POWERSECURE INTERNATIONAL, INC.
Form 10-K
March 14, 2008

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

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **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: 1-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**84-1169358**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1609 Heritage Commerce Court,
Wake Forest, North Carolina 27587

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: **(919) 556-3056**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	**The NASDAQ Stock Market LLC (NASDAQ Global Select Market)**

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes o No þ

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 þ No o

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. o

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):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

As of June 29, 2007, the last business day of the Registrant s most recently completed second fiscal quarter, the aggregate market value of the shares of the registrant s Common Stock held by non-affiliates of the Registrant was approximately $240,576,059 based upon $15.44, the last sale price of the Common Stock on such date as reported on the American Stock Exchange (which was the principal stock market of the Registrant s Common Stock on such date). For purposes of this disclosure, shares of Common Stock held by each director and executive officer and by each person or entity that owned 5% or more of the Registrant s Common Stock on such date have been excluded because such persons may be deemed to be affiliates of the Registrant for this purpose. This determination of affiliate status, however, is not necessarily conclusive for any other purpose.

As of March 3, 2008, 16,904,290 shares of the Registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Registrant s fiscal year ended December 31, 2007, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words may , could , should , would , will , project , intend , contin anticipate , estimate , forecast , expect , plan , potential , opportunity and scheduled , variations of such wor comparable terminology and similar expressions are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about the following:

- our prospects, including our future revenues, expenses, net income, margins, profitability, cash flow, liquidity, financial condition and results of operations;
- our products and services and our markets, including market position, market share, market demand and benefits of our products and services to customers;
- our ability to successfully develop, operate and grow our operations and businesses;
- our business plans, strategies, goals and objectives and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, available borrowings under our credit arrangements and other capital resources, to meet our future working capital, capital expenditure, debt service and business growth needs;
- industry trends and customer preferences;
- the nature and intensity of our competition, and our ability to successfully compete in our markets;
- business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships;
- the effects on our business, financial condition and results of operations of litigation and other claims and proceedings that arise from time to time; and
- future economic, business, market and regulatory conditions.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. You are cautioned not to place undue reliance on our forward-looking statements, any or all of which could turn out to be wrong. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions we might make that do not materialize or prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in Item 1A. Risk Factors below, as well as other risks, uncertainties and factors discussed elsewhere in this report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the Securities and Exchange Commission.

Any forward-looking statements contained in this report speak only as of the date of this report, and any other forward-looking statements we make from time to time in the future speak only as of the date they are made. We undertake no duty or obligation to update or revise any forward-looking statement or to publicly disclose any update or revision for any reason, whether as a result of changes in our expectations or the underlying assumptions, the receipt of new information, the occurrence of future or unanticipated events, circumstances or conditions or otherwise.

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PART I

Item 1. Business

Background

PowerSecure International, Inc., based in Wake Forest, North Carolina, is a leading provider of energy management and conservation solutions to utilities and their commercial, institutional and industrial customers. Our business is focused on providing products and services in the areas of distributed generation, utility infrastructure and energy efficiency. Our core distributed generation business, which we operate through our PowerSecure subsidiary, involves deploying sophisticated, dependable electric generation equipment at utilities end-customers business sites. This equipment provides customers with a seamless, dependable backup power supply during power outages, and provides utilities with an incremental power supply to accommodate peak power demand.

Our distributed generation solutions provide strong returns on investment for utilities and their customers. For utilities, our solutions provide a lower cost power supply during peak power periods, enable the avoidance of new infrastructure investments for transmitting and distributing power, and avoid energy losses associated with moving electricity over long distances. For commercial, industrial and institutional customers, our distributed generation solutions provide protection against losses due to business interruption during power outages, and supply electricity at lower cost during peak power periods.

In addition to our core distributed generation products and services, we provide utilities with regulatory consulting, energy system engineering and construction, and energy conservation services. We also provide commercial and industrial customers with the design and installation of cost effective energy improvement systems for lighting, building controls and other facility upgrades.

We also conduct additional business operations through other wholly-owned subsidiaries. Southern Flow Companies, Inc., which we refer to as Southern Flow, provides a wide variety of natural gas measurement services principally to producers and operators of natural gas production facilities. WaterSecure Holdings, Inc. (formerly known as Marcum Gas Transmission, Inc.), which we refer to as WaterSecure, owns approximately 36% of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, which we refer to as MM 1995-2 or as the WaterSecure operations. The WaterSecure operations operate water cleaning and processing facilities located in northeastern Colorado.

Metretek, Incorporated, which we refer to as Metretek Florida, based in Melbourne, Florida, provides data collection, telemetry and other types of machine to machine, connectivity solutions for energy utility applications such as automatic meter reading and pressure recording as well as for vehicle traffic control applications. On December 31, 2007, the Board of Directors adopted a plan to sell substantially all of the assets of Metretek Florida. As a result of the adoption of this plan to sell, Metretek Florida is presented as a discontinued asset throughout this report. On March 14, 2008, Metretek Florida entered into an Asset Purchase Agreement with Mercury Instruments LLC. Under that purchase agreement, Metretek Florida will sell substantially all of its assets and business to Mercury for a total purchase price of $2,250,000. In addition, Metretek Florida will retain its cash, accounts receivables and most of its accounts payable and liabilities, other than those liabilities expressly assumed by Mercury in the purchase agreement. The completion of the sale, which is currently anticipated to occur in late March or early April 2008, is subject to customary closing conditions and thus is not assured.

In this report, references to PowerSecure , we , us and our mean PowerSecure International, Inc. together with subsidiaries, and references to our PowerSecure subsidiary means our PowerSecure, Inc. subsidiary alone, unless we state otherwise or the context indicates otherwise.

We were incorporated in Delaware on April 5, 1991. On August 22, 2007, we changed our name to PowerSecure International, Inc. from Metretek Technologies, Inc., in recognition that the significant growth in the business operations of our PowerSecure subsidiary in recent years had resulted in it being our core business and positioned in the marketplace to lead our growth in the future. Our principal executive offices are located at 1609 Heritage Commerce Court, Wake Forest, North Carolina 27587, and our telephone number at those offices is (919) 556-3056. Our internet website address is *www.powersecure.com*. Information contained on our website is not incorporated into this report.

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Business Strategy

The U.S. electricity industry is large and growing, with the U.S. electricity market totaling over $300 billion, and continued increases in demand projected. However, utilities are constrained by an evolving and uncertain regulatory process, the increased burden of environmental constraints and a focus on long-term, major capital infrastructure projects. Utilities continue to be challenged to meet demand by traditional means, both in the areas of large scale power production as well as power transmission, and this demand has increased the strain on the electric power grid. The combination of increases in demand, constraints on utilities and increases in input costs to produce electricity has caused the price of electricity to continue to increase. These increases are particularly pronounced during peak power periods. These factors provide a strong marketplace need for products and services in the areas of distributed generation, utility infrastructure and energy efficiency. Our strategy is to provide solutions in these areas that are designed to generate strong returns on investment for electric utilities and their commercial, institutional and industrial customers.

In implementing our business strategy, we have acquired or formed the following important businesses since 2000:

In 2000, we formed our distributed generation business.

In 2001, we acquired a process control and switchgear design and manufacturing firm.

In 2005, we launched two new complementary energy service businesses for the purposes of expanding our business and serving our utility clients by providing technical engineering services and management consulting services.

In 2006, we formed a new business to provide energy efficiency services to industrial and commercial customers.

Also in 2006, we launched a business unit focused on marketing the services of our businesses to federal customers, primarily in conjunction with our utility alliances.

In late 2006, we acquired a business that provides us with the capability to build trailers and enclosures for our distributed generation and switchgear equipment.

In mid-2007, we launched a business unit focused on providing utilities with solutions involving building and servicing utility infrastructure.

In late 2007, we organized a new business to design and manufacture lighting solutions, including initially solutions specifically aimed at substantially reducing the energy consumed in lighting cooler and freezer cases in grocery, convenience, and retail drug stores.

While we regularly engage in discussions relating to potential acquisitions and dispositions of assets, businesses and companies, as of the date of this report we have not entered into any binding agreement or commitment with respect to any material acquisition or disposition other than pertaining to the sale of the assets of Metretek Florida as discussed elsewhere in this report.

Overview of Operations

Our distributed generation systems provide utilities and their customers, including primarily industrial and commercial users of electricity, with access to back-up power generation assets that generate reliable power on-demand and take advantage of peak-shaving and load interruption incentives to lower electricity costs. Distributed generation is on-site power generation that supplements or bypasses the public power grid by generating power at the customer s site. We offer a power supply that serves as an alternative source of electricity to meet the business needs of utilities and their end customers. Our program covers virtually all elements of the supply chain, including system design, installation, monitoring and operation as well as rate analysis and utility rate negotiation.

Since 2005, we have actively formed or acquired several new businesses, primarily through subsidiaries, designed to expand and complement our core distributed generation business and the products and services we can offer utilities and their end customers. These complementary businesses are focused in the areas of distributed

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generation, utility infrastructure and energy efficiency. PowerServices, Inc. provides rate analysis and other similar consulting services to our utility, commercial and industrial customers. UtilityEngineering, Inc. provides fee-based, technical engineering services to our utility partners and customers. EnergyLite, Inc. assists commercial and industrial customers in reducing their use of energy through investments in more energy-efficient technologies. Reid s Trailer, Inc., dba PowerFab, builds trailers and enclosures, components of our distributed generation offering. In 2007, we formed EfficientLights, LLC to design and manufacture lighting solutions, including solutions to reduce the energy consumed in lighting cooler and freezer cases in grocery, convenience and retail drug stores.

Each business unit operates in a separate market with distinct technical disciplines, while sharing common or complementary customer bases. We intend to support and grow these new businesses through shared resources and leveraging our core sales and marketing channels. In addition to these businesses held in separate subsidiaries, we have launched business units within our PowerSecure subsidiary to market distributed generation and energy efficiency solutions to federal customers, and to provide utilities with solutions involving designing, building and servicing utility infrastructure. These businesses are intended to enhance our future growth and development, in addition to the growth in our core distributed generation business, and to make significant and growing contributions to our revenues and net income.

Distributed Generation Background

The demand for our distributed generation solutions is driven by the need for high quality and high reliability power, the increasing constraints on large centralized power production facilities, increasing challenges with respect to transmission and distribution of power, and the economics of electricity pricing structures. The need for power quality and reliability is driven directly by the needs of industrial and commercial end-users of electricity and, in particular, the specific consequences to an end-user of experiencing a power outage or curtailment. This need for reliable power has become apparent to many businesses as a result of brown-outs and black-outs and the effects of severe weather conditions. Distributed generation allows a business to improve the reliability of its supply of electricity by providing a back-up power source that is available if the primary source, typically the local utility, becomes unable, for any reason, to provide power. Distributed generation can protect businesses from the adverse effect of power outages caused by storms, utility equipment failures, strains and instability in utility power grids. In addition, businesses utilizing distributed generation are able to mitigate their exposure to energy price increases by being able to supply their own electricity with dedicated, on-site electric generation assets.

Distributed generation also enables utilities to supplement their centralized power generation plants and ensure power availability, and provides a means to overcome challenges regarding constraints related to the transmission of power. Spikes in power prices, due to electricity spot price volatility, have led many businesses to seek alternative sources of power to protect against these price spikes by peak shaving . Peak shaving means utilizing the back-up power provided by a system of distributed generation to reduce specific demand either to take advantage of pricing incentives, or tariffs, offered by utilities during periods of peak energy usage or to avoid the adverse effect of high energy prices charged by utilities during peak energy use periods.

In addition, energy usage information has become increasingly important for energy suppliers and users. Many energy suppliers, especially utilities, have complicated pricing and rate structures and tariffs that are difficult for energy users to understand, which further increases the complexity of monitoring and managing energy usage and costs. Energy deregulation, with multiple providers of energy and diverse rate structures, adds to this complexity in managing energy usage and costs.

The PowerSecure Distributed Generation Solution

We provide a turn-key distributed generation solution to meet the needs of industrial and commercial users of electricity. By providing a complete and customized program of distributed generation, our system provides energy users with a seamless communication between the supply-side and demand-side components of the customer s power system to capture peak-shaving opportunities and to quickly respond to emergency and interruption situations. The typical distributed generation system is installed and maintained at a utility s end customer s location and is designed to supply power only to that one particular customer. The size of turn-key distributed generation systems that we have designed and sold has ranged from 90 KW to 20,000 KW, most commonly ranging from 500 KW to 2000 KW, and we have the ability to design and sell even larger systems.

The primary elements of our turn-key distributed generation offering include:

designing and engineering the distributed generation system;

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obtaining the required regulatory approvals and permits;

establishing the electricity inter-connect between the utility and customer to take advantage of preferred rates;

acquiring and installing the generators and other system equipment and controls;

designing, engineering, constructing and installing the switchgear and process controls; and

providing ongoing monitoring and servicing of the system.

Our distributed generation systems are sold to customers utilizing two basic economic models, each of which can vary depending on the specific customer and application. Our original and still primary model is a project-based model of distributed generation projects. For distributed generation solutions sold under a project-based model, the customer retains ownership of the distributed generation assets upon completion of the project. We generally record over 95% of the revenue from the project during the period the assets are installed at the customer s site, with the remaining revenue received in the form of regular monthly monitoring fees to monitor the assets and ensure performance on demand for supplying backup power and for peak shaving. A growing model we are actively marketing for distributed generation projects is a recurring revenue model. For distributed generation solutions sold under a recurring revenue model, we retain ownership of the assets after they are installed at the customer s site. Our revenues under the recurring revenue model are derived from regular fees paid by the customer over the life of the contract, which is typically from 5 to 7 years, for the customer s access to the assets for standby power and peak shaving. These fees are generally paid to us a monthly basis. For some recurring revenue contracts, referred to as shared savings recurring revenue contracts, a portion of the fees are paid out of the peak shaving savings the asset generates for the customer.

In both models, the customer value proposition is strong, with the customer s typical targeted returns on investment ranging from 15% to 25% and with payback targeted within three to five years. These paybacks are primarily generated from the benefits of peak shaving, which provides lower total electricity costs, and the value of back-up power generation. Additionally, utilities gain the benefits of standby power, power distribution and transmission efficiencies, and the avoidance of major capital outlays to build large centralized power plants and related infrastructure. End-use customers realize the benefits of backup power to avoid business interruption losses and spoilage.

Technology

One key component of a distributed generation system is its source of power generation, which is the generator, typically comprised of an alternator driven by a power source. While several types of distributed generation technologies are available, we currently utilize an internal combustion engine to power our distributed generation systems to provide maximum dependability. Typically these engines are fueled by diesel or natural gas or a combination of both. These types of generators are widely used and constitute a reliable, cost-effective distributed generation technology, meaning that they are able to generate sufficient power with reasonable efficiency at a reasonable cost. However, new generator technologies are emerging, and we are continually evaluating the utilization of new technologies and their ability to be a commercially viable and reliable power source.

Internal combustion generators range in individual size from five kilowatts, or 5 KW, to 2,250 KW, while gas turbines range in individual size from 1,250 KW to 13,500 KW. Units can be installed individually or in multiple parallel arrangements, allowing us to service the needs of customers ranging from small commercial users of power to large industrial businesses.

In conjunction with our distributed generation systems, we design and manufacture our own switchgear and process and software controls marketed under the registered trade name NexGear®, which control the generator and transfer of power and are used to seamlessly shift power between a customer s primary power source and our distributed generation system. We consider our switchgear designs to be a source of competitive advantage in their quality and ability to provide power from the generator in parallel with the customer s primary power source without

disrupting the flow of electricity. This capability allows the customer to seamlessly substitute power generated at the customer s site for that supplied by the utility power plant during times of peak demand (without business interruption). Our controls also include remote monitoring and control functions that allow us to remotely monitor our customers distributed generation systems and control them from our monitoring center.

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Staffing

We staff a team of engineering and project management personnel who oversee the design and installation of generators, paralleling switchgear and wireless remote monitoring equipment. Our engineering experience and understanding of distributed generation operations provide us with the capability to create innovative, customized solutions to meet the needs of a wide variety of customers.

Monitoring Center, Maintenance and System Management

Our monitoring center leads the industry in the ability to monitor the electric power grid and proactively predict peak power periods. These peak power periods vary by geography, time of day, utility infrastructure, utility customer mix and weather. Using these predictive capabilities, we coordinate the operation of our customer s distributed generation systems to run them during times of peak demand and allow them to benefit from energy savings available during these periods of high electricity prices, known as peak shaving. Our ability to provide customers with these savings is enhanced by our expertise in utilities complicated utility rate structures.

Our monitoring center is an integral part of our distributed generation solution. We monitor and maintain the distributed generation system for our customers twenty-four hours a day, seven days a week, ensuring reliability and removing many of the burdens associated with ownership. Distributed generation systems must be operated periodically so that they function properly when called upon to supply power. We remotely start and operate the systems via sophisticated remote communication devices and then monitor their performance. In the event of a mechanical problem, we immediately dispatch technicians to resolve the problem. Our monitoring center provides us with the ability to offer distributed generation solutions that operate seamlessly for our customers. For those customers that already have generators on-site, we offer management services, including fuel management services, preventive and emergency maintenance services, and monitoring and dispatching services to upgrade their stand-alone generators.

Sales and Marketing

We market our distributed generation systems primarily through a direct sales force. We market our products and services through complementary sales channels that include sales to and through utilities as well as national and local commercial, industrial and institutional accounts. We are very focused on the needs of utilities. We partner with utilities to develop, market and manage distributed generation systems for their customers. This partnering process includes combining our distributed generation package with other products or services of the utility, and assisting the utility in marketing our distributed generation package to the utility s customers.

Historically, over 90% of our distributed generation revenue base has consisted of project-based contracts, with a relatively small amount of revenue generated from recurring revenue contracts. However, we are increasingly marketing and selling our distributed generation solutions under a new recurring revenue economic model. For example, we were awarded several new recurring revenue contracts at the end of 2007 and in early 2008. The recurring revenue model enables utilities and their customers additional flexibility in the financial structure utilized to purchase the distributed generation systems, and we have seen positive acceptance of this model early in our sales efforts. Under the recurring revenue model, we are selling distributed generation solutions both directly to utilities as well as directly to their customers. We are also developing three-way partnerships with utilities and their customers to utilize our distributed generation assets for standby power, demand response, and peak shaving activities.

Engineering and Management Services

During 2005, we formed two new subsidiaries, UtilityEngineering and PowerServices, to serve the growing needs of our utility clients, and provide us with capabilities that complement our core distributed generation business. We are marketing these services to utilities as a means to supplement the utilities own engineering staffs. The scope of services that we offer includes the design and engineering for transmission and distribution (including substations) systems as well as engineering services such as developing future plans for enhancing and expanding the utility s infrastructure.

Engineering services for utilities include the engineering and design of substations and transmission and distribution systems. UtilityEngineering provides technical engineering services to utility partners and customers, including design and engineering services relating to transmission and distribution, substations and utility lighting.

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PowerServices provides management consulting services to utilities and commercial and industrial customers, such as planning and quality improvement, technical studies involving reliability analysis and rate analysis, accident investigation and related services and power supply contracts and negotiations. UtilityEngineering and PowerServices utilize our existing internal resources along with industry experts employed by those businesses.

Energy Efficiency

During 2006, we formed a new subsidiary, EnergyLite, to provide energy efficiency services to industrial and commercial customers. EnergyLite s services include the identification, design and installation of cost effective energy improvement systems for lighting, building controls and other facility upgrades. EnergyLite s solutions offer strong returns on investment for customers and are designed to maximize energy efficiency and deliver a positive and productive workplace environment.

Efficient Lighting

During 2007, we organized a new subsidiary, EfficientLights, to design and manufacture lighting solutions, including initially solutions specifically aimed at substantially reducing the energy consumed in the process of lighting cooling and freezer cases in grocery, convenience and retail drug stores. We own two-thirds of the equity interests in EfficientLights, and the initial developer of this business, who is the president of EfficientLights, owns the other one-third of the equity interests. We have the right, in our discretion, to acquire his one-third interest in exchange for one million shares of our common stock. EfficientLights compliments our core business concept of saving customers on their electricity costs through LED lighting solutions that use less energy and last longer than ordinary fluorescent lighting.

Backlog

As of December 31, 2007, our backlog of orders and projects we have been awarded was approximately $99 million, all of which is scheduled to be completed in 2008 and 2009. This backlog includes $83 million of project-based revenues, the revenues of which will be recognized as the projects are completed in 2008 and 2009, and $16 million of new recurring revenue projects, which will be completed during 2008 but the revenues of which will be recognized over the seven-year life of the contracts. Of this backlog, $47 million is from project based orders from Publix Super Markets, Inc., our largest customer. Virtually all of our Publix backlog is scheduled to be completed in 2008, although opportunities exist to provide Publix with additional products and services in the future. Like all orders, orders in our backlog are subject to delay, deferral or cancellation from time to time by our customers, subject to contractual rights. Given the irregular sales cycle of customer orders, and especially of large orders, our backlog at any given time is not necessarily an accurate indication of our future revenues.

Southern Flow Companies, Inc.

Southern Flow provides a variety of natural gas measurement services principally to customers involved in the business of natural gas production, gathering, transportation and processing. We commenced providing natural gas measurement services in 1991 by acquiring an existing business. We expanded this business significantly in 1993 when we acquired substantially all of the assets of the Southern Flow Companies division of Weatherford International Incorporated. Through its predecessors, Southern Flow has provided measurement services to the natural gas industry since 1953.

Southern Flow provides a broad array of integrated natural gas measurement services, including on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting. Southern Flow s field services include the installation, testing, calibration, sales and maintenance of measurement equipment and instruments. Southern Flow s chart processing operations include analyzing, digitizing and auditing well charts and providing custom reports as requested by the customer. Southern Flow also provides laboratory analysis of natural gas and natural gas liquids chemical and energy content. As part of its services to its customers, Southern Flow maintains a proprietary database software system which calculates and summarizes energy measurement data for its customers and allows for easy transfer and integration of such data into customer s accounting systems. As an integral part of these services, Southern Flow maintains a comprehensive inventory of natural gas meters and metering parts for resale. Southern Flow provides its services through nine division offices located throughout the Gulf of Mexico, Southwest, Mid-Continent and Rocky Mountain regions.

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Natural gas measurement services are used by producers of natural gas and pipeline companies to verify volumes of natural gas custody transfers. To ensure that such data is accurate, on-site field services and data collection must be coordinated with meter maintenance, chart integration, meter data acquisition and data management to produce timely and accurate reports.

The market for independent natural gas measurement services is fragmented, with no single company having the ability to exercise substantial market influence. Many natural gas producers and operators, and most natural gas pipeline and transportation companies, internally perform some or all of their natural gas measurement services. In addition to price, the primary consideration for natural gas measurement customers is the quality of services and the ability to maintain data integrity and accuracy, because natural gas measurement has a direct effect on the natural gas producer s revenues and royalties and working interest owner obligations. We believe that we are able to effectively compete by providing dependable integrated measurement services, maintaining local offices in proximity to our customer base and retaining experienced and competent personnel.

Metretek, Incorporated

Metretek Florida is a developer, manufacturer and marketer of automated meter reading, commonly referred to as AMR, systems for remotely collecting energy consumption data and then processing and publishing this data to the persons and businesses that require it, such as the billing, engineering, executive management, sales and marketing departments of utilities as well as outside customers of those utilities.

Metretek Florida s primary focus is to provide fully integrated, turn-key systems that allow its customers to remotely monitor assets, as well as collect and manage data from various types of field application devices. Historically, Metretek Florida s customers have consisted principally of natural gas and electric utilities, and field devices have been primarily connected to natural gas and electric meters. In these markets, Metretek Florida s AMR systems support its utility customers business applications that provide service to their larger commercial and industrial, referred to as C & I, customers. In most cases, these systems are owned, operated and managed by the utility. In such cases, the data managed by the Metretek Florida AMR systems may support critical functions such as billing, load management, tariff enforcement and verification. As such, the Metretek Florida AMR system is normally an integral component of the utility s business processes. In other situations, the systems may support less critical functions of the utility or may be owned by a C & I customer.

In December 2007, our Board of Directors adopted a plan to sell substantially all of the assets of Metretek Florida. As a result of the adoption of this plan to sell, Metretek Florida is presented as a discontinued asset throughout this report. On March 14, 2008, Metretek Florida entered into an Asset Purchase Agreement with Mercury Instruments LLC. Under that purchase agreement, Metretek Florida will sell substantially all of its assets and business to Mercury for a total purchase price of $2,250,000. In addition, Metretek Florida will retain its cash, accounts receivables and most of its accounts payable and liabilities, other than those liabilities expressly assumed by Mercury in the purchase agreement. Mercury will assume most of the customer orders of Metretek Florida and its facilities lease. The purchase agreement contains customary representations, warranties and indemnification obligations by Metretek Florida and Mercury to each other, and includes a one year escrow of 20% of the purchase price to support the indemnity obligations of Metretek Florida. In fiscal 2007, we recorded an anticipated $1.1 million loss on the sale of the assets of Metretek Florida. The completion of the sale, which is currently anticipated to occur in late March or early April 2008, is subject to customary closing conditions and thus is not assured.

WaterSecure

Through WaterSecure, which was formerly known as Marcum Gas Transmission, Inc., we own approximately 36% of the equity interests of an unconsolidated business, which we refer to as MM 1995-2 or the WaterSecure operations. The WaterSecure operations own and operate water treatment and processing facilities in northeastern Colorado, serving oil production companies in the area. The WaterSecure operations operate under long term contracts to clean and process water utilizing techniques to protect the environment, and the quality of its services and location of its facilities has provided it with a strong position in its markets.

Customers

Our customers include a wide variety of mid-sized and large commercial and industrial businesses, institutions and utilities. From time to time, we have derived a material portion of our revenues from one or more significant

customers or purchase commitments. Publix, our largest customer, accounted for approximately 47% of our consolidated revenues during fiscal 2007 and 53% of our consolidated revenues during fiscal 2006 and is

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expected to account for a significant, although lesser, portion of our consolidated revenues during 2008. During fiscal 2005, Food Lion accounted for approximately 10% of our consolidated revenues. Our revenues are virtually all generated from customers in the United States, other than a very minor amount of revenue generated from international sales by the discontinued operations of Metretek Florida.

Competition

The markets for our products, services and technology are competitive and are characterized by rapidly changing technology, new and emerging products and services, frequent performance improvements and evolving industry standards. We expect the intensity of competition to increase in the future because the growth potential and deregulatory environment of the energy market have attracted and are anticipated to continue to attract many new competitors, including new businesses as well as established businesses from different industries. Competition may also increase as a result of industry consolidation. As a result of increased competition, we may have to reduce the price of our products and services, and we may experience reduced gross margins, loss of market share or inability to penetrate or develop new markets, any one of which could significantly reduce our future revenues and adversely affect our operating results.

We believe that our ability to compete successfully will depend upon many factors, many of which are outside of our control. These factors include:

- the performance and features functionality and benefits of our, and of our competitors , products and services;
- the value to our customers for the price they pay for our products and services;
- the timing and market acceptance of new products and services and enhancements to existing products and services developed by us and by our competitors;
- our responsiveness to the needs of our customers;
- the ease of use of products and services;
- the quality and reliability of our, and of our competitors , products and services;
- our reputation and the reputation of our competitors;
- our sales and marketing efforts;
- our ability to develop and maintain our strategic relationships; and
- the price of our, and of our competitors , products and services.

We believe that in many of our markets we have established ourselves as a niche supplier of high quality, reliable products and services and, therefore, that we currently compete favorably with respect to the above factors, other than price. We do not typically attempt to be the low cost producer. Rather, we endeavor to compete primarily on the basis of product and service quality rather than price. In order to be successful in the future, we must continue to respond promptly and effectively to the challenges of technological change and our competitors innovations. We cannot provide any assurance that our products and services will continue to compete favorably in the future against current and future competitors or that we will be successful in responding to changes in other markets including new products and service and enhancements to existing products and service introduced by our existing competitors or new competitors entering the market.

Many of our existing and potential competitors have better name recognition, longer operating histories, access to larger customer bases and greater financial, technical, marketing, manufacturing and other resources than we do. This may enable our competitors to respond more quickly to new or emerging technologies and changes in customer

requirements or preferences and to devote greater resources to the development, promotion and sale of their products and services than we can. Our competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to potential employees, customers, strategic partners and suppliers and vendors than we can. Our competitors may develop products and services that are equal or superior to the products and services offered by us or that achieve greater market

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acceptance than our products do. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to improve their ability to address the needs of our existing and prospective customers. As a result, it is possible that new competitors may emerge and rapidly acquire significant market share or impede our ability to acquire market share in new markets. Increased competition could also result in price reductions, reduced gross margins and loss of market share, and the inability to develop new businesses. We cannot provide any assurance that we will have the financial resources, technical expertise, or marketing and support capabilities to successfully compete against these actual and potential competitors in the future. Our inability to compete successfully in any respect or to timely respond to market demands or changes would have a material adverse effect on our business, financial condition and results of operations.

Our competition is primarily from manufacturers and distributors of generators and related equipment, including switchgear, and companies involved in providing utilities with demand response and load curtailment products and services. Also, we face competition in some specific portions of our distributed generation business. For example, some small regional electric engineering firms specialize in the engineering aspects of the distributed generation. Similarly, several well established companies have developed microturbines used in distributed generation, and a number of companies are also developing alternative generation technology such as fuel cells and solar cells. Several large companies also are becoming leaders in uninterruptible power supply system technology. Companies developing and marketing energy-marketing software, are also potential competitors to the extent they partner with distributed generation equipment manufacturers. Additionally, there are numerous competitors in the marketplace for energy efficiency, particularly in the areas of lighting products. Large manufacturers of power generation equipment with substantial distribution networks, also provide a source of potential competition.

Numerous companies compete directly with us in the natural gas measurement services industry, including companies that provide the same services as Southern Flow and companies that provide additional or related field services.

Regulation

Our businesses and operations are affected by various federal, state, local and foreign laws, rules, regulations and authorities. While to date, our compliance with those requirements has not materially adversely affected our business, financial condition or results of operations, we cannot provide any assurance that new laws and regulations will not materially and adversely affect us in the future.

Regulation of Electricity. We operate in both regulated and deregulated electricity markets. Rules and regulations within these markets impact how quickly our projects may be completed, could affect the prices we can charge and the margins we can earn, and impact the various ways in which we are permitted or may choose to do business and, accordingly, our assessments of which potential markets to most aggressively pursue. The policies regarding our distributed generation solutions, safety regulations and air quality or emissions regulations, which vary by state, could affect how we do business. For example, some state environmental agencies may limit the amount of emissions allowed from generators utilized by our customers. In addition, because our distributed generation projects interconnect with the electric power grid, grid interconnection public safety regulations apply. We expect the electric utility industry to continue to undergo changes due to the changing and uncertain regulatory environment.

Regulation of Environment. While various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect our business, our financial condition and results of operations have not been materially adversely affected by environmental laws and regulations. We believe we are in material compliance with those environmental laws and regulations to which we are subject. We do not anticipate that we will be required in the near future to make material capital expenditures due to these environmental laws and regulations. However, because environmental laws and regulations are frequently changed and expanded, we are unable to provide any assurance that the cost of compliance in the future will not be material to us.

Employees

As of March 3, 2008, we had 378 full-time employees in our continuing operations. None of our employees is covered by a collective bargaining agreement, and we have not experienced any work stoppage. We consider our relations with our employees to be good. Our future success is dependent in substantial part upon our ability to attract,

retain and motivate qualified management, technical, marketing and other personnel.

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Research and Development

Our research and development activities are focused primarily on developing and enhancing our process controls, switchgear, and remote monitoring and control software, as well as the design and development of new and more efficient distributed generation products and technology. Our research and development expenses, which include engineering expenses, from out continuing operations during 2007 were $148,000, as compared to $73,000 in 2006 and $0 in 2005. We intend to continue our research and development efforts to enhance our existing products and services and technologies and to develop new products, services and technologies enabling us to enter into new markets and better compete in existing markets. Our future success will depend, in part, upon the success of our research and development efforts.

The markets for our products, services and technology are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of these markets and their rapid evolution will require us to continually improve the performance, features and reliability of our products, services and technology, particularly in response to competitive offerings, and to introduce both new and enhanced products, services and technology as quickly as possible and prior to our competitors. We believe our future success will depend, in part, upon our ability expand and enhance the features of our existing products, services and technology and to develop and introduce new products, services and technology designed to meet changing customer needs on a cost-effective and timely basis. Consequently, failure by us to respond on a timely basis to technological developments, changes in industry standards or customer requirements, or any significant delay in the development or introduction of new products, services and technology, could have a material adverse effect on our business and results of operations. We cannot assure you that we will respond effectively to technological changes or new products, services and technology announcements by others or that we will be able to successfully develop and market new products, services and technology or enhancements.

Raw Materials

In our businesses we purchase generators, memory chips, electronic components, printed circuit boards, specialized sub-assemblies, relays, electric circuit components, fabricated sheet metal parts, machined components, aluminum, metallic castings and various other raw materials, equipment, parts and components for our products and systems from third party vendors and suppliers. While we generally use standard parts and components for our products and systems that are readily available from multiple suppliers, we currently procure, and expect to continue to procure, certain components, such as generators, from single source manufacturers due to unique designs, quality and performance requirements, and favorable pricing arrangements. While, in the opinion of management, the loss of any one supplier of materials, other than generators, would not have a material adverse impact on our business or operations due to our belief that suitable and sufficient alternative vendors would be available, from time to time we do encounter difficulties in acquiring certain components due to shortages that periodically arise, supply problems from our suppliers, obsolescence of parts necessary to support older product designs or our inability to develop alternative sources of supply quickly or cost-effectively, and these procurement difficulties could materially impact and delay our ability to manufacture and deliver our products and therefore could adversely affect our business and operations. We attempt to mitigate this risk by maintaining an inventory of such materials. In addition, some of the raw materials used in our business have significant lead times before they are available, which may affect the timing of our project completions.

Intellectual Property

Our success and ability to grow depends, in part, upon our ability to develop and protect our proprietary technology and intellectual property rights in order to distinguish our products, services and technology from those of our competitors. We rely primarily on a combination of copyright, trademark and trade secret laws, along with confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect our intellectual property rights. We hold several copyrights, service marks and trademarks in our business, and we have applied for a patent protection related to InvisiConnect® and registrations of additional marks, although we may not be successful in obtaining such patent and registering such marks. In the future, we intend to continue to introduce and register new trademarks and service marks, and to file new patent applications, as we deem appropriate or necessary for our business and marketing needs.

Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their intellectual property rights. Unauthorized third parties may copy, reverse engineer or otherwise use or exploit aspects of our products and services, or otherwise obtain and use information that we regard as proprietary. We

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cannot assure you that our competitors will not independently develop technology similar or superior to our technology or design around our proprietary technology and intellectual property rights. In addition, the laws of some foreign countries may not protect our intellectual property rights as fully or in the same manner as the laws of the United States.

We do not believe that we are dependent upon any one copyright, trademark, service mark or other intellectual property right. Rather, we believe that, due to the rapid pace of technology and change within the energy industry, the following factors are more important to our ability to successfully compete in our markets:

the technological and creative skills of our personnel;

the development of new products, services and technologies;

frequent product, service and technology enhancements;

name recognition;

customer training; and

reliable product and service support.

We cannot assure you that we will be successful in competing on the basis of these or any other factors. See Competition above in this item.

Although we do not believe that our products or technologies infringe on the intellectual property rights of third parties, and we are not aware of any currently pending claims of infringement, we cannot provide any assurance that others will not assert claims of infringement against us in the future or that, if made, such claims will not be successful or will not require us to enter into licensing or royalty arrangements or result in costly and time-consuming litigation.

We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights to protect these rights or to determine the scope and validity of our intellectual property rights or the intellectual property rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

Segment Information

We operate in two market segments:

distributed generation and energy efficiency; and

natural gas measurement services.

Financial information related to our segment operations for the past three fiscal years is set forth in Note 14, Segment and Related Information, of the notes to our consolidated financial statements included elsewhere in this report and incorporated herein by this reference.

Available Information

Our corporate website is *www.powersecure.com*. On the investor relations section of our website, located at http://investor.powersecure.com, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) and 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Further, a copy of this Annual Report on Form 10-K is located at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at http://www.sec.gov. The contents of and the information on or accessible through our website is not a part of, and is not incorporated into, this report.

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Executive Officers of the Registrant

The names of our executive officers and their ages, positions with us and biographies as of March 10, 2008 are set forth below:

Name	Age	Positions
Sidney Hinton	45	President, Chief Executive Officer and Director
Christopher T. Hutter	41	Vice President, Chief Financial Officer and Treasurer
Gary J. Zuiderveen	49	Vice President of Financial Reporting, Controller, Principal Accounting Officer, Assistant Treasurer and Secretary
John Bernard	53	President and Chief Executive Officer of Southern Flow

Our executive officers are appointed by, and serve at the discretion of, our board of directors. Each executive officer is a full-time employee. There are no family relationships between any of our executive officers or directors.

Sidney Hinton has served as our President and Chief Executive Officer since April 2007 and has served as a member of our board of directors since June 2007. He has also served as the President and Chief Executive Officer of our PowerSecure subsidiary since its incorporation in September 2000. Mr. Hinton also serves as the Chairman of virtually all of our subsidiaries and as the Chief Executive Officer of certain subsidiaries of our PowerSecure subsidiary. In 2000, he was an Executive-in-Residence with Carousel Capital, a private equity firm. In 1999, he was the Vice President of Market Planning and Research for Carolina Power & Light (now known as Progress Energy). From August 1997 until December 1998, Mr. Hinton was the President and Chief Executive Officer of IllumElex Lighting Company, a national lighting company. From 1982 until 1997, Mr. Hinton was employed in several positions with Southern Company and Georgia Power Company.

Christopher T. Hutter has served as our Vice President, Chief Financial Officer and Treasurer since joining us in December 2007. Mr. Hutter was employed in various management positions with ADVO, Inc., a NYSE-listed media and marketing services company located in Hartford, Connecticut, from 1993 through March 2007, when ADVO was acquired by Valassis Communications, Inc. He served as ADVO s National Vice President, Finance, Treasurer, Investor Relations and Assistant Secretary from December 2005 until March 2007, as its Vice President, Financial Planning and Analysis, Investor Relations and Treasurer and Investor Relations from November 2003 until December 2005, as its Vice President, Investor Relations and Assistant Treasurer from October 1999 until November 2003 and as its Vice President, Financial Planning and Analysis, Investor Relations and Treasurer and Investor Relations from 1998 until 1999. From 1993 through 1998, Mr. Hutter held various financial management positions with ADVO. From 1989 until 1991, Mr. Hutter was employed as a senior staff tax consultant with Deloitte & Touche, an international accounting firm.

Gary J. Zuiderveen has served as our Vice President since April 2005, including as our Vice President of Financial Reporting since December 2007, and has served as our Controller, Principal Accounting Officer and Secretary since April 2001. Mr. Zuiderveen had served as our Chief Financial Officer from April 2007 through December 2007. He had previously served as our Controller from May 1994 until May 2000 and as our Secretary and Principal Accounting Officer from August 1996 until May 2000. He also serves in one or more of the capacities of Controller, Principal Accounting Officer or Secretary of our principal operating subsidiaries. From June 1992 until May 1994, Mr. Zuiderveen was the General Accounting Manager at the University Corporation for Atmospheric Research in Boulder, Colorado. From 1983 until June 1992, Mr. Zuiderveen was employed in the Denver, Colorado office of Deloitte & Touche LLP, providing accounting and auditing services to clients primarily in the manufacturing and financial services industries and serving in the firm s national office accounting research department.

John Bernard has served as the President, Chief Executive Officer and a director of Southern Flow since December 2004. Before that, Mr. Bernard had served in several managerial capacities since joining Southern Flow in 1988, including serving as the Vice President and General Manager of Southern Flow from June 1998 through November 2004.

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Item 1A. Risk Factors

Our business and future operating results may be affected by many risks, uncertainties and other factors, including those set forth below and those contained elsewhere in this report. However, the risks, uncertainties and other factors described in this report are not the only ones we face. There may be additional risks, uncertainties and other factors that we do not currently consider material or that are not presently known to us. If any of the following risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. When we say that something could have a material adverse effect on us or on our business, we mean that it could have one or more of these effects.

Risks Related to Our Business and Industry

Our operating results may fluctuate, which makes our operating results difficult to predict and could cause our operating results to fall short of expectations from time to time.

Our operating results have fluctuated significantly from quarter-to-quarter, period-to-period and year-to-year during our operating history and may fluctuate in the future due to a variety of factors, many of which are outside of our control. Factors that may affect our operating results include the following:

- the size, timing and terms of sales and orders, especially large customer orders such as the significant orders from Publix in recent years and the large orders from other customers in the end of 2007 and early 2008, and the effects of customers delaying, deferring or canceling purchase orders or making smaller purchases than expected;
- our ability to obtain adequate supplies of key components and materials for our products on a timely and cost-effective basis;
- our ability to implement our business plans and strategies and the timing of such implementation;
- the pace of development of our new businesses and the growth of their markets, which may involve significant development expenses;
- changes in our operating expenses;
- changes in the prices charged by our suppliers;
- changes and uncertainties in the lead times required to obtain the necessary permits and other governmental and regulatory approvals for projects;
- the timing, pricing and market acceptance of our new products and services;
- changes in our pricing policies and those of our competitors;
- the effects of hurricanes and other weather conditions on the demand requirements of our customers;
- variations in the length of our product and service implementation process;
- changes in the mix of products and services having differing margins;
- the life cycles of our products and services;
- budgeting cycles of utilities and other major customers;
- the effects of litigation and regulatory proceedings and claims;

economic conditions in the energy industry, especially in the natural gas and electricity sectors;

general economic and political conditions;

the effects of governmental regulations and regulatory changes in our markets;

our ability to access significant capital resources on a timely basis in order to fulfill large customer orders;

our ability to make and obtain the expected benefits from acquisitions of technology or businesses, and the costs related to such acquisitions; and

the development and maintenance of business relationships with strategic partners.

Because we have little or no control over many of these factors, our operating results are difficult to predict. Any substantial adverse change in any of these factors could negatively affect our business and results of operations.

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Our revenues and other operating results are heavily dependant upon the size and timing of customer orders and the completion of projects. The timing of large individual sales is difficult for us to predict. In addition, because we recognize revenues from most of our projects based on certain completion events, some of which depend upon factors outside of our control, those revenues may fluctuate significantly. Because our operating expenses are based on anticipated revenues and because a high percentage of these are relatively fixed, a shortfall or delay in recognizing revenue could cause our operating results to vary significantly from quarter-to-quarter and could result in significant operating losses in any particular quarter. If our revenues fall below our expectations in any particular quarter, we may not be able to reduce our expenses rapidly in response to the shortfall, which could result in us suffering significant operating losses in that quarter.

Due to these factors and the other risks discussed in this report, you should not rely on quarter-to-quarter, period-to-period or year-to-year comparisons of our results of operations as an indication of our future performance. Quarterly, period and annual comparisons of our operating results are not necessarily meaningful or indicative of future performance. It is possible that in some future periods our results of operations may fall below the expectations of public market analysts and investors, which could cause the trading price of our common stock to decline.

Our recent growth and operating results have resulted from significant purchase commitments from one customer, and if we suffer any cancellation, reduction or delay in these large purchase commitments from this customer or if we do not receive additional significant purchase commitments in the future, our business and operating results could be materially and adversely affected.

In recent years, we have derived a very significant portion of our revenues from one or more large customers or large purchase commitments that have generated significant revenues and enhanced our operating results. In late 2005 and early 2006, we received the largest purchase orders in our history from one large customer, Publix. In fiscal 2007, sales to Publix accounted for 47% of our consolidated revenues, and we expect sales to Publix to continue to constitute a significant, although lesser, portion of our consolidated revenues during 2008. From time to time, we have received other significant, non-recurring purchase orders from customers. See Item 1. Business Customers above. There is no assurance we will receive any future orders from these customers, or will receive other significant purchase commitments in the future from other customers. In addition, if all or any substantial portion of such commitments were to be cancelled, reduced or delayed, or if we are unable to obtain additional significant purchase orders in the future, our revenues and net income would significantly decline from recent levels. Our success will depend on our continued ability to develop new relationshi