

U. S. Securities and Exchange Commission

Washington, D.C. 20549

**FORM 10-Q**

( Mark One )

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2009

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-23025

**NOTIFY TECHNOLOGY CORPORATION**

(Exact name of registrant as specified in its charter)

CALIFORNIA  
(State or other jurisdiction of  
incorporation or organization)

77-0382248  
(IRS Employer Identification No.)

1054 South De Anza Blvd., Suite 202  
San Jose, CA 95129

(Address of principal executive offices)

(408) 777-7920  
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2009, there were 14,075,662 shares of common stock outstanding.

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**PART I. FINANCIAL INFORMATION (unaudited)****Item 1. Financial Statements****NOTIFY TECHNOLOGY CORPORATION  
CONDENSED BALANCE SHEETS**

	<b>June 30, 2009</b>	<b>September 30, 2008</b>
	(unaudited)	(1)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,357,105	\$ 1,010,607
Accounts receivable, net	599,665	509,735
Other current assets	24,898	39,452
<b>Total current assets</b>	<b>1,981,668</b>	<b>1,559,794</b>
Non-current assets		
Property and equipment, net	243,332	173,224
Lease deposits	15,602	-
<b>Total non-current assets</b>	<b>258,934</b>	<b>173,224</b>
<b>Total assets</b>	<b>\$ 2,240,602</b>	<b>\$ 1,733,018</b>
<b>Liabilities and shareholders' deficit</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 4,753	\$ 4,445
Accounts payable	49,887	40,045
Accrued payroll and related liabilities	331,653	349,292
Deferred revenue	2,964,465	2,418,235
Other accrued liabilities	139,740	171,108
<b>Total current liabilities</b>	<b>3,490,498</b>	<b>2,983,125</b>
Long term portion of capital lease obligations	7,069	10,685
<b>Total liabilities</b>	<b>3,497,567</b>	<b>2,993,810</b>
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares outstanding	—	—
Common stock, \$0.001 par value, 30,000,000 shares authorized, 14,075,662 and 13,968,995 shares issued and outstanding on June 30, 2009 and September 30, 2008, respectively	14,076	14,076
Additional paid-in capital	23,424,865	23,387,395
Accumulated deficit	(24,695,906)	(24,662,263)
<b>Total shareholders' deficit</b>	<b>(1,256,965)</b>	<b>(1,260,792)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 2,240,602</b>	<b>\$ 1,733,018</b>

(1) The information in this column was derived from our audited financial statements for the year ended September 30, 2008.

See accompanying Notes to Condensed Financial Statements.

**NOTIFY TECHNOLOGY CORPORATION**  
**CONDENSED STATEMENTS OF OPERATIONS**

	Three-Month Periods Ended June 30,		Nine-Month Periods Ended June 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
<b>Revenue:</b>				
Product revenue	\$ 1,593,805	\$ 1,144,800	\$ 4,366,636	\$ 3,331,443
<b>Total revenue</b>	<b><u>1,593,805</u></b>	<b><u>1,144,800</u></b>	<b><u>4,366,636</u></b>	<b><u>3,331,443</u></b>
<b>Cost of revenue:</b>				
Product cost	—	2,590	8,620	11,455
Royalty payments	38,925	30,647	109,072	105,284
<b>Total cost of revenue</b>	<b><u>38,925</u></b>	<b><u>33,237</u></b>	<b><u>117,692</u></b>	<b><u>116,739</u></b>
<b>Gross profit</b>	<b><u>1,554,880</u></b>	<b><u>1,111,563</u></b>	<b><u>4,248,944</u></b>	<b><u>3,214,705</u></b>
<b>Operating expenses:</b>				
Research and development	469,970	414,788	1,449,731	1,186,960
Sales and marketing	567,522	472,378	1,708,292	1,374,160
General and administrative	397,804	310,079	1,127,477	956,859
<b>Total operating expenses</b>	<b><u>1,435,296</u></b>	<b><u>1,197,245</u></b>	<b><u>4,285,500</u></b>	<b><u>3,517,979</u></b>
<b>Income (loss) from operations</b>	<b>119,584</b>	<b>(85,682)</b>	<b>(36,556)</b>	<b>(303,274)</b>
Other income (expense), net	662	2,615	2,913	6,479
<b>Net income (loss)</b>	<b><u>\$ 120,246</u></b>	<b><u>\$ (83,067)</u></b>	<b><u>\$ (33,643)</u></b>	<b><u>\$ (296,795)</u></b>
<b>Basic net income (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>
<b>Basic weighted average shares outstanding</b>	<b>14,075,662</b>	<b>14,075,662</b>	<b>14,075,662</b>	<b>14,046,336</b>
<b>Diluted weighted net income (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>
<b>Diluted weighted average shares outstanding</b>	<b>14,849,281</b>	<b>14,075,662</b>	<b>14,075,662</b>	<b>14,046,336</b>

See accompanying Notes to Condensed Financial Statements.

**NOTIFY TECHNOLOGY CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Nine-Month Periods</b>	
	<b>2009</b>	<b>2008</b>
	( unaudited )	
<b>Cash flows provided by (used in) operating activities:</b>		
Net loss	\$ (33,643)	\$ (296,795)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	65,314	43,641
SFAS 123(R) expense	37,470	4,810
Changes in operating assets and activities:		
Accounts receivable	(89,930)	68,654
Other current assets	2,593	22,960
Accounts payable	9,841	(10,624)
Deferred revenue	546,230	353,907
Other accrued liabilities	(52,647)	32,009
Net cash provided by (used in) operating activities	<u>485,228</u>	<u>218,562</u>
<b>Cash flows provided by (used in) investing activities:</b>		
Purchase of property and equipment	(135,422)	(52,160)
Deposit on property and equipment	—	(56,228)
Net cash used in investing activities	<u>(135,422)</u>	<u>(108,388)</u>
<b>Cash flows provided by (used in) financing activities:</b>		
Proceeds from exercise of options	—	27,933
Principal payments on capital lease obligations	(3,308)	(6,564)
Net cash provided by (used in) financing activities	<u>(3,308)</u>	<u>21,369</u>
Net increase (decrease) in cash and cash equivalents	346,498	131,543
Cash and cash equivalents at beginning of period	1,010,607	839,775
Cash and cash equivalents at end of period	<u>\$ 1,357,105</u>	<u>\$ 971,318</u>
Supplemental disclosure of cash information		
Cash paid for interest	\$ 636	\$ 1,497
Cash paid for taxes	\$ 850	\$ 2,430

See accompanying Notes to Condensed Financial Statements.

**NOTIFY TECHNOLOGY CORPORATION**  
**Notes to Condensed Financial Statements**  
**(Unaudited)**

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of Notify Technology Corporation (referred to as “the Company”, “we”, “us” and “our” unless the context otherwise requires) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. The condensed financial statements included herein are unaudited but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for a fair presentation of the financial position at such date and the operating results and cash flows for those periods. Although we believe that the disclosures in these condensed financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-KSB for the year ended September 30, 2008.

Results for any interim period are not necessarily indicative of results for any other interim period or for the entire year.

2. NET INCOME (LOSS) PER SHARE

The net loss per share for the nine-month period ended June 30, 2009 was a loss of \$(0.00) compared to a loss of \$(0.02) for the same period in the prior year. Options to purchase 3,608,014 and 2,773,000 shares of common stock and warrants to purchase zero and 1,871,651 shares of common stock were outstanding at June 30, 2009 and 2008, respectively. The outstanding options were included in the computation of diluted net gain per share for the three month period ended June 30, 2009 to fully dilute the earnings per share but were not included in the computation of diluted net loss for the nine-month period ended June 30, 2009 and the three and nine-month periods ended June 30, 2008, as the effect would be anti-dilutive.

3. FINANCING ACTIVITIES

On May 29, 2007, Commonwealth Associates, L.P., along with a number of other investors, sold all of their respective interests in the Company, including options to purchase Series A Preferred Stock in the form of Unit Purchase Options, to 21X Investments LLC. Commonwealth Associates, L.P. and the other investors had originally acquired their interests in the July 2001 Preferred Stock Offering of the Company.

21X Investments LLC is beneficially owned by David Brewer, a director and chairman of the Audit Committee of the Company since February 2000. As a result of the May 29, 2007 transaction, Mr. Brewer acquired approximately 55% beneficial ownership of the stock of the Company.

The warrants mentioned in Note 2 above and the Unit Purchase Options mentioned in this Note 3 expired on July 20, 2008, leaving 14,075,662 shares of common stock and options to purchase 3,453,244 shares of common stock as the only issued and outstanding securities of the Company. There were no remaining obligations associated with the expiring warrants and options.

On December 17, 2008, the Board of Directors adopted the 2008 Equity Incentive Plan (“2008 Plan”) subject to the approval of the Company's shareholders. The Board authorized 2,317,000 shares of the Company's common stock to be reserved under the 2008 Plan. Included in the 3,608,014 total outstanding options as of June 30, 2009 were 1,750,014 options granted under the 2008 Plan on December 17, 2008 to various employees. These grants included 169,470 options exchanged for 900,000 options granted under a prior option plan.

**NOTIFY TECHNOLOGY CORPORATION**  
**Notes to Condensed Financial Statements**  
**(Unaudited)**

4. ACCOUNTING FOR STOCK BASED COMPENSATION

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

On October 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," requiring us to recognize expense related to the fair value of our employee stock option awards. We recognize the cost of all share-based awards on a graded vesting basis over the vesting period of the award. We recognized stock based employee compensation of \$17,294 and \$37,470 in the respective three and nine-month periods ended June 30, 2009.

We recognized no compensation expense during the three months ended June 30, 2009, related to the grant of options to non-employees.

5. PRODUCT WARRANTY

We warrant our products to current paid-up customers and make available for download service update releases that contain the most up-to-date version of our products. These software updates are continually maintained and released when available. As such, we do not maintain a separate warranty reserve but expense the cost to create and post any maintenance release as a part of normal operations.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*". FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. For the nine -month period ended June 30 , 2009, FIN 48 has had no impact on the condensed financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "*Fair Value Measurements*". SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. For the nine -month period ended June 30 , 2009, SFAS No. 157 has had no impact on the condensed financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*", SFAS No. 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. For the nine -month period ended June 30 , 2009, SFAS No. 159 has had no impact on the condensed financial statements..

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. For the nine -month period ended June 30 , 2009, SFAS No. 141R has had no impact on the condensed financial statements.

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**Notes to Condensed Financial Statements**  
**(Unaudited)**

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. For the nine -month period ended June 30 , 2009, SFAS No. 160 has had no impact on the condensed financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin 110 (SAB 110) to amend the SEC's views discussed in SAB 107 regarding the use of the simplified method in developing an estimate of expected life of share options in accordance with SFAS No. 123(R). SAB 110 was effective for the Company beginning in the first quarter of fiscal year 2009. Due to limited history of option grant exercises, management does not believe that the Company ' s historical share option exercise data provides it with sufficient evidence to estimate the expected term. Therefore, the Company uses the simplified method of calculating expected life described in the SEC's Staff Accounting Bulletin 107 (SAB 107). The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life, in accordance with SAB 107, as amended by SAB 110.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("FAS 161"). FAS 161 requires entities to provide enhanced disclosures about derivative instruments and hedging activities. FAS 161 is effective for fiscal years and interim periods beginning on or after November 15, 2008. The Company does not expect the adoption of FAS 161 to have a material impact on its financial position, results of operations or cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("FAS 162"). FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section, 411 *The Meaning of " Present Fairly in Conformity with Generally Accepted Accounting Principles . "* The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). The Company has not completed its evaluation of the effects, if any, that FAS 162 may have on its financial position, results of operations and cash flows.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". This Statement addresses accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS No. 165 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, the date issued or date available to be issued. The Company adopted this Statement in the third fiscal quarter of 2009. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 14, 2009. There have been no subsequent events required to be disclosed under this guidance.

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of SFAS No. 162". SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. According to SFAS No. 168, rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect any significant financial impact upon adoption of SFAS No. 168.

**NOTIFY TECHNOLOGY CORPORATION**  
**Notes to Condensed Financial Statements**  
**(Unaudited)**

**7. REVENUE RECOGNITION POLICY**

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

Under SOP 97-2, the Company recognizes software license agreements when persuasive evidence of an agreement exists, delivery of the product has occurred, the license fee is fixed or determinable and collection is probable. The Company’s license agreements take two basic forms. The first form of agreement is essentially a subscription agreement that is used in connection with the Company’s hosting arrangement where the Company provides the software combined with hosting services from a hardened site owned and managed by it. The agreement generally has a fixed term and the license revenue is recognized ratably over the term of each service contract. The second form of agreement involves the purchase of a license and a service agreement based on the Vendor Supplied Objective Evidence (“VSOE”) where only the service agreement is renewed each year. The Company recognizes the license portion at the point of sale for those sales where VSOE has been established and the service portion ratably over the term of the service contract. For those contracts where VSOE has not been established, the revenue of the entire contract is recognized ratably over the term of the contract. The Company’s sales process provides for an optional trial period prior to the agreement to purchase and no revenue is recognized during that trial period.

Under SAB 104, the Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery of the product has occurred or services have been rendered, the sales price is fixed or determinable and collection is probable. Installation, when required, is commonly completed prior to an agreement to facilitate a trial of the product. Technical assistance is available during the sales process and is unrelated to the service component portion of the final arrangement. Revenue related to installation is recognized when the agreement is signed and the contract period has commenced.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve risks and uncertainties. Forward-looking statements generally include words such as “may,” “will,” “plans,” “seeks,” “expects,” “anticipates,” “outlook,” “intends,” “believes” and words of similar import as well as the negative of those terms. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to:

- statements regarding the future growth of our wireless product line;
- statements regarding future revenue from our products;
- statements regarding our future success;
- statements regarding our future financings;
- statements regarding future costs;
- statements regarding future research and development efforts;
- statements regarding competition in the market for wireless products;

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**Notes to Condensed Financial Statements**  
**(Unaudited)**

- statements regarding future patent applications;
- statements regarding future financial results;
- statements regarding future plans to extend our product line.

These statements are based on current expectations and are subject to important factors that could cause actual results to differ materially from those projected in the forward-looking statements. Such important factors include, but are not limited to, those discussed below under "Risk Factors" and elsewhere in this Quarterly Report and in other documents we file with the U.S. Securities and Exchange Commission. When reading the sections titled "Results of Operations" and "Liquidity and Capital Resources," you should also read our unaudited condensed financial statements and related notes included elsewhere herein and our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2008. We disclaim any obligation to update any forward-looking statements as a result of developments occurring after the date of this Quarterly Report.

## **OVERVIEW**

We were incorporated in the State of California in August 1994. We are an independent software vendor ("ISV") focused on providing secure, wireless synchronization of email and personal information management ("PIM") (calendar, contacts, and tasks information) across a variety of wireless devices and email collaboration suites. Our products provide solutions to organizations and businesses supporting Novell GroupWise™, Microsoft Exchange™, Google Enterprise™ and a variety of alternative email collaboration suites such as the Sun Java Communications Suite, the Oracle Collaboration Suite, the Mirapoint Messaging Suite, CommunicatePro, Scalix Enterprise Server, Kerio Messaging Suite, the MDAemon Messaging Suite, FirstClass, and Meeting Maker. We support a variety of wireless device platforms on each of these suites including the BlackBerry®, Apple® iPhone®, iPod® touch, Palm, Windows Mobile®, and Symbian. In July 2006, we became an official BlackBerry ISV Alliance Partner with Research In Motion. Using our products, our customers can achieve secure wireless mobile access using various handheld wireless devices to manage their email, calendar appointments and address books on any of the email collaboration suites we support. Our products support wireless devices from a wide range of manufacturers and network carriers around the world.

We completed our initial public offering in September 1997, receiving net proceeds of approximately \$6.2 million. Prior to our initial public offering, our working capital requirements were met through the sale of equity and debt securities in private placements and, to a lesser extent, product revenue and a line of credit. We have sustained significant operating losses in every fiscal period from inception through the fiscal quarter ended March 31, 2009 and expect to incur quarterly operating losses in the future. Our limited operating history makes the prediction of future operating results difficult if not impossible. Future operating results will depend on many factors, including the demand for our products, the level of product and price competition, and our ability to develop and market new products and control costs. There can be no assurance that our revenues will grow or be sustained in future periods or that we will ever achieve profitability.

## **RESULTS OF OPERATIONS**

### *Three-Month Periods Ended June 30, 2009 and 2008*

#### *Revenue*

Revenue consists of net revenue from the sale of NotifyLink software licenses, installation fees and the sale of third party software. We recognize the license portion at the point of sale for those sales where VSOE has been established and the service portion ratably over the term of the service contract. For those contracts where VSOE has not been established, the revenue of the entire contract is recognized ratably over the term of the contract. Maintenance revenue is recognized on a straight-line basis over the term of each contract. Installation revenue is recognized upon completion of trial activity and finalizing the software agreement. Third party software revenue is recognized upon delivery to the customer.

## NOTIFY TECHNOLOGY CORPORATION

Our revenues increased 39% to \$1,593,805 in the three-month period ended June 30, 2009, from \$1,144,800 in the three-month period ended June 30, 2008. The increase in revenue was attributed to growth in our NotifyLink product line and the addition of our NotifySync product in January 2009. We also believe that the growth in acceptance of cloud computing has led to an increase in sales of our on-demand product.

Our NotifyLink product is comprised of a backend server component and a wireless device client component. We are a provider of secure real time wireless synchronization of email, calendar, contacts and tasks, supporting 13 different email platforms. In addition we support any BlackBerry, Palm, Windows Mobile, and select Symbian wireless devices on all major cellular voice and data networks worldwide. The NotifyLink solution provides users with bi-directional mobile “automatic” synchronization of emails sent to end users’ email mailboxes and all emails originated forwarded and replied to from the mobile device will be synchronized with the user’s email mailbox. The synchronized information also keeps personal calendars, contacts, and task information continually up to date at both the server and the mobile device level.

Our new NotifySync™ gives BlackBerry® users secure, real-time, wireless synchronization of Email and PIM with their ActiveSync Server. NotifySync provides direct connect support to several email platforms namely Axigen Mail Server, CommuniGate Pro Mail Server, Microsoft Exchange, Kerio Mail Server, and the Zimbra Collaboration Suite. Organization receive through NotifySync a synchronization solution that offers them support on all popular cellular voice and data networks as well as any 802.11x wireless network.

We sell our products primarily in the United States directly to business users and resellers. Certain domestic customers have deployed our product to international sites, demonstrating NotifyLink’s ability to link our customers’ email across international boundaries. We also have limited direct sales internationally and sell primarily through resellers. We launched an ecommerce site in January 2009 to provide our new NotifySync product to the general market.

### *Cost of revenue*

Cost of revenue consists of the royalty expense to NCR for certain technology utilized in our NotifyLink product and the cost of resale software related to NotifyLink. Cost of revenue increased to \$38,925 in the three-month period ended June 30, 2009, from \$33,237 for the three-month period ended June 30, 2008. The increase in the cost of revenue was due to the NCR royalty. We are very close to finishing paying for a fully-paid license with NCR. We made the agreement with NCR in 2003 and expect to make the final payment in the fiscal quarter ending September 30, 2009.

Our gross margin increased to 97.6% in the three month period ended June 30, 2009, compared to a gross margin of 97.1% in the three-month period ended June 30, 2008. The major cost component affecting gross margin is royalty expense. The royalty is applied at a constant percentage of revenues regardless of volume. The other major costs of our business, consisting of product design and sales/support, are categorized in operating expenses and thus do not impact gross margin.

### *Research and development*

Research and development expenses consist primarily of personnel costs and expenses. Research and development expenses increased to \$469,970 for the three-month period ended June 30, 2009, from \$414,788 for the three-month period ended June 30, 2008. Virtually all the increase is due to salaries, as we invested heavily in expanding the NotifyLink product line and readying the new NotifySync product line that launched in January 2009. Our development efforts were devoted to improving our software product in the area of device management, porting our solution to new devices and creating new products.

## NOTIFY TECHNOLOGY CORPORATION

We believe that our future success, if any, depends significantly on our ability to continue to enhance our existing wireless products and to develop new products. Therefore, we intend to continue to incur research and development costs for the foreseeable future.

### *Sales and marketing*

Sales and marketing expense consists primarily of personnel, travel costs and sales commissions related to our sales and marketing efforts. We use an internal sales force and a customer support staff to facilitate the NotifyLink sales process. Sales and marketing costs increased to \$567,522 for the three-month period ended June 30, 2009, from \$472,378 for the three-month period ended June 30, 2008. The increase in sales expense is due to additions to our sales staff and commissions on strong sales activity. There is an inherent mismatch of commission expense to revenue because a majority of our revenue is recognized over the life of the contract, whereas we record commission expense in the month the contract is signed.

We anticipate that sales and marketing expenses will increase in future quarters as we hire additional sales and customer support personnel and attempt to expand our existing and create new distribution channels.

### *General and administrative*

General and administrative expense consists of general management and finance personnel costs, option vesting expense, insurance expense, rent expense, professional fees and other general corporate expenses. General and administrative expenses increased to \$397,804 for the three-month period ended June 30, 2009, from \$310,079 for the three-month period ended June 30, 2008. The increase was largely due to non-cash expenses of \$17,295 for compensation expense due to option vesting and a \$29,912 in legal expenses related to shareholder matters.

We expect that general and administrative expense may continue to increase in future quarters as we adhere to the requirements mandated by the Sarbanes-Oxley Act and integrate any additional requirements imposed by future regulations.

### ***Nine-Month Periods Ended June 30, 2009 and 2008***

#### *Revenue*

Revenue for the nine-month period ended June 30, 2009 increased 31% to \$4,366,636 from \$3,331,443 for the nine-month period ended June 30, 2008. A majority of our revenue in both periods was derived from domestic sources, centering largely on IMAP based email systems and Novell GroupWise environments. Sales to users of iPhones also improved our revenues over the nine-month period ended June 30, 2009.

#### *Cost of revenue*

Cost of revenue consists of the royalty expense to NCR for certain technology utilized in our NotifyLink product and the cost of resale software related to NotifyLink. Cost of revenue increased to \$117,692 in the nine-month period ended June 30, 2009 from \$116,739 for the nine-month period ended June 30, 2008.

Our gross margin increased to 97.3% in the nine-month period ended June 30, 2009, compared to a gross margin of 96.5% in the nine-month period ended June 30, 2008. The major cost component affecting gross margin has been royalty expense. The other major costs of our business, consisting of product design and sales/support, are categorized in operating expenses and thus do not impact gross margin.

#### *Research and development*

Research and development expenses consist primarily of personnel costs and expenses. Research and development expenses increased to \$1,449,731 for the nine-month period ended June 30, 2009, from \$1,186,960 for the nine-month period ended June 30, 2008. Virtually all the increase is due to salaries, as we invested heavily in expanding the NotifyLink product line and readying the new NotifySync product line for launch in January 2009. Our development efforts were devoted to improving our software product in the area of device management, porting our solution to new devices and creating new products.

## NOTIFY TECHNOLOGY CORPORATION

We believe that our future success, if any, depends significantly on our ability to continue to enhance our existing wireless products and to develop new products. Therefore, we intend to continue to incur research and development costs for the foreseeable future.

### *Sales and marketing*

Sales and marketing expenses consist primarily of personnel, travel costs and sales commissions related to our sales effort of the NotifyLink product line. We use an internal sales force and a customer support staff to facilitate the NotifyLink sales process. Sales and marketing costs increased to \$1,708,291 for the nine-month period ended June 30, 2009, from \$1,374,160 for the nine-month period ended June 30, 2008. The increase in sales expense is due to additions to our sales staff, travel and show cost to market our products and commissions on strong sales activity. There is an inherent mismatch of commission expense to revenue because a majority of our revenue is recognized over the life of the contract, whereas we record commission expense in the month the contract is signed.

We anticipate that sales and marketing expenses will increase in future quarters as we hire additional sales and customer support personnel and attempt to expand our existing referral base and create new distribution channels.

### *General and administrative*

General and administrative expenses consist of general management and finance personnel costs, insurance expense, occupancy costs, professional fees, stock-based compensation expense and other general corporate expenses. General and administrative expenses increased to \$1,127,477 for the nine-month period ended June 30, 2009 from \$956,859 for the nine-month period ended June 30, 2008. The increase in expenses was due in part to \$37,470 in non-cash compensation expense due to option vesting, a \$20,000 increase in bad debt reserve on the balance sheet in response to higher accounts receivable levels resulting from stronger sales. In addition, we experienced increases in legal and corporate expenses and medical insurance costs.

We expect that general and administrative expense may continue to increase in future quarters as we adhere to the requirements mandated by the Sarbanes-Oxley Act and integrate any additional requirements imposed by future regulations.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the nine-month period ended June 30, 2009, we funded our operations through a combination of our gross profit earned from revenue and existing cash balances. Our ability to fund our recurring losses from operations depends upon success of our NotifyLink wireless e-mail notification market solutions.

A significant characteristic of our business is the sale of our products customarily in the form of annual contracts paid for upon signing with the revenue amortized over the twelve-month service period. The unamortized contract revenue is reflected in the deferred revenue account on our balance sheet. As our installed base grows, this practice increases the deferred revenue liability on the balance sheet provided we add new contracts faster than old contracts expire. For example, deferred revenue increased significantly to \$2,964,465 at June 30, 2009 from \$2,418,235 at September 30, 2008, due to growing our installed base and improved retention of accounts that require an annual renewal. If we continue to add new accounts and renew established accounts faster than we amortize our existing contracts, we could continue to see deferred revenue increase in the future.

## NOTIFY TECHNOLOGY CORPORATION

The major cost of operations is comprised of (1) the engineering design of our products offered for sale and (2) the sales process of a contract that requires both direct sales effort and technical support hours to facilitate an optional 30-day trial period of our software prior to purchase. We believe that the increase in the NotifyLink deferred revenue to \$2,964,465 for the nine-month period ended June 30, 2009 from \$2,480,425 for the nine-month period ended June 30, 2008, combined with the increases in cash and cash equivalents and accounts receivable over the same period, illustrates that total product sales improved in the nine-month period ended June 30, 2009. Deferred revenue also represents the obligation to service the contracts underlying the revenue. However, we believe the cash flow required to service the contracts is significantly less than the amortized revenue recognized each month.

Our continued operations depend on the cash flow from sales of NotifyLink. In the event sales of our product decline or our revenue is otherwise interrupted, we would have to reduce our operations to minimally service our existing contract obligations unless we secured additional financing. If we were unable to increase our revenues or secure financing, we would have to restructure our business to reduce costs.

We are currently expanding our product offerings into our current or other niche markets. We believe that these niche markets are not adequately addressed by market competitors at the present time. We also intend to capitalize on our ability to offer a single middleware solution for those companies deploying a variety of manufacturers' devices on a single email system. The success of our business operations will depend upon a continued favorable market acceptance for our wireless software products.

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

In July 2008, warrants and options to purchase our preferred stock that had been outstanding since July 2001, expired without having been exercised. The expiration left 14,075,662 shares of common stock and options to purchase 3,353,244 shares of common stock as our only issued and outstanding securities. There were no remaining obligations associated with the expiring warrants and options. This simplification of our equity structure could be advantageous in the event we require additional capital.

On December 17, 2008, the Board of Directors adopted the 2008 Equity Incentive Plan ("2008 Plan") subject to the approval of our shareholders. The Board authorized 2,317,000 shares of the Company's common stock to be reserved under the 2008 Plan. Included in the 3,608,014 total outstanding options as of June 30, 2009, were 1,750,014 options granted under the 2008 Plan on December 17, 2008 to various employees. These grants included 169,470 options exchanged for 900,000 options granted under a prior option plan.

At June 30, 2009, we had cash and cash equivalents of \$1,357,105, compared to \$971,318 at June 30, 2008. Over the last several years, we have financed our operations primarily through revenue from operations and existing cash balances. The net cash generated by operating activities equaled \$485,228 in the nine-month period ended June 30, 2009, versus net cash generated by operating activities of \$218,562 in the nine-month period ended June 30, 2008. The cash generated by operations in the nine-month period ended June 30, 2009 was primarily due to a combination of a net loss of \$33,643, an increase in accounts receivable of \$ 89,930 and an increase in other accrued liabilities of \$ 52,647, offset by an increase in deferred revenue of \$546,230. The cash generated by operations in the nine-month period ended June 30, 2008 was largely due to a combination of a net loss of \$296,795 offset by an increase in deferred revenue of \$353,907, a decrease in accounts receivable of \$68,654 and an increase in accrued liabilities of \$32,009. Although we have been cash positive in the last two fiscal years, we anticipate that we will have negative cash flow from time to time from operating activities in future periods.

Net cash used by investing activities in the nine-month period ended June 30, 2009 was an outflow of \$134,422 for computer and office furniture purchases. There was a net cash outflow of \$108,388 from the purchase of fixed assets and accounting software in the nine-month period ended June 30, 2008.

Net cash provided by financing activities was an outflow of \$3,308 and an inflow of \$21,369 for the nine-month periods ended June 30, 2009 and 2008, respectively. The net cash outflow for the nine-month period ended June 30, 2009 was due to payments on capital leases. The inflow for the nine-month period ended June 30, 2008 was due to \$27,933 from the exercise of options partially offset by \$6,564 of payments on capital leases.

## NOTIFY TECHNOLOGY CORPORATION

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Under SOP 97-2, we recognize software license agreements when persuasive evidence of an agreement exists, delivery of the product has occurred, the license fee is fixed or determinable and collection is probable. Our license agreements take two basic forms. The first form of agreement is essentially a subscription agreement that is used in connection with our hosting arrangement where we provide both the software combined with hosting services from a hardened site owned and managed by us. The agreement generally has a fixed term and the license revenue is recognized ratably over the term of each service contract. The second form of agreement involves the purchase of a license and a service agreement based on the Vendor Supplied Objective Evidence (“VSOE”) where only the service agreement is renewed each year. We recognize the license portion at the point of sale for those sales where VSOE has been established and the service portion ratably over the term of the service contract. For those contracts where VSOE has not been established, the revenue of the entire contract is recognized ratably over the term of the contract. Our sales process provides for an optional trial period prior to the agreement to purchase and no revenue is recognized during that trial period.

Under SAB 104, we recognize revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery of the product has occurred or services have been rendered, the sales price is fixed or determinable and collection is probable. Installation, when required, is commonly completed prior to an agreement to facilitate a trial of the product. Technical assistance is available during the sales process and is unrelated to the service component portion of the final arrangement. Revenue related to installation is recognized when the agreement is signed and the contract period has commenced.

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

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

### OFF BALANCE SHEET ARRANGEMENTS

We have no off balance sheet arrangements as defined by Item 303(a)4 of Regulation S-K.

## NOTIFY TECHNOLOGY CORPORATION

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk generally represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates and market prices. We do not currently have any trading derivatives nor do we expect to have any in the future. We have established policies and internal processes related to the management of market risks, which we use in the normal course of our business operations.

#### *Intangible Asset Risk*

At June 30, 2009, we did not carry any intangible assets on our financial statements.

#### *Equity Price Risk*

At June 30, 2009, we did not own any equity investments. As a result, we do not currently have any direct equity price risk.

#### *Commodity Price Risk*

We do not enter into contracts for the purchase or sale of commodities. As a result, we do not currently have any direct commodity price risk.

### Item 4T. Controls and Procedures.

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

Our chief executive officer and our chief financial officer, after evaluating our disclosure controls and procedures (as defined in the rules and regulation of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that as of such date, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

#### (b) Changes in Internal Controls.

During the period covered by this Quarterly Report on Form 10-Q, there were no significant changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors.

We operate in a dynamic and rapidly changing business environment that involves numerous risks and uncertainties. The following section lists some, but not all, of these risks and uncertainties, which may have a material adverse effect on our business, financial condition or results of operations.

#### **Risks Related to Our Business**

#### **The recent downturn in the macroeconomic environment may negatively impact our future results of operations.**

The recent disruption in global macroeconomic conditions has had a significant impact on the wireless industry as a whole. Due to the uncertainty about current macroeconomic conditions, our customers may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material adverse effect on the demand for our products. Other factors that could influence demand include conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on future demand for our products and on our financial condition and operating results.

## NOTIFY TECHNOLOGY CORPORATION

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

For the fiscal years ended September 30, 2008, 2007, 2006, and 2005, we incurred net losses of \$287,681, \$426,004, \$314,892 and \$557,452, respectively. We also incurred a net loss of \$33,643 for the nine-month period ended June 30, 2009. Although our cash flow from operations was positive in the nine-month period ended June 30, 2009, we are not assured that we can maintain a positive cash flow from operating activities in future periods. We may also incur further operating losses in the future until such time, if ever, as there is a substantial increase in orders for our products and product sales generate a pattern of sufficient revenue to fund our continuing operations. There can be no assurance that sales of our products will continue to generate or maintain positive cash flow or that we will attain or thereafter sustain profitability in any future period.

### **We may be unable to generate the cash necessary to support a competitive level of research and development activities.**

At June 30, 2009, we had an accumulated deficit of \$24,695,906 and incurred a net loss for the nine-month period ended June 30, 2009 of \$33,643. We also had a working capital deficit at that date of \$1,508,830. Our NotifyLink and NotifySync products will need to sustain a favorable market acceptance in order for us to be able to continue our research and development activities and to fund operating expenses at a level required to stay competitive in our market. Regardless, even though our NotifyLink wireless product line has generated sufficient contributions to our revenues to date to operate profitably at the current level of research and development, an increase in the level of research and development driven by market pressures could require us to obtain further financing. Obtaining additional financing will be subject to a number of factors including market conditions, investor acceptance of our business plan, and investor sentiment. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable to us. If, in a situation that required an increase in research and development we are unable to maintain market acceptance of our wireless products or raise additional financing, we will have to significantly reduce our spending, delay or cancel planned activities or substantially change our current corporate structure. In such an event, we intend to implement expense reduction plans in a timely manner. However, these actions would have material adverse effects on our business, results of operations, and prospects, resulting in a possible failure of our business.

## NOTIFY TECHNOLOGY CORPORATION

**If we are unable to develop market and sell new and improved wireless products on a timely basis, we could lose existing and potential customers and our sales could decrease.**

We continue to invest in our wireless products in order to grow our revenue and improve our financial condition. We need to develop, market and sell new and improved wireless software products on a timely basis to keep pace with technological developments, emerging industry standards, and the growing needs of our sophisticated customers. We may experience difficulties in marketing and selling new products, and our inability to timely and cost-effectively introduce new products and future enhancements, or the failure of these new products or enhancements to achieve market acceptance, could seriously harm our business. Life cycles of wireless software products are difficult to predict, because the market for such products is relatively new and evolving and characterized by rapid technological change, frequent enhancements to existing products and new product introductions, changing customer needs and evolving industry standards. The introduction of competing products that employ new technologies and emerging industry standards could render our products and services obsolete and unmarketable or shorten the life cycles of our products and services. The emergence of new industry standards might require us to redesign our products. If our products are not in compliance with industry standards that become widespread, our customers and potential customers may not purchase our products.

**Revenues or expenses may vary, affecting our quarterly operating results.**

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

- our level of research and development;
- our sales and marketing activities;
- announcements by us or our competitors;
- size and timing of orders from customers;
- new product introductions by us or our competitors;
- future market acceptance of our products; and
- price erosion.

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

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

**We need to continue to develop our marketing channels and build our sales force.**

We continue to develop our formal referral partner channel and our international reseller partner channel. We participate in informal referral arrangements with several wireless carriers, wireless device manufacturers and several of our collaboration partners for the sale of our NotifyLink products and services where our products assist in the sale of their products. We have a limited direct sales force to sell our NotifyLink products and services to organizations and businesses and we rely upon both formal and informal referral arrangements to provide leads for our NotifyLink products. To date, most of our referral arrangements are formal and we will receive referrals only to the extent that our referral partners successfully refer our products and services to potential users. There can be no assurance that we will continue to receive referrals through our formal or informal arrangements. Our NotifyLink solution is sold into an emerging market and although we have operated on a cash positive basis in the fiscal years ended September 30, 2008 and 2007, we have not yet achieved a sufficient history of operating profitably on an income statement basis.

## NOTIFY TECHNOLOGY CORPORATION

We are expanding our distribution channels for our wireless products by participating in national and regional trade shows and promotions with strategic partners across the United States and Europe. We cannot predict whether these activities will result in increased wireless revenue. We also have limited international sales due to limited resources to build a reseller network. Our management will need to expend time and effort to develop these channels. Our customer profile generally consists of a large number of small to medium business customers thereby reducing our dependence on any one customer. We have expanded our internal sales force in response. We also launched a ecommerce site in May 2009 to sell our NotifySync product to the general market. We are building experience selling into the wireless market but make use of modest marketing and distribution programs to expand our distribution channels and any marketing efforts undertaken by or on behalf of us may not be successful.

### **One of our directors holds a large percentage of our stock and is able to exert substantial control over us.**

David A. Brewer, a member of our Board of Directors and the Chairman of our Audit Committee since 2000, together with an entity affiliated with Mr. Brewer, currently own approximately 56% of our outstanding common stock. In addition, Mr. Brewer owns options to purchase an additional fractional percent of our common stock. This represents a significant influence over all matters requiring approval by shareholders, including the election of directors, amendments to our Articles of Incorporation and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership will limit other shareholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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

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

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

Our potential for success depends significantly on key management employees, including our Chairman, President and Chief Executive Officer, Mr. Paul F. DePond, our Vice President of Development, Rhonda Chicone and our Chief Financial Officer, Gerald W. Rice. We have entered into amended and restated employment agreements with these three key management employees. We do not currently have "key man" life insurance on any of these executives or any of our other key employees. The loss of the services of these executives or those of any of our other key employees would materially and adversely affect us. We also believe that our future success will depend in large part on our ability to attract and retain additional highly skilled technical, management, sales and marketing personnel. If we were unable to retain or hire the necessary personnel, the development of new products and enhancements to current products would likely be delayed or prevented. Competition for these highly-skilled employees is intense. Therefore, there can be no assurance that we will be successful in retaining our key personnel or in attracting and retaining the personnel we require for expansion.

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

We regard various features and design aspects of our products as proprietary and rely primarily on a combination of copyright, trademark and trade secret laws and employee and third-party nondisclosure agreements to protect our proprietary rights. Our software products are generally not subject to patent claims. There can be no assurance, therefore, that any of our competitors, some of whom have far greater resources than we do, will not independently develop technologies that are substantially equivalent or superior to our technology.

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

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

### **Our Articles of Incorporation limit the liability of officers and directors and we have entered into indemnification agreements with them.**

Our Articles of Incorporation eliminate, in certain circumstances, the liability of our directors for monetary damages for breach of their fiduciary duties as directors. We have also entered into indemnification agreements with each of our directors and officers. Each of these indemnification agreements provides that we will indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred by such director in connection with any civil or criminal action or administrative proceeding arising out of his performance of duties as a director or officer, other than an action instituted by the director or officer. These indemnification agreements also require that we indemnify the director or other party thereto in all cases to the fullest extent permitted by applicable law. Each indemnification agreement permits the director or officer that is party thereto to bring suit to seek recovery of amounts due under the indemnification agreement and to recover the expenses of such a suit if they are successful. We currently have directors' and officers' liability insurance, but there can be no assurance that any or all of our indemnification obligations will be covered by this insurance or that the insurance limits will not be exceeded.

### **Risks Related to Our Industry**

#### **We face significant competition.**

We believe the market for our wireless products is extremely competitive for certain platforms, and less competitive for others. Several companies offer wireless email notification and management software for Microsoft Exchange and Novell GroupWise. Many of these companies have greater financial and other resources than we do. Microsoft and Novell offer similar products at little to no charge that function in large parts of the enterprise email market. We sell our products in segments of the market where the free products do not provide adequate functionality or sufficient product features. If these lower cost products were extended to our segment of the market, we would face additional price pressure. We may not be able to compete successfully against better funded competitors as the market for our products evolves and the level of competition increases. A failure to compete successfully against existing and new competitors would materially and adversely affect our business, revenue, operating results, and financial condition.

#### **If the market for wireless data communications devices does not grow, we may not successfully increase or maintain the sale of our NotifyLink products.**

The overall market for wireless data communications devices has experienced significant growth in recent years. The success of our NotifyLink Enterprise On-Premise and On-Demand products depends upon this growth. There can be no assurance that the market for wireless software products will continue to grow. We cannot predict that growth of our NotifyLink products will continue. If the various markets in which our software products compete fail to grow, or grow more slowly than we currently anticipate, or if we are unable to establish product markets for our new software products, our business, results of operation and financial condition would be materially and adversely affected.

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### Risks Related to Our Common Stock

**If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.**

Companies trading on the OTC Bulletin Board, such as Notify Technology, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934 (“Exchange Act”), and must be current in their reports under Section 13 of the Exchange Act, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the liquidity of our securities could be adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.

**Our common stock is subject to the “penny stock” rules of the Securities and Exchange Commission, and the trading market in our common stock is limited, which makes transactions in our stock cumbersome and may reduce the investment value of our stock.**

Our common stock is “penny stock” because it is not registered on a national securities exchange or listed on an automated quotation system sponsored by a registered national securities association, pursuant to Rule 3a51-1(a) under the Exchange Act. For any transaction involving a penny stock, unless exempt, the rules require:

- That a broker or dealer approve a person’s account for transactions in penny stocks; and
- That the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market, which, in highlight form:

- Sets forth the basis on which the broker or dealer made the suitability determination; and
- That the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the penny stock rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

**The market for penny stocks has suffered in recent years from patterns of fraud and abuse.**

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- Boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced salespersons;
- Excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and

## NOTIFY TECHNOLOGY CORPORATION

- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequential investor losses.

Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

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

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

## NOTIFY TECHNOLOGY CORPORATION

### PART II. OTHER INFORMATION

#### Item 4 Submission of Matters to a Vote of Security Holders

We held an Annual Meeting of Shareholders on April 28, 2009. The meeting was adjourned until May 29, 2009 when a quorum was present and the meeting was completed. Out of 14,075,662 shares of Common Stock entitled to vote at such Annual Meeting, there were present in person or by proxy 11,833,389 shares of common stock. At the Annual Meeting, the holders of our common stock approved the following proposals:

- (1) The elections of Paul F. DePond, David A. Brewer and Mark Frappier as directors of Notify Technology Corporation for the ensuing year and until their successors are elected. The vote for the nominated directors was as follows:

Paul F. DePond, 10,779,465 votes cast for and 5,000 votes against; David A. Brewer, 10,778,760 votes cast for and 5,705 votes against, Mark Frappier 10,784,465 votes cast for and no votes against.

- (2) To approve the Notify Technology Corporation 2008 Equity Incentive Plan (the "2008 Equity Plan") to replace our 1997 Stock Plan as it has expired. The initial number of shares issuable under the 2008 Equity Plan is 2,317,000. The vote for approving the 2008 Equity Plan was as follows:

9,389,706 votes were cast for and 26,300 votes against with 1,368,459 broker non-votes.

- (3) To amend our Bylaws to modify the number of members of our Board of Directors to a range between three and five, with the exact number of directors to be fixed by a resolution of the Board. The vote for amending the Bylaws was as follows:

10,777,572 votes were cast for and 6,592 votes were cast against with 300 votes abstaining.

- (4) The ratification of the appointment of L.L. Bradford & Company, LLC as our independent auditors of the Company for the fiscal year ending September 30, 2009. The vote for ratification of L.L. Bradford & Company, LLC was as follows:

10,784,465 votes were cast for, no votes were cast against and no votes abstaining.

#### Item 6. Exhibits

- (a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

**NOTIFY TECHNOLOGY CORPORATION**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOTIFY TECHNOLOGY CORPORATION

Dated: August 13, 2009

/s/ Gerald W. Rice  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

I, Paul F. DePond, certify that:

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

Date: August 13, 2009

/s/ Paul F. DePond

Paul F. DePond

**President and Chief Executive Officer**

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

I, Gerald W. Rice, certify that:

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

Date: August 13, 2009

/s/ Gerald W. Rice

Gerald W. Rice

**Chief Financial Officer**

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER****PURSUANT TO****18 U.S.C. SECTION 1350,****AS ADOPTED PURSUANT TO****SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul DePond, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge, the Quarterly Report of Notify Technology Corporation on Form 10-Q for the fiscal quarter ended June 30 , 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Notify Technology Corporation.

By: /s/ Paul F. DePond

Name: Paul F. DePond  
Title: Chief Executive Officer  
(Principal Executive Officer)

Date: August 13, 2009

I, Gerald W. Rice, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge, the Quarterly Report of Notify Technology Corporation on Form 10-Q for the fiscal quarter ended June 30 , 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Notify Technology Corporation.

By: /s/ Gerald W. RiceName: Gerald W. Rice  
Title: Chief Financial Officer  
(Principal Financial Officer)

Date: August 13, 2009

A signed original of this written statement required by Section 906 has been provided to Notify Technology Corporation and will be retained by Notify Technology Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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