EXHIBIT D

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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:
For the fiscal year ended December 31, 2005.

[_] 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 0-28685

VERTICAL COMPUTER SYSTEMS, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	65-0393635
(State of Incorporation)	(I.R.S. Employer Identification No)

201 Main Street, Suite 1175
Fort Worth, Texas 76102
(Address of Principal Executive Offices)

(817) 348-8717
(Issuer's Telephone Number)

Securities registered pursuant to section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to section 12 (g) of the Act:

Common Stock, par value $0.00001 per share
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this Form 10-KSB or amendment to Form 10-KSB. Yes |X| No |_|

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

Issuer's revenues for fiscal year ended December 31, 2005: $6,600,219.

Aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant: $33,584,485 based on the closing price for the common stock of $0.04 per share on April 12, 2006, as reported on the Over-the Counter Bulletin Board.

As of April 12, 2006, the issuer had 999,376,859 shares of common stock, par value $.00001, issued and outstanding.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format: No

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VERTICAL COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
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(4) During 2002, the Company issued warrants to Mr. Salz to purchase 5,000,000 unregistered shares of the common stock of the Company at a price of $0.01 per share, which are subject to "piggy-back" registration rights. Of these 5,000,000 warrants, 2,500,000 expired during 2005. The remaining 2,500,000 warrants are vested and are exercisable for a period of three years after vesting.

Stock Option Plan.

In December 1999, the Company established a stock option plan (the "Plan") whereby the Company may grant both Incentive Stock Options (within the meaning of Section 422 and the Internal Revenue Code of 1986, as amended) and non-statutory options. Under the Plan, the Company may issue up to 50,000,000 shares (adjusted post stock split). Most options issued are non-assignable, non-transferable, vest on the date of grant, and expire between three and five years from the date of grant.

Director Compensation

No options or warrants were granted as director compensation during the fiscal years ended 2003, 2004 or 2005 (excluding warrants granted to executives and directors of the Company's 81.5% owned subsidiary, GIS). Non-employee directors are entitled to receive $3,500 per meeting.

Employment Agreements

In December 2001, the Company executed a 3-year employment agreement with Richard Wade pursuant to which Mr. Wade serves as Chief Executive Officer and President of the Company, under which Mr. Wade will receive an annual base salary of $300,000, and the issuance of 5-year warrants to purchase 20,000,000 shares of the Company's common stock at an exercise price of $0.10 per share and 5-year warrants to purchase 600,000 shares of the Company's common stock at an exercise price of $0.10 per share. The warrants vest over a 36-month period in equal amounts on a monthly basis from the date of issuance. Of the warrants to purchase 20,600,000 shares of common stock of the Company, 9,155,556 have expired as of April 5, 2006. Mr. Wade is also entitled to an annual bonus from a bonus pool for executives equal to 5% of the Company's taxable income (without deduction for depreciation). Mr. Wade's share of the bonus pool is equal to the percentage of his annual base compensation to the total of the combined annual base compensation of all executives in the pool. In the event the agreement is terminated by Mr. Wade's death, his estate shall be entitled to compensation accrued to the time of death plus the lesser of one year's base compensation or the compensation due through the remainder of the employment term. In the event of termination by the Company without cause, Mr. Wade would receive base compensation for the remainder of the employment term and all of his warrants would automatically vest. Mr. Wade did not have a written employment agreement with the Company during the years 1999 and 2000. Mr. Wade deferred $154,097, $47,218 and $155,270 of his salary in 2005, 2004 and 2003, respectively.

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In July 2002, the Company entered into a 2-year employment agreement with Aubrey McAuley, whereby McAuley would provide services in the capacity of Executive Vice President of Product Development and Sales Support. McAuley will be paid an annual salary of $120,000 and a bonus as determined in accordance with the agreement. In addition, the agreement contains certain performing incentives whereby McAuley can earn 7,500 shares of Series C Preferred Stock of the pool of 30,000 shares of Series C Preferred Stock, which were reserved in connection with the purchase of Company's subsidiary, EnFacet, Inc. These shares of Series C Preferred Stock may be converted into 3,000,000 shares of Company's common stock. Mr. McAuley's services terminated in January 2004 and the 7,500 shares of Series C Preferred Stock have been cancelled.

In March 2004, the Company and Sheri Pantermuehl agreed to the terms of a 2-year employment agreement, whereby Ms. Pantermuehl agreed to provide services as the Chief Financial Officer for the Company and its subsidiary Now Solutions. Pursuant to the employment agreement, the Company shall pay Ms. Pantermuehl a base salary of $125,000 per annum. In connection with the agreement, the Company issued 5-year incentive stock options to purchase 2,500,000 shares of common stock of the Company at an exercise price of $0.014 per share to Ms. Pantermuehl. The fair market value of these warrants at the date of issuance was $74,616 (valued using the Black-Scholes Option Valuation Model). In addition, on March 1, 2004, Now Solutions issued 1.5% of "phantom" stock of Now Solutions to Ms. Pantermuehl. Ms. Pantermuehl's employment with the Company terminated in September 2005. Accordingly, the 1.5% "phantom" stock of Now Solutions was cancelled.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership By Named Executive Officers, Directors And Beneficial Owners

The following table sets forth certain information regarding the beneficial ownership of the shares of common stock as of April 12, 2006, by each of our directors and executive officers and any person or entity, known by us to be the beneficial owner of more than 5% of the outstanding shares of common stock. The table also shows the beneficial ownership of our stock by all directors and executive officers as a group. The table includes the number of shares subject to outstanding options and warrants to purchase shares of common stock. The percentages are based on 999,376,859 shares of common stock outstanding as of April 12, 2006, together with options, warrants or other securities convertible or exchangeable by the beneficial owners into shares of common stock within 60 days of April 12, 2006.

Title of Class	Name and Address of Beneficial Owner(1)	Shares of Common Stock Beneficially Owned	Percent of Class
Common	Richard Wade	127,669,944(2)	12.77%
Common	William K. Mills	4,033,000(3)	*
Common	All Directors and Executive Officers as a group (2 persons)	131,702,944	13.18%

* Less than 1%.

(1) Unless otherwise indicated, the address of each director and officer is c/o Vertical Computer Systems, Inc., 201 Main Street, Suite 1175, Fort Worth, TX 76102.

(2) Includes warrants to purchase up to 20,600,000 shares of common stock of the Company for services as CEO and President, less 9,155,556 which have expired as of April 12, 2006. Also includes 101,370,050 shares owned by Mountain Reservoir Corporation ("MRC"), a corporation controlled by the W5 Family Trust, of which Richard W. Wade is a trustee; and includes 1,000,000 shares owned by Jennifer Wade, a child of Mr. Wade. MRC pledged 10,450,000 shares of common stock of the Company as collateral on a $181,000 note issued in October 2002. MRC pledged 10,000,000 shares common stock of the Company shares as collateral on a $25,000 note issued in August 2002. MRC pledged 4,000,000 and 3,000,000 shares common stock of the Company shares as collateral on a $60,000 note and a $40,000 note, respectively, that were issued by the Company in November 2003.

(3) Includes 33,000 shares of Common Stock beneficially owned through Mr. Mill's law firm, Parker, Mills, & Patel, LLC.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 2004, the Company agreed to issue 1,000,000 unregistered shares of the Company's common stock (at a fair market value of $3,000), subject to "piggy-back" registration rights, in connection with a $10,000 loan made by Jim Salz to the Company in June 2003. In addition, the Company issued a promissory note for $10,000 bearing interest at 10%, which was due on April 30, 2004. In April 2004, the due date on the note was extended to August 1, 2004. In January 2005, the due date on the note was extended to April 30, 2005. Mr. Salz is the Company's corporate counsel. The note is in default.

Also in January 2004, Victor Weber elected to make the assignment of a $215,000 promissory note due December 31, 2004, issued by Now Solutions to the Company in September 2003. In connection with the assignment, the notes payable for $100,000, $50,000 and $40,000 issued to Mr. Weber as well as $25,000 of trade accounts payable to Mr. Weber were cancelled. In September 2004, the Company and Victor Weber agreed to amend the terms of the $215,000 note issued by Now Solutions to the Company and assigned to Mr. Weber. In exchange for amending the payment terms, the Company issued 2,000,000 unregistered shares of common stock of the Company (at a fair market value of $24,000) and Now Solutions agreed to pay a 2.5% royalty of sales by Now Solutions of its software that exceed $8,000,000 per year up to a maximum of $200,000. In January 2005, the Company issued an additional 2,000,000 unregistered shares of common stock to Mr. Weber at a fair market value of $10,000 pursuant to the amendment. For additional details on the note, please see "Notes Payable and Convertible Debts" under Note 10 of the Notes to Consolidated Financials Statements. The note is in default. Mr. Weber is the President and a Director of GIS and a member of CW International.

In February 2004, Robert Farias loaned $500,000 to Now Solutions, the Company's wholly-owned subsidiary and received a $500,000 promissory note from Now Solutions bearing interest at 10% per annum, secured by its assets. In connection with the loan, Now Solutions agreed to pay Mr. Farias a 5% royalty on any sales by Now Solutions over $8,000,000 up to a maximum of $500,000. In connection with the loan, the Company issued (i) five-year warrants to purchase 5,000,000 shares of common stock at $0.01 per share; (ii) 5-year warrants to purchase 5,000,000 shares of common stock of the Company at $0.02 per share; (iii) 5-year warrants to purchase 5,000,000 shares of common stock of the Company at $0.03 per share; (iii) a total of 10,000,000 unregistered shares of common stock of the Company. In addition, the Company also pledged a 30% ownership interest in Now Solutions to ensure the making of the $500,000 loan to Now Solutions. During 2004 and 2005, Now Solutions had made principal payments totaling $183,000 to Robert Farias. For additional details on the note, please see "Notes Payable and Convertible Debts" under Note 10 of the Notes to Consolidated Financials Statements. In February 2006, this note was cancelled and replaced by a $359,560 note issued to Tara Financial Services, Inc. ("Tara Financial"). For additional details on the refinanced note, please see "Subsequent Events" under Note 16 of the Notes to Consolidated Financials Statements. Robert Farias is a director of Now Solutions.

In February 2004, the note payable in the amount of $84,000 issued by