

ACORN ENERGY, INC.
Form 10-K
March 27, 2019

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, 2018** Commission file number: **001-33886**

ACORN ENERGY, INC.

(Exact name of registrant as specified in charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2786081 (I.R.S. Employer Identification No.)
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1000 N West Street, Suite 1200, Wilmington, Delaware (Address of principal executive offices)	19801 (Zip Code)
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410-654-3315

Registrant's telephone number, including area code

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

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

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

Common Stock, par value \$.01 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 [X]

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

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 [X] No []

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of the lastday of the second fiscal quarter of 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$8.4 million based on the closing sale price on that date as reported on the OTCQB marketplace. As of March 22, 2019 there were 29,555,786 shares of Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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Certain statements contained in this report are forward-looking in nature. These statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “should” or “anticipates”, or the negatives thereof, or comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Certain of such risks and uncertainties are discussed below under the heading “Item 1A. Risk Factors.”

OmniMetrix®, *OmniView®*, *ScopeView™*, *TrueGuard™* and *TrueShield™* are trademarks of OmniMetrix, LLC.

PART I

ITEM 1. BUSINESS

OVERVIEW

Acorn Energy, Inc. (“Acorn” or “the Company”) is a holding company focused on technology driven solutions for energy infrastructure asset management. Following the sale of our remaining interests in DSIT Solutions Ltd. (“DSIT”) in February 2018 (see below), we provide the following services and products through our OmniMetrix™, LLC (“OmniMetrix”) subsidiary:

Power Generation (“PG”) monitoring. OmniMetrix’s PG activities provide wireless remote monitoring and control systems and services for critical assets as well as Internet of Things applications.

Cathodic Protection (“CP”) monitoring. OmniMetrix’s CP activities provide for remote monitoring of cathodic protection systems on gas pipelines for gas utilities and pipeline companies.

During 2018, each of our PG and CP activities represented a reportable segment.

On January 28, 2016, we entered into a Share Purchase Agreement for the sale of a portion of our interest in DSIT to Rafael Advanced Defense Systems Ltd. (“Rafael”), a major Israeli defense company (the “2016 DSIT Transaction”). Following the closing of the transaction on April 21, 2016, we owned approximately 41.2% of DSIT and had limited representation on its Board. Accordingly, from that date, we no longer consolidated the results of DSIT and instead reported DSIT’s results on the equity method. Consequently, from April 21, 2016, we no longer reported segment information with respect to DSIT’s Energy & Security Sonar Solutions segment or its other activities.

On January 18, 2018, we entered into a Share Purchase Agreement for the sale of our remaining interest in DSIT to an Israeli investor group (the “2018 DSIT Transaction”). Following the closing of the transaction on February 14, 2018, we no longer reported DSIT’s results on the equity method.

DSIT provides sonar and acoustic related solutions for energy, defense and commercial markets with a focus on underwater site security for strategic energy installations and other advanced sonar and acoustic systems for surface ships and real-time embedded hardware and software development and production.

We continually evaluate opportunities related to our activities and our goal is to maximize shareholder value and position our holdings for a strategic event, which may include co-investment by one or more third parties and/or a synergistic acquisition of another company.

FINANCIAL RESULTS BY COMPANY

The following tables show, for the periods indicated, the financial results (dollar amounts in thousands) attributable to each of our consolidated companies.

	Year ended December 31, 2018		
	OmniMetric	Acorn	Total Continuing Operations
Revenues	\$5,087	\$—	\$ 5,087
Cost of Sales	1,965	—	1,965
Gross profit	3,122	—	3,122
Gross profit margin	61 %		61 %
R& D expenses	542	—	542
Selling, general and administrative expenses	2,696	1,260	3,956
Operating loss	\$(116)	\$(1,260)	\$(1,376)

	Year ended December 31, 2017		
	OmniMetrix	Acorn	Total Continuing Operations
Revenues	\$4,350	\$—	\$ 4,350
Cost of Sales	1,903	—	1,903
Gross profit	2,447	—	2,447
Gross profit margin	56 %		56 %
R& D expenses	518	—	518
Selling, general and administrative expenses	2,712	1,128	3,840
Operating loss	\$(783)	\$(1,128)	\$(1,911)

OMNIMETRIX – POWER GENERATION MONITORING AND CONTROL AND CATHODIC PROTECTION MONITORING AND CONTROL

OmniMetrix LLC is a Georgia limited liability company established in 1998 based in Buford, Georgia that develops and markets wireless remote monitoring and control systems and services for multiple markets in the Internet of Things ecosystem: critical assets (including stand-by power generators, compressors, batteries, pumps, pumpjacks, light towers, turbines, as well as other industrial equipment) as well as cathodic protection for the pipeline industry (gas utilities and pipeline companies). Acorn owns 80% of OmniMetrix with one of Acorn's former directors owning the remaining 20%.

Products & Services

In the PG segment, OmniMetrix sells a line of devices and services built on its baseline TrueGuard wireless remote monitor. This device is broadly applicable across all brands and models of emergency power generators and industrial engine applications. The TrueGuard product family connects directly to the engine's control panel, and captures all data flowing through the control panel. As a result, the product provides the ability to identify whether an emergency generator is capable of operating as expected. In 2012, OmniMetrix designed and gained approval from PTCRB, the certification forum of North American cellular operators, and AT&T for a new 4G data radio module, replacing the 2G technology used since 2007. In 2016 OmniMetrix began shipping product with LTE-enabled radios. This new device includes GPS functionality and data storage at the device for the first time, enabling OmniMetrix to bring a mobile asset tracking functionality into the market, with primary focus on mobile generators and related equipment.

In the CP segment, OmniMetrix offers two primary product lines; the Hero Rectifier Monitor and the Patriot Test Station Monitor. Both of these products are used to monitor cathodic protection systems, a process which reduces rust and corrosion on the steel pipes used to transport natural gas underground. As the name suggests, the Hero Rectifier Monitor product monitors the operation of the rectifiers, which are a critical component in the effort to prevent corrosion, and are also the most common point of failure in the corrosion system. The Patriot Test Station Monitor is

also used to provide data points along the pipeline segment powered by the rectifier.

In October 2018 OmniMetrix began beta testing a new product, AIRGuard, to remotely monitor and control industrial air compressors. We are currently exploring the opportunity in the industrial air compressor market.

Customers and Markets

At its core, the OmniMetrix PG product can remotely monitor and control any industrial engine application, which includes engines, standby generators, compressors, batteries, turbines, pumps, and other equipment. Early in the company's history, a strategic decision was made to focus primarily on the standby power generation market. Recently, the company has expanded its focus to add several additional applications where it sees demand.

Following the advent of the Internet of Things (IoT) ecosystem, whereby multiple sensing and monitoring devices are aggregated into one simple dashboard for customers, many large companies, including Google, Comcast, Verizon, AT&T and others are entering this market and offering similar platforms. Standby generator monitoring is rapidly becoming part of this ecosystem.

As OmniMetrix can monitor and control all major brands of standby generators, it is well-positioned to compete in this market.

In the first stages of OmniMetrix's PG product and market development, relatively unsophisticated generator controls and early generation cellular and satellite communication processes limited the applications to alarm delivery. Customers were notified that some event had taken place after the fact. There was no diagnostic data opportunity, but service organizations could, at best, practice a proactive service approach.

With the advent of second-generation cellular systems and newer, computerized engine controls, OmniMetrix migrated to a design point of collecting large amounts of performance data from the remote machinery, allowing service organizations to perform diagnostics on remote equipment before dispatching service. This was the beginning of the OmniMetrix SmartService™ Program. It allowed the service organization to put the right person in the right truck with the right parts to effect a one-trip or a zero-trip solution. At this phase, service organizations could be efficient, as well as proactive, in their operations. They could also manage more customers by using remote monitoring. Customers have provided OmniMetrix feedback telling how customer service teams are able to work "smarter" and more efficiently by going directly to sites with problems, thus increasing the value of their businesses.

OmniMetrix is now in its third phase of evolution, maturing the high-performance data collection design point into the first provider offering of automated prognostic solutions. As most generator failures are the result of consumables, and as those consumables can be monitored, the consumption trends can be extrapolated into predictions of the most common failure modes.

OmniMetrix's PG monitors have been installed on generators from original equipment manufacturers ("OEMs") such as Caterpillar, Kohler, Generac, Cummins, MTU Energy and other generator manufacturers. OmniMetrix provides dual value propositions to the generator service organizations as well as to the machine owner. The dealers benefit from the receipt of performance data and status conditions from the generators they service for their customers, which allows the dealer service organization to be proactive in their delivery of service to their customers, as well as to implement the OmniMetrix *SmartService™* approach to analyzing the remote machines before dispatching a service truck. Since the majority of service and warranty costs are incurred from service people driving trucks, preemptive analysis of customer site conditions prior to dispatch can reduce their labor cost. From the machine owner's perspective, the OmniMetrix product provides a powerful tool to be used in their constant effort to avoid failures that come from consumables such as batteries and fuel. With proper monitoring, the large majority of machine failures can be avoided completely. This migration from failure reporting to failure prevention is fundamental to the OmniMetrix focus and is the result of a strong data collection and analysis design point. We believe that this transition to prognostics sets OmniMetrix apart from its competitors, many of whom are still in the failure reporting phase of application development. We have also increased our marketing efforts to end-users in an effort to increase demand for our services. These efforts have proven to be very successful, and OmniMetrix continues to execute on that strategy.

There are two types of competitors in the PG marketplace: independent monitoring organizations (such as OmniMetrix) who produce the monitoring systems (but not the equipment being monitored); and OEMs such as generator manufacturers or generator controls manufacturers who have begun offering customer connectivity to their machinery.

In 2018, no single customer of OmniMetrix provided more than 10% of its sales. OmniMetrix has successfully been able to mitigate the risk of customer dependency by increasing its penetration rate, its sales pipeline and supporting a larger base of customers. OmniMetrix expects to continue to expand its base of customers in 2019.

Competition

OmniMetrix is a vertical market company, deeply focused on providing an excellent customer experience and product and service designs for a complete end-to-end program for its customers. Having been the first provider of wireless remote monitoring systems for standby generators and pipeline corrosion programs, the company has had the opportunity to mature its offering to a level not offered by others who might like to compete in these two segments. This long experience working with key brand project partners over the years has resulted in product offerings that are competitive.

There are two types of competitors in the PG marketplace:

- Independent monitoring organizations (such as OmniMetrix) that produce the monitoring systems, but not the equipment being monitored. Among these are companies such as Ayantra, FleetZOOM, Gen-Tracker, and PointGuard. PointGuard is owned by a Caterpillar dealer and focuses its business on the Caterpillar channel.
- (1) Today it offers an array of diagnostic capabilities. The other three competitors operate in the reactive “failure notification” mode described in the early stages of the OmniMetrix business model. In the past, those competitors positioned themselves at a lower performance, lower price quadrant of the market.

- OEMs such as generator manufacturers or generator controls manufacturers have begun offering customer connectivity to their machinery. They offer a current generation connectivity replacing telephone dial-up modems that had been used in the past. Their offerings are limited to their own brands, so they do not fit into a broad application such as does the OmniMetrix *SmartService™*, supporting service organizations that service all brands.
- (2) They are also generally designed for the machine owners’ use, in a reactive application. Deep Sea Electronics offers wireless devices to allow remote access to generators with some of their controls. Similarly, Cummins Power Generation offers a device that allows their machine owners to browse directly into the generator. This device is only valid for certain types of their generators.

We believe OmniMetrix has a well-established and well-defended position in the high-performance PG monitoring segment, due to its long history and numerous industry partner projects. The company is currently applying an aggressive sales effort into both the market segment requiring less technology and lower price (including the extremely large residential generator market) as well as developing more sophisticated, diagnostic products and custom solutions for commercial and industrial clientele.

Within the CP marketplace, there are no OEM competitors, but there are several independent monitoring companies similar to OmniMetrix such as Abriox, Elecsys, and American Innovations. We believe that OmniMetrix systems provide greater functionality than these competitors, though those competitors are much larger and have greater resources, potentially enabling better channel penetration than OmniMetrix can accomplish.

Intellectual Property

OmniMetrix has always focused on being the technology leader in its markets, and as a result has created many “industry firsts”. Initially, the company only pursued patents on the most valuable processes and systems and otherwise made public disclosure of many processes to prevent others from making later patent claims on those items. Nonetheless, OmniMetrix has five issued patents. Furthermore, the company has agreements with its employees and consultants which establish certain non-disclosure and, in some cases, non-compete, requirements. OmniMetrix continually evaluates whether and how to best protect its intellectual property, but there can be no assurance that its efforts will be successful in all cases.

Facilities

OmniMetrix’s activities are currently conducted in approximately 21,000 square feet of office and production space in the Hamilton Mill Business Park located in Buford, Georgia under a lease that expires on December 31, 2019. OmniMetrix is currently utilizing only a portion of these leased facilities and has previously taken an impairment charge with respect to the underutilization of these facilities.

DSIT

We recorded \$450,000 as our 41.2% share of DSIT's net income for the year ending December 31, 2017. On February 14, 2018, we closed on the sale of our remaining interest in DSIT to a group of Israeli investors for \$5.8 million before transaction costs and withholding taxes. Accordingly, we adjusted our equity investment balance in DSIT to be equal to the gross proceeds received from the sale and recorded an impairment charge in 2017 of \$308,000. In 2018, we recorded our 41.2% share of DSIT's income or loss through the closing of the 2018 DSIT Transaction as well as our estimated transaction costs and withholding taxes on the transaction (\$441,000 and \$388,000, respectively) offset by \$222,000, net of professional fees less interest income, refunded by the Israel Tax Authorities related to our 2016 Israeli tax return.

GRIDSENSE

GridSense, which was 100% owned by Acorn and until the cessation of its operations and subsequent liquidation (see below), developed and marketed remote monitoring systems to electric utilities and industrial facilities worldwide.

In April 2016, we announced that we decided to cease operations of our GridSense Inc. subsidiary and initiate the liquidation of the GridSense assets.

In July 2016, GridSense Inc. sold its assets to Franklin Fueling Systems, Inc., a wholly-owned subsidiary of Franklin Electric Co., Inc., for a gross sales price of \$1.0 million.

Following the sale, GridSense Inc. engaged a third-party liquidation officer to satisfy, to the extent of the funds available, the claims of GridSense Inc. creditors, including Acorn which was GridSense Inc.'s largest creditor. At December 31, 2016, GridSense had approximately \$19,000 of cash available (excluding escrow amounts) for satisfaction of remaining creditor claims of approximately \$314,000. During the year ended December 31, 2017, the liquidator settled \$70,000 of claims while disbursing \$7,000 to those creditors. All of these settlements occurred in the first quarter of 2017 with no settlements with outside creditors being made subsequent to the first quarter of 2017.

On September 25, 2017, the Board of Directors of GridSense Inc. decided to dissolve and wind up the affairs of GridSense Inc. and adopted a Plan of Liquidation and Dissolution (the "Plan"). In accordance with the Plan, which was adopted on the same date, GridSense Inc. filed and executed Articles of Dissolution of the Corporation with the State of Colorado and established a liquidating trust to which all assets and liabilities of GridSense Inc. were transferred to in order to implement the winding up of the business. In addition, GridSense Pty Ltd. ("GPL"), the parent company of

GridSense's former operating company in Australia were deregistered by the Australian Securities & Investments Commission ("ASIC"). As a result of the deregistration, which is akin to a Chapter 7 bankruptcy in the US, (i) GPL has ceased to exist as a legal entity and its property is deemed vested in ASIC, (ii) the former officers and directors of GPL no longer have the right to deal with property registered in the GPL's name, (iii) legal proceedings against GPL cannot be commenced or continued.

Accordingly, following the two aforementioned events, GridSense (GridSense Inc. and GPL) was deconsolidated from the books of Acorn. We recorded a gain of \$660,000 on the deconsolidation of GridSense in the third quarter of 2017.

BACKLOG

As of December 31, 2018, OmniMetrix had a backlog of approximately \$4.1 million, primarily comprised of deferred revenue, of which approximately \$2.7 million is expected to be recognized as revenue in 2019.

RESEARCH AND DEVELOPMENT EXPENSE, NET

Research and development expense recorded for the years ended December 31, 2018 and 2017 for our OmniMetrix subsidiary in continuing operations is as follows (amounts in thousands of U.S. dollars):

	Years ended December 31,	
	2018	2017
OmniMetrix	\$542	\$518

EMPLOYEES

At December 31, 2018, we employed a total of 22 employees – all of which were full-time employees employed by OmniMetrix in the U.S. Our CEO and CFO are hired as consultants to us.

Eleven of OmniMetrix's 22 employees are engaged in production, engineering and technical support, seven in marketing and sales and three in finance and IT in addition to our CEO. We consider our relationship with our employees to be satisfactory. We have no collective bargaining agreements with any of our employees.

ADDITIONAL FINANCIAL INFORMATION

For additional financial information regarding our operating segments, foreign and domestic operations and sales, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 to our Consolidated Financial Statements included in this Annual Report.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public over the internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room located at

100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our website can be found at <http://www.acornenergy.com>. We make available free of charge on or through our website, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed, or furnished, to the SEC. Our website also includes our Code of Business Conduct and Ethics, and our Board of Directors' Committee Charter for the Audit Committee.

ITEM 1A. RISK FACTORS

We may from time to time make written or oral statements that contain forward-looking information. However, our actual results may differ materially from our expectations, statements or projections. The following risks and uncertainties, together with other factors not presently determinable, could cause actual results to differ from our expectations, statements or projections.

GENERAL FACTORS

We have a history of operating losses and have used significant amounts of cash for operations and to fund our acquisitions and investments.

We have a history of losses from our OmniMetrix subsidiary and corporate overhead and have used significant amounts of cash to fund our operating activities over the years. In 2018 and 2017, we had operating losses of \$1.4 million and \$1.9 million, respectively. We also had income from discontinued operations of \$0.7 million in 2017. We did not have any income from discontinued operations in 2018. Cash used in operating activities of continuing operations was \$2.4 million in 2018 and \$1.6 million in 2017.

The closing of the 2018 DSIT Transaction provided us with approximately \$1.9 million after paying transaction costs, withholding taxes and the repayment of director loans and associated accrued interest. On March 22, 2019, we had approximately \$1.1 million of consolidated cash and cash equivalents (including restricted cash), of which \$290,000 was restricted and held by a bank in Israel.

During 2018 and 2017, we provided OmniMetrix with \$300,000 of financing each year. We believe that with OmniMetrix's continued growth and increased credit availability, that OmniMetrix will not need financing from us during 2019. Our corporate overhead has also been significantly reduced and has stabilized. Based on the above, we believe we have sufficient cash to finance our operations for at least twelve months from the issuance of the financial statements contained in this Annual Report. However, we may need to seek additional sources of funding for long-term corporate costs or if OmniMetrix were not to grow at the rate anticipated and needed additional funds for their operations. Additional sources of funding may include additional loans from related and/or non-related parties, partial sale of, or finding a strategic partner for, OmniMetrix or equity financings. There can be no assurance additional funding will be available at acceptable terms or that we will be able to successfully utilize any of these possible sources to provide additional liquidity.

We depend on key management for the success of our business.

Our success is largely dependent on the skills, experience and efforts of our senior management team, including Jan Loeb, Walter Czarnecki and Tracy Clifford. The loss of the services of any of these key managers could materially harm our business, financial condition, future results and cash flow. We do not maintain "key person" life insurance policies on any members of senior management. We may also not be able to locate or employ on acceptable terms qualified replacements for our senior management if their services were no longer available.

Loss of the services of a few key employees could harm our operations.

We depend on key technical employees and sales personnel. The loss of certain personnel could diminish our ability to develop and maintain relationships with customers and potential customers. The loss of certain technical personnel could harm our ability to meet development and implementation schedules. The loss of key sales personnel could have a negative effect on sales to certain current customers. Although most of our significant employees are bound by confidentiality and non-competition agreements, the enforceability of such agreements cannot be assured. Our future success also depends on our continuing ability to identify, hire, train and retain other highly qualified technical and managerial personnel. If we fail to attract or retain highly qualified technical and managerial personnel in the future, our business could be disrupted.

There is a limited trading