 controls 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 controls and over financial reporting.

Date: March 31, 2006

/s/ Christopher Foley
Christopher Foley
Director and Chief Financial Officer

EXHIIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

Keith A. Guevara, as Chief Executive Officer of NBO Systems, Inc. (the “Company”), and Christopher Foley, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, that

(1) the Company’s Annual Report of Form 10-KSB for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the applicable requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2006

/s/ Keith A. Guevara
Keith A. Guevara
Chief Executive Officer and President

Dated: March 31, 2006

/s/ Christopher Foley
Christopher Foley
Chief Financial Officer