

# EXHIBIT G

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:  
For the fiscal year ended December 31, 2009

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**  
(State of Incorporation)

**65-0393635**  
(I.R.S. Employer Identification No)

**101 West Renner Road, Suite 300, Richardson, TX 75082**  
(Address of Principal Executive Offices)

Registrant's telephone number: **(972) 437-5200**

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

|                     |   |
|---------------------|---|
| Title of each class | Name of each exchange on which registered |
| <b><u>None</u></b>  | <b><u>None</u></b>                        |

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained in this form, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or amendment to this Form 10-K. 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. (Check one):

The Company stopped marketing IA (formerly ImmuneApp) and StatePointPlus®, which we had marketed individually or collectively as a managed baseline solution. IA is a security software program and StatePointPlus® is an intelligent system baseline management patented technology. However, while we have been in discussions and negotiations concerning the licensing rights for these products, we have not resolved a number of outstanding issues at this time.

### **Business Operations and Units**

Our business operations are grouped into the following units: NOW Solutions, GIS, Vertical Internet Solutions, Inc. (“**VIS**”), EnFacet, Inc. (“**EnFacet**”), Globalfare.com, Inc. (“**Globalfare**”), Pointmail.com, Inc. (“**Pointmail**”), Taladin, OptVision Research, VHS, PTS, minority and other limited interests, joint ventures, and strategic partnerships. Each of these divisions is discussed below.

#### ***NOW Solutions, Inc.***

NOW Solutions, a Delaware corporation, is a wholly-owned subsidiary of the Company.

NOW Solutions specializes in end-to-end, fully integrated human resources and payroll solutions. NOW Solutions has clients ranging from private businesses to government agencies, who typically employ 200 or more employees. NOW Solutions currently markets emPath®, which handles complex human resources and payroll situations where the clients may have employees from different unions, multiple state locations, and intricate compensation structures. We believe that the competitive advantage of emPath® is its speed of implementation through a formula-builder technology, which allows quick customization of payroll rules and calculations without any programming. NOW Solutions’ product suite is targeted to address the needs of management in today’s dynamic business environment and gives organizations a user friendly, multi-lingual (i.e., English, Canadian French, Spanish, Portuguese and Chinese) and flexible software solution, without the multi-million dollar implementation and support budgets of the major competitors.

NOW Solutions has converted some of its existing customers to its SaaS model and is in the process of developing methods to introduce its SaaS offering, particularly its “emPath® for Small Business” SaaS through distributors. Additionally, NOW Solutions has embarked on a new strategy of licensing HR products complementary to its existing suite of products that can be sold as a separate product or integrated with emPath®, which is greatly facilitated by emPath®’s Web Services integration. The first products which are part of this initiative consist of “onboarding” and “offboarding” software, which were obtained through NOW Solutions’ agreement with Emerald Software Group and resulted in an immediate sale to one of its existing customers.

The existing revenue model of NOW Solutions is based primarily upon four components: licensing fees, SaaS fees, professional consulting services, and renewable maintenance fees. Under the SaaS delivery model, NOW Solutions typically collects monthly fees.

For the 12 months ended December 31, 2009, NOW Solutions had approximately \$1,110,298 of total assets, revenues of approximately \$5,394,778 and net income of approximately \$5,353,785.

#### ***Taladin, Inc.***

Taladin, a Texas corporation, is a wholly-owned subsidiary of the Company. In November 2005, Taladin and NOW Solutions entered into a license agreement whereby Taladin received the exclusive rights to commercially exploit emPath® for use by the United States federal, state and local governments and agencies in exchange for a license fee and royalties. Taladin has developed a module for emPath® to meet federal payroll guidelines for law enforcement and fire departments but the finalization of the module was put on hold while final testing was performed and the underlying emPath® SaaS platform was finalized.

For the 12 months ended December 31, 2009, Taladin had no material assets, no revenues and a net loss of approximately \$41,072.

#### ***OptVision Research, Inc.***

OptVision Research, a Texas corporation, is a wholly-owned subsidiary of the Company and was created to support the development of our fiber optic patent through either direct investment or government grants.

The USPTO granted us a patent (No. 6,718,103) for an invention for “Transmission of Images over a Single Filament Fiber Optic Cable” in April 2004. This patent is in a theoretical stage only and is intended to be used for transmitting images on fiber optics that might improve in orders of magnitude today’s capacity of fiber optics to transmit images and data. We are in the process of attempting to secure funding from the Federal Government for development of the patent.

For the 12 months ended December 31, 2009, OptVision had no material assets, no revenues and a net loss of approximately \$9,886.

***Vertical Healthcare Solutions, Inc.***

VHS, a Texas corporation, is a wholly-owned subsidiary of the Company. In May 2008, Robert Farias assigned Point-of-Sale software (“PASS”) technology to the Company. In addition, VHS and Mr. Farias entered into a distributor agreement for PASS whereby Mr. Farias would market PASS to his existing clients. In October 2008, VHS entered into a consulting agreement with Farias-Jett (a sole proprietorship of Mr. Farias), and an employment agreement with Mr. Farias. Significant upgrades have been completed on the PASS software and VHS has some pharmacies beta testing this product. PASS is being adapted to meet the needs for physicians for a secondary market. On December 17, 2009, Sigis (the “Special Interest Group for IIAS Standards”) certified that PASS met the requirements by the IRS for IIAS COMPLIANT POINT OF SALE SYSTEM.

For the 12 months ended December 31, 2009, VHS had no material assets, no material revenues, and a net loss of approximately \$212,287.

***Priority Time Systems, Inc.***

PTS is a Nevada corporation. On June 15, 2009, we purchased 90% of the common stock of PTS from a shareholder of PTS. The purchase price was \$63,000, of which \$25,000 was paid at execution with the balance of the purchase price to be paid in equal monthly installments over a 12-month period beginning in August 2009. In connection with this agreement, we also agreed to retain the selling shareholder as a consultant of PTS beginning in July 2009. In addition, we also entered into a shareholder agreement with the other shareholder of PTS whereby we have the option to purchase the remaining 10% of the common shares of PTS stock at any time after 3 years from the date of our purchase of the 90% block. The shareholder agreement also provides for the licensing terms of PTS products to our other subsidiaries.

PTS has been developing Priority Time, a time and attendance product that we intend to offer as a standalone product as well as an integrated product with emPath®. We are finalizing the completion of the Priority Time product.

As part of the PTS acquisition, the Company retained two highly experienced executives within PTS with years of experience and success in the independent marketing and sales of time and attendance software solutions.

For the 12 months ended December 31, 2009, PTS had assets of approximately \$88,489, no material revenues and a net loss of approximately \$98,484.

***Government Internet Systems, Inc.***

Our 81.5% owned subsidiary, GIS, a Nevada corporation, was formerly named Emily® Solutions, Inc. Vertical licensed ResponseFlash™ to GIS to market and distribute this technology to government entities (excluding state universities and schools) in the United States. GIS seeks to enter into agreements to distribute other non-Company products particularly in the Homeland Security sector. We are in the process of submitting proposals to various city, county and state governments. We are currently seeking funding through grants.

For the 12 months ended December 31, 2009, GIS had no assets and no material revenue or expenses.

***Vertical Internet Solutions, Inc.***

VIS, a California corporation, is a wholly-owned subsidiary of the Company. VIS is inactive and we currently have no plans regarding this subsidiary.

For the 12 months ended December 31, 2009, VIS had no material assets and no material revenue or expenses.

***EnFacet, Inc.***

EnFacet, a Texas corporation, is a wholly-owned subsidiary of the Company. EnFacet is currently inactive and we have no plans regarding this subsidiary.

For the 12 months ended December 31, 2009, EnFacet had no material assets, no revenues and no expenses.

***Globalfare.com***

Globalfare, a Nevada corporation, is a wholly-owned subsidiary of the Company. Globalfare is currently inactive and we currently have no plans regarding this subsidiary.

For the 12 months ended December 31, 2009, Globalfare.com had no assets, no revenues and no expenses.

***Pointmail.com, Inc.***

Pointmail, a California corporation, is a wholly-owned subsidiary of the Company. Pointmail is currently inactive and we currently have no plans regarding this subsidiary or its technology.

For the 12 months ended December 31, 2009, Pointmail.com had no assets, no revenues and no expenses.

**Minority Interests and Royalty Interests**

***iNet Purchasing, Inc.***

In April 2000, we acquired a 2.5% minority interest in iNet and were entitled to a royalty on all iNet transactions for up to 40 years. iNet is a developer of Internet-based procurement services targeted at the specific needs of public sector purchasing in the state and local government arena through PublicBuy.net. In November 2001, we entered into a license agreement with iNet, pursuant to which the Emily® software and technology were licensed for use in connection with iNet's e-procurement system in Texas, Maine, and Idaho in exchange for a 20% commission on subscription fees. In April 2005, iNet Purchasing was acquired by SicommNet. We are in the process of reviewing our rights pursuant to the SicommNet ownership of iNet Purchasing, Inc.

As of December 31, 2009, all of the iNet investments and advances paid for royalties were fully reserved. There have been no revenues or expenses in relation to the investments for the twelve months ended December 31, 2009.

***TranStar Systems, Inc.***

TranStar Systems, Inc. ("TranStar"), based in Claremont, California, is a systems integrator and consulting firm that is establishing an e-business platform. That platform is mainly focused on multiple-application smart card based solutions for credit, debit, payroll debit cards and other high volume informational transactions with a large customer base. We are entitled to receive 3% of any transaction fees and any other revenues generated by TranStar in perpetuity, although no royalties have been received from TranStar as of April 14, 2010. Although TranStar put its smart card and payroll debit card business on hold in 2009, we have a distribution agreement with the President of TranStar to market our products, including emPath®.

**Strategic Alliances and Software Distributors**

***InfiniTek Corporation.*** In July 2008, InfiniTek Corporation ("InfiniTek"), which is a Microsoft Dynamics NAV distributor, entered into consulting and distribution agreements with the Company and its subsidiaries. Microsoft Dynamics NAV (formerly Navision) is a complete enterprise resource planning (ERP) solution that is an integrated financial, manufacturing, supply chain management, sales and marketing, project management, and human resources product. Under the consulting agreements, InfiniTek was to provide software application and development services to us, including the development of a product called "NavPath" which is an integration tool to connect emPath® to Navision. InfiniTek was also to provide marketing services on behalf of Taladin for the FLSA (Fair Labor Standards Act) compliant payroll product. In addition, NOW Solutions and InfiniTek entered into a distribution agreement whereby InfiniTek was authorized on a non-exclusive basis to market NOW Solutions' emPath® HR/Payroll product in the United States. In November 2009, a dispute that had arisen between InfiniTek and the Company was not resolved and we sued InfiniTek on November 18, 2009. All agreements were cancelled except for the distribution agreement. Please see Legal Proceedings in Item 3 for more details.

**Farias-Jett.** In August 2008, NOW Solutions entered into a hosted service provider agreement with Farias-Jett for emPath® so that Farias-Jett can market emPath® for Small Business SaaS product to its existing customer base. In 2009, Farias-Jett was active in providing input and beta testing for this offering.

**Emerald Software Group.** In February 2009, NOW Solutions entered into an agreement with Emerald to market its AllegroHR products with NOW Solutions' emPath® Payroll/HRMS software solution and to sell it separately. AllegroHR consists of onboarding and offboarding software solutions as well as staff service request and personnel action notices applications. NOW Solutions can distribute AllegroHR under a private label version. Throughout 2009, Emerald worked closely with the Company in utilizing emPath®'s web services to provide an integrated solution for emPath®'s first on-boarding customer.

## **Competition**

We have substantial competition from software and hardware vendors, system integrators, and multinational corporations focused upon information technology and security. In the realm of administrative software, NOW Solutions' competitors include Oracle, Lawson, Cyborg /Hewitt, Kronos, DLGL, Ultimate and SAP. Our competitors for emPath® for Small Business include ADP, Ceridian, and Quicken. Our competitors in the network security sector include Tripwire, McAfee, Symantec, Cisco, Computer Associates, and Microsoft. Our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. We cannot guarantee that we will be able to compete successfully against current or future competitors or that competitive pressure will not have a material and adverse effect on our financial position, results of operations and cash flows.

Our ability to compete will also depend upon our ability to continually improve our products and services, the enhancements we develop, the quality of our customer service, and the ease of use, performance, price and reliability of our products and services.

We believe, however, that we possess certain competitive advantages for the following reasons:

1. We have a number of proprietary patented technologies that can be utilized in our offerings.
2. NOW Solutions has an outstanding customer support department that has supported for a number of years large complex entities, many of which are leaders in their respective industries.
3. emPath®'s inherent strengths include its formula builder, the use of one single data base, and a strong, highly identifiable customer base it can reference.
4. emPath® is built on a state-of-the-art Microsoft.net platform, allowing for rapid software development and interoperability with other software packages.

## **Strategic Overview**

The Company's product portfolio reflects a number of unique characteristics and advantages that have been developed or acquired over time. Yet until the final resolution of the litigation with Ross Systems, Inc. ("Ross") in the fall of 2009, we were unable to devote our full resources to maximize the benefit of our various technologies. Currently, we are actively pursuing the strategy of (a) further developing the technologies owned by the Company and its subsidiaries and (b) combining all the technologies owned by the Company and its subsidiaries into viable products offerings.

The key components of our strategy are:

1. A strong, profitable subsidiary, NOW Solutions, that has a highly-referenceable client base, including companies that are leaders in their industries and users of emPath® for over 10 years for their payroll and human resource needs.
2. A portfolio of patented technologies that can be licensed to third parties or utilized internally to strengthen our existing and projected product offerings.
3. Development of compatible partners and acquisition or licensing of products that complement our existing offerings.