

subscriber data records under management, enhancing our existing 9-1-1 services and supporting the evolving telecommunications infrastructure.

*Capitalize on Emerging Wireless Carrier Opportunities.* We have contracts to provide Phase I wireless 9-1-1 services to 11 wireless carriers which have approximately 27 million subscribers. As of December 31, 1999, we have 726,000 live subscribers on our wireless 9-1-1 services. We believe there is a significant opportunity to increase our wireless 9-1-1 services by implementing a larger portion of the subscribers we have under contract and signing contracts with more wireless carriers. We also are positioning to provide Phase II wireless services. The significant growth in wireless telephone users, the FCC mandate and the increased demand for enhanced wireless service offerings present opportunities for growth in our wireless 9-1-1 services.

*Maintain and Extend Leadership Position in National Clearinghouse Services.* We have 25 contracts to provide 9-1-1 clearinghouse services to CLECs. Under our TelConnect services, we process updates to our CLEC customers' 9-1-1 databases, prepare the data to conform to the ILEC's network requirements and insert the data into the appropriate ILEC's 9-1-1 system. Our TelConnect services allow CLECs to grow their subscriber bases while minimizing their investment in OSS technology infrastructure and personnel. CLECs receive the benefit of our 9-1-1 service delivery expertise and relationships with PSAPs and others necessary to provide 9-1-1 services. We plan to build upon our position as a neutral, carrier-independent service provider by working cooperatively with newly emerging dial tone providers, including CLECs, fixed-position wireless carriers and cable television carriers, to increase our sales of 9-1-1 clearinghouse services. In addition to our base clearinghouse solution, we provide other value-added products and services, such as local number portability solutions. Local number portability refers to the transfer of a telephone number from one carrier to another when a telephone subscriber chooses to change its local exchange carrier. We recently initiated our alliance program to partner with OSS providers that provide complementary products, such as billing and customer care solutions, to CLECs. We and our alliance partners will jointly market our products and services.

*Provide Additional Services.* ILECs, CLECs and wireless carriers, as well as state governmental entities, all seek to apply emerging technologies in response to competitive pressures and regulatory mandates. For example, we have developed off-switch routing capabilities for carriers that have deployed the advanced intelligent network and created local number portability transaction sets in response to the local number portability mandates of the Telecommunications Act. By using the experience and economies of scale we have obtained in managing the 9-1-1 OSS infrastructure for multiple carriers, we are well-positioned to continue to develop and offer flexible, scalable solutions that allow carriers to support cost-effectively new technological developments and regulatory mandates.

*Develop Applications for New Commercial Products.* By leveraging our core competency of managing dynamic subscriber location information, we believe that we are well-positioned to expand into additional markets outside of traditional 9-1-1 OSS services. The rapid introduction of the Internet and wireless devices into the market presents public safety challenges that are not addressed in a significant manner today. In addition, the use of internet protocol-based telephony is rapidly expanding and increasing the complexity of public safety services. We believe we can leverage our wireline and wireless dynamic call routing, large volume transaction processing and mission critical networks to provide solutions for these emerging technologies. *Continuing change in the telecommunications market introduces substantial opportunities for growth for us.* In response, we plan to deliver new products and services to the dynamic markets that we serve. During 2000, we will announce specific products and strategic partnerships designed to significantly expand our market opportunities. We estimate that we will make a special investment and incur expenses of approximately \$10 million toward research, development and marketing of these new products and services.

*Expand International Operations.* We believe that a significant opportunity to generate additional long-term revenue may be created by partnering with established telecommunications carriers and systems integration firms to design, implement, maintain and operate effective, reliable emergency communications systems in countries other than the United States and Canada. We intend to expand internationally to address the needs of this market for telecommunications emergency services.

There can be no assurances that we will achieve our objective or any of the key elements of our strategy. See "Risk Factors."

## Our Services and Products

Our 9-1-1 OSS solution enables a 9-1-1 call to be routed to the appropriate PSAP along with accurate and timely information about the caller's identification, call-back number and location. We receive daily service order updates, which are changes to subscriber data such as address changes, telephone number changes and other changes to subscriber data that can affect 9-1-1 call processing. We also receive updates to boundary and routing data needed to route 9-1-1 calls to the appropriate PSAP. We screen this data for accuracy and analyze and resolve data discrepancies. Certain discrepancies are referred back to the customer for resolution. Screened data is inserted into the 9-1-1 databases. When a 9-1-1 call occurs, it is routed to the 9-1-1 voice switch, which queries our databases. Our databases route the call to the appropriate PSAP and simultaneously send the caller's location and call back number with the call. The data that are delivered allow PSAPs to dispatch personnel and equipment to the emergency.

### *Base Services*

Our base services consist of the following:

*System Preparation and Administration.* To begin providing 9-1-1 data management services to our customers, we must collect, organize, review and analyze the data necessary to prepare the systems. Data preparation includes collecting information on PSAP jurisdictional boundaries, performing a full inventory of addresses located in an area and loading the subscriber information into our systems. To improve data quality and, consequently, 9-1-1 service, our systems run the data through over 60 automated integrity checks. We employ over 100 data integrity analysts who resolve any data discrepancies and update the databases based on information received from customers and related sources.

*Routine Data Administration.* We receive and automatically process service order updates from telecommunications carriers on a regular basis to maintain current data in the 9-1-1 databases. Service order updates include address changes, telephone number changes and other changes that may affect 9-1-1 call processing. We usually receive between 150,000 and 210,000 service orders per day. We also frequently receive boundary updates from PSAPs reflecting changes in jurisdiction boundaries for PSAP responses. Boundary updates may include the addition of streets, changes in street names, or other changes that may affect the proper routing of a 9-1-1 call. When we receive a service order update or jurisdiction change, the information received is checked for complete and appropriate data, and then distributed throughout our network of geographically dispersed servers.

*Event Transaction Processing.* When a caller dials 9-1-1 in an area served by us, the call is routed through one of our data servers with a request for information. The server rapidly responds and delivers the caller's location and call-back number to the 9-1-1 dispatcher at the PSAP. Our data servers also control the switch to route the call to the appropriate PSAP.

*Performance Management.* We monitor and report the performance of our service operations by measuring response time, systems availability, data accuracy and error resolution intervals, among other performance measurements. Using these measurements as a basis, we design and implement programs to improve our services continuously.

*Mapping Services.* Traditional mapping services do not provide updates to geographic information often enough to ensure the accuracy of data in an emergency situation. Thus we maintain a team of geographic information system experts, who work with carriers and public safety officials to document, review and analyze call routing boundaries and specific address information. The mapping services department uses advanced tools to improve existing mapping information with new and more detailed geographical information for optimal management of 9-1-1 call records. The mapping services department also assists in system preparation and quality control programs to ensure that geographical information is current.

*TelConnect Services (previously Clearinghouse Services).* Our TelConnect services provide a single point of contact to process and format 9-1-1 data for CLECs and independent telephone companies. CLECs and independent telephone companies may be located in multiple communities that have diverse requirements for delivery of 9-1-1 information. We have the processes and systems in place to deliver the data in all communities throughout the United States. CLECs and independent telephone companies electronically transmit subscriber

information to SCC. We then reformat the data to comply with the destination community's local standards, test for detectable errors and deliver the data to the 9-1-1 data systems that serve that community. The receiving data systems may be operated by us or by a carrier that does not use our services or products. Our TelConnect services also include measurement of certain performance criteria, which allow us and our customers to continually improve service. To provide added value to customers, we launched LNP 2000, a program designed to assist customers with complications in 9-1-1 processing caused by local number portability. Local number portability resulted from competition in local exchange service and refers to the need to transfer, or port, a telephone number from one telephone carrier to another where the telephone subscriber chooses to change carriers. We also launched our Alliance Program, in which we are partnering with OSS providers that provide complementary service offerings to CLECs and independent telephone companies, such as billing and customer care software.

#### *Enhanced Services of SCC National Data Services Center*

We offer enhancements to our 9-1-1 OSS services that provide additional features and functions. These services are targeted to specific markets and are sold either directly by us or through our customers.

*9-1-1Net.* 9-1-1Net is an online tool that allows instant communication and makes important information available to our customers and PSAPs. Through 9-1-1Net, users can view live address routing rules, send address updates, review inbound call load, error statistics and Automatic Location Information, or ALI, discrepancy reports, and receive new product updates.

*Private Switch ALI.* Private telephone switches, or PBXs, create a challenge for E9-1-1 operations. When a call is placed from within a PBX, the location of the PBX itself is generally displayed to a 9-1-1 dispatcher at a PSAP rather than the location of the specific PBX extension. In the case of large facilities such as campuses, hotels and hospitals, emergency response personnel may not have adequate information to determine the location of the caller quickly. Private Switch ALI allows PBX or CENTREX system managers to create and transmit appropriate data records that identify a caller's extension location within a facility for 9-1-1 response.

*9-1-1Connect.* We provide wireless carriers with 9-1-1 services similar to those provided to wireline customers and that fully comply with the FCC's Phase I mandate. Once a wireless carrier receives an activation request from a PSAP, our program managers develop a plan with the wireless carrier to activate service. This plan includes development of ILEC network interconnections for both data and voice specific to the local wireless network configuration and interface requirements. The program managers develop graphic coverage area maps that are superimposed on current maps of public safety agency boundaries. Routing recommendations can then be made and coordinated with the appropriate PSAP. The result is that 9-1-1 calls are routed to the appropriate PSAP with the callback number and cell location of the caller. We also are developing a solution to address the FCC's Phase II mandate.

*Emergency Warning and Evacuation System.* We are currently selling our Emergency Warning and Evacuation System, or EWE, to initiate outbound calls to selected areas in the event of potential disasters such as floods, hazardous materials incidents, industrial accidents and localized weather events. EWE uses spatially classified location information and up-to-date telephone subscriber data to deliver voice, fax and TDD warnings to geographically targeted populations.

*Subscriber ALI.* We are preparing to offer Subscriber ALI, which is designed to allow subscribers to supply personal information in their 9-1-1 records such as medical conditions, allergies, disabilities or languages of choice. When a subscriber calls 9-1-1, data previously provided by the subscriber will be displayed along with traditional 9-1-1 information to the PSAP. This information may help emergency response personnel handle an incident with greater safety and more effectiveness. Subscriber ALI also allows for notification of a designated relative, security team, remote property owner or other contact person of a 9-1-1 call made from the subscriber's telephone. For example, parents away from home would be notified when a child or babysitter calls 9-1-1 from the home telephone.

#### *License Products*

We offer 9-1-1 software to ILECs that elect to manage their own 9-1-1 data records rather than outsourcing such operations to SCC. We also provide custom software development services to customers with specific or local requirements through our engineering department. The engineering department develops, customizes and enhances

the software using a structured approach to perform requirements analysis, software development and quality assurance.

### *Commercial Services*

We believe we can leverage our 9-1-1 expertise to provide other public safety-related products and services. The new technologies entering the market, such as wireless location services, the Internet, wireless internet devices, telematics in automobiles and internet protocol-based telephony, present public safety challenges that are not comprehensively addressed today. We believe our expertise in managing large volumes of data, managing geographic call boundaries and operating mission-critical networks puts SCC in a unique position to address this evolving market. We will invest and incur expenses of approximately \$10 million in 2000 for research, development and implementation of products and services to address these emerging markets.

### *Service and Product Pricing*

Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed. We typically enter into two- to ten-year agreements. We also license software, and provide hardware and professional services necessary for the management of 9-1-1 services to our customers in exchange for license and implementation services fees and maintenance fees.

### *Service Infrastructure and Architecture*

Our operations include central data administration and distributed systems for real-time 9-1-1 transaction support. Based on large scale, fault-tolerant Compaq Tandem computers, our major processing systems are configured to provide high reliability. They are also designed to provide significant capacity for continued growth using the Tandem NSK scalable message-based architecture.

Our central data administration systems, located in Boulder, Colorado, are a key element of our 9-1-1 OSS, and are used to perform routine data maintenance and to support new customer transition and initial system loads. We also maintain a central monitoring facility in Boulder that operates 24 hours a day, seven days a week.

Data networks interconnecting our facility and systems in Boulder, SCC operated remote systems and SCC client systems are based on traditional T-1 and frame relay links provided by separate, redundant carriers. To improve reliability and survivability, the primary links are designed to have three or more backup paths to access our distributed networks, including VSAT satellite links. A "hot-site" emergency business recovery facility has been established in New York and can be activated to continue routine operations in the event of a disaster at the Boulder site. Electronic processing necessary to handle actual 9-1-1 calls is geographically distributed and remains a local service for each region, so our central data administration systems are not in the actual 9-1-1 call path.

Distributed throughout the U.S., our real-time 9-1-1 servers are located in shared, hardened computer facilities. The systems are deployed in pairs or quads. System pairs are intentionally distributed to different geographic locations to provide an additional level of reliability. These systems provide data display for thousands of public safety agencies throughout the service areas of our customers. Direct interface to telephone control switches is also supported on these platforms, providing the information necessary to route calls to the jurisdictionally appropriate PSAP. We also use a number of Microsoft NT servers and various Unix servers for internal administrative processing and extranet support.

### **Customers**

We provide our services to a range of customers, including ILECs, CLECs, wireless carriers and state and local government agencies. We also license our software, provide 9-1-1 data clearinghouse services directly to CLECs

and provide 9-1-1 data management services indirectly to over 750 independent telephone companies. During the year ended December 31, 1999, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. No other customers accounted for more than 10% of our total revenue during those years.

We typically enter into contracts with carriers and their affiliates to provide services to some or all of the carrier's operating entities. We have two segments, data management services and licenses and implementation services. Set forth below is a list of carriers utilizing our services or products, which we believe are representative of our overall customer base. All of these customers are in the data management services segment except for license customers, which are in the licenses and implementation services segment. See Note 10 of our financial statements for further information regarding our reportable segments.

*ILECs.* Our customers include Ameritech, BellSouth Inc. and U S WEST.

*CLECs.* Our customers include ICG Telecom, MCI Worldcom, TriVergent Communications Inc. and Nextlink Communications Inc.

*Wireless Carriers.* Our customers include CommNet Cellular Inc., AT&T Wireless Services, Sprint PCS and US WEST Wireless.

*State Agency.* We have a contract with the General Services Commission of the State of Texas.

*License Customers.* Our license customers include Bell Canada.

We signed a contract to provide 9-1-1 data management services to the General Services Commission. This contract was assigned by the General Services Commission of the State of Texas to the Texas Commission for State Emergency Communications. This is the first time that a state entity decided to centralize 9-1-1 OSS and data management services with a neutral third party. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers, thus the regulations are being challenged and clarified for the first time. In accordance with Texas law, and on the recommendation of the Texas Public Utilities Commission, we have been granted a Service Provider Certificate of Operating Authority in the State of Texas. We successfully completed the field trial required under the contract in July 1999 and are in the process of marketing our services to the state's public safety agencies and implementing services to those who opt into the contract. Prior to commencement of the field trial, SBC Communications, which historically has been responsible for the provisioning of 9-1-1 OSS, data transport and data management services in the State of Texas, challenged whether we have a right to access SBC Communications' source systems and 9-1-1 database, whether they must allow other parties to interconnect to their selective routing switches and whether they are obligated by law to unbundle components of their network functionality. However, an interim agreement among the involved parties was reached in March 1999 that allowed us to perform the field trial to test the interfacing technology solutions in the Houston area. As part of the interim agreement, the legal challenges and all related proceedings were placed in abeyance to permit the parties to proceed with the field trial. Those matters are still held in abeyance.

As required by the agreement, SBC Communications filed wireline and wireless tariffs regarding its portion of the unbundled services. SBC Communications failed to unbundle its tariffs in a manner that allowed the cost of its solution to be competitively neutral to the grandfathered SBC Communications' solution, and the tariffs were contested by the Texas Commission for State Emergency Communications, us and various other parties. The outcome of the tariff filing is uncertain although the parties to the tariff matters have executed a second interim agreement for both wireline and wireless services, which sets the rates to be charged to public safety agencies who wish to procure our solution until a final tariff is determined. We believe that these legal and technological issues and their associated cost implications are likely to be readdressed by the Texas Public Utilities Commission, which is expected to decide on these matters in 2000. Until such resolution, the interim tariff agreement will govern those rates and charges. We believe that the services that we will provide under our contract with the General Services Commission are permitted within the scope of the existing regulations and that the outcome of the matter before the Texas Public Utilities Commission will be favorable to us and the Texas Commission for State Emergency

Communications. However, we cannot assure you that the Texas Public Utilities Commission will decide in favor of us and the Texas Commission for State Emergency Communications or that SBC Communications will not pursue this legal challenge on a longer term basis, thus causing further delay in implementing services, by exercising its right to appeal a Texas Public Utilities Commission decision that favors us or the Texas Commission for State Emergency Communications. If the Texas Public Utilities Commission does not decide in our favor or places contingencies on the manner in which the services are provided, we may be prohibited from delivering our services to the State of Texas, may expend significant resources to appeal the Texas Public Utilities Commission's decision or may expend additional costs to redesign the methodology by which the services are provided. In addition, if SBC Communications exercises its right to appeal, we may be required to spend significant resources to defend our right to provide our services in the State of Texas. The tariff proceedings have been held in abeyance pending resolution of Project 19203, a rulemaking initiated by the Texas Public Utilities Commission to establish the roles and responsibilities of 9-1-1 service providers in Texas. We cannot assure you that Project 19203 will be resolved in our favor or that the final rule will not affect the manner in which we delivers our services in Texas.

### **Sales and Marketing**

Our marketing efforts are focused on targeting key carriers, government bodies, and PSAPs in each geographical market through advertising in telecommunications industry publications, participation in trade shows, presentations at technical conferences and other initiatives. Additionally, SCC employees serve as the chairpersons and members of key standards committees related to emergency communications services. Our sales strategy relies primarily on direct channels of distribution for our services, although we recently initiated an alliance program to jointly market our TelConnect services with OSS companies who sell complementary products. We have dedicated account teams to work with each existing and potential customer. Our account teams develop relationships with 9-1-1 service providers through a consultative, problem-solving sales process and work closely with customers and potential customers to determine how their needs can be fulfilled by our services. As of February 29, 2000, we employed 28 persons in our sales and marketing organization. Sales cycles range from one month to over two years.

### **Research and Development**

We direct our research and development efforts toward providing highly scalable, fault tolerant applications to the public safety, telecommunications and wireless industries. Development efforts currently in process are focused on integrating internet technology, spatial data mapping systems and enabling the more efficient E9-1-1 OSS processes that improve data quality. We plan to invest and incur expenses of approximately \$10 million in research, development and marketing of new products and services to address the rapidly evolving changes in wireless telecommunications. Research and development expenses totaled approximately \$1,740,000, \$1,376,000 and \$738,000 for December 31, 1999, 1998, and 1997, respectively.

### **Competition**

The market for 9-1-1 OSS solutions is intensely competitive and we expect competition to increase in the future. We believe that the principal competitive factors affecting the market for 9-1-1 OSS solutions include effectiveness with existing infrastructure, reliability, manageability, technical features, wireless support, performance, ease of use, price, scope of product offerings, and customer service and support. Although we believe that our solution competes favorably with respect to such factors, we cannot assure you that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service support, technical and other competitive resources.

Our principal competitors fall generally within one of three categories:

- internal development departments of major carriers or consulting firms that support such departments;
- relatively smaller companies that offer applications featuring portions of the Company's comprehensive set of E9-1-1 solutions; and
- larger companies that are either in the process of entering our market or have the potential to develop products and services that compete with our service offerings.

Potential customers sometimes rely on their own internal development teams to formulate 9-1-1 OSS systems or retain consultants to undertake such a project. We believe that our 9-1-1 OSS solution competes favorably with internally developed systems, which may be expensive to develop and maintain, may not provide a comprehensive,

reliable approach to 9-1-1 OSS services, and may not provide the flexibility to adapt readily to regulatory, technological and market changes.

In addition, a number of companies currently market or have under development software products and services to provide 9-1-1 administration. We compete with a few relatively smaller companies, including XY Point Corporation, for the provision of 9-1-1 OSS services to wireless carriers. We also compete with a few relatively smaller companies for CLEC 9-1-1 services, such as HBF Group, Inc. Although we expect more significant competition to emerge in the future, we believe that, to date, none of these relatively smaller companies offer products or services that are as robust in features or as comprehensive in scope as our products and services. While it is likely that the product development efforts of these companies eventually will enable them to offer a line of products or services to compete with our current service offerings, we intend to continue to dedicate significant resources for product and service development to expand our capabilities and stay ahead of these competitors. Notwithstanding, we expect additional competition from these established competitors and from other emerging companies. Mergers or consolidations among these competitors or acquisitions of these companies by larger competitors would make them more formidable competitors to us. We cannot assure you that our current and potential competitors will not develop products and services that may be more effective than our current or future 9-1-1 data management solutions or that our technologies and offerings will not be rendered obsolete by such developments.

Finally, there are a number of companies that currently market and sell various products and services to telecommunications carriers, such as billing software and advanced telecommunications equipment, that have been broadly adopted by our customers and potential customers. In addition, vendors of telecommunications software and hardware in the future may enhance their products to include functionality that is currently provided by our solutions. The widespread inclusion of the functionality of our service offerings as standard features of other telecommunications software or hardware could render our services obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of our services. Furthermore, even if the 9-1-1 functionality provided as standard features by telecommunications software or networking hardware is more limited than that of our services, we cannot assure you that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional products or services. For example, Lucent Technologies offers carriers software systems with functionality similar to our services. Many of these larger companies have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products and services, than us. We believe that the entry of these larger companies into our market will require them to undertake operations that are currently not within their core areas of expertise, and thus expose them to significant uncertainties in the product development process or in providing a range of products and services to comprehensively address the 9-1-1 requirements which our services address. However, if these companies were to introduce products or services that effectively compete with our service offerings, they could be in a position to substantially lower the price of their 9-1-1 products and services or to bundle such products and services with their other product and service offerings.

For the foregoing reasons, we cannot assure you that we will be able to compete successfully against our current and future competitors. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which would materially and adversely affect our business, financial condition and results of operations.

### **Proprietary Rights**

Our success and our ability to compete depends significantly upon our proprietary rights. We rely primarily on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. We cannot assure you that such measures will be adequate to protect our proprietary rights. Further, we may be subject to additional risks as we enter into transactions in foreign countries where intellectual property laws are not well developed or are difficult to enforce. Legal protections of our proprietary rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure you that we will be successful in doing so or that the steps taken by us in this regard will be

adequate to deter misappropriation or independent third-party development of our technology, or to prevent an unauthorized third party from copying or otherwise obtaining and using our technology. There also can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us. Any such events could have a material adverse effect on our business, financial condition and results of operations.

As the number of entrants to our markets increases and the functionality of our products and services increases and overlaps with the products and services of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. In certain of our customer agreements, we agree to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In certain instances, the amount of such indemnities may be greater than the revenue we may have received from the customer. We cannot assure you that third parties will not assert infringement or misappropriation claims against us in the future with respect to current or future products or services. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation or require us to enter into royalty or licensing arrangements. Such royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our business, financial condition and results of operations.

### **Employees**

As of February 29, 2000, we employed 315 full-time employees in ten states. Of these employees, 33 were involved in research and development, 28 in sales and marketing, 204 in technical support and operations and 50 in administration and finance. No employees are covered by any collective bargaining agreements. We believe that our relationships with our employees are good.

### **Facilities**

Our principal administrative, sales and marketing, research and development and support facilities consist of approximately 80,000 square feet of office space in Boulder, Colorado. We occupy these premises under a lease expiring December 31, 2002. As of February 29, 2000, the annual base rent for this facility was approximately \$878,000; however, the lease agreement provides for periodic defined increases in rent through the lease term. In December 1999, we leased an additional 2,100 square feet of office space in Austin, Texas to supplement and serve as a back up to our Boulder, Colorado facility. We occupy these premises under a lease expiring November 30, 2003. As of February 29, 2000, the annual base rent for this facility was approximately \$37,000; however the lease agreement provides for periodic defined increases in rent through the lease term. We expect to lease additional space in 2000 to accommodate growth.

### **Legal Proceedings**

We are not a party to any litigation that we believe could have a material adverse effect on us or our business. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. We plan to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. We believe that the services we provide are within the scope of the existing regulations and that any challenges to the regulations will be decided in our favor. However, if the regulations are challenged and are not decided in our favor, we may be prohibited from expanding our services to certain markets.

## **RISK FACTORS**

*In evaluating our business, you should carefully consider the risks and uncertainties discussed in this section, in addition to the other information presented in this Annual Report on Form 10-K. The risks and uncertainties described below may not be the only risks that we face. If any of these risks or uncertainties actually occurs, our business, operating results or financial condition could be materially adversely affected. This could cause the market price of our common stock to decline.*

**Our operating results fluctuate, and our stock price may be volatile as a result.**

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. We experienced a profit in 1998, but had a net loss of approximately \$1.3 million in 1999. Therefore, you should not rely on period-to-period comparisons of revenue or operating results as an indication of our future performance. If our quarterly revenue or operating results fall below the expectations of the investors or securities analysts, the price of our common stock could fall substantially.

Our operating results may continue to fluctuate as a result of many factors, including:

- our planned investments in research, development and marketing to expand our service offerings;
- our sales cycle is relatively long;
- the size, timing and duration of significant customer contracts can vary significantly;
- the number of subscriber records under our management may fluctuate;
- we cannot predict the rate of adoption of wireless services by PSAPs;
- our revenue will be affected by the timing of introduction of new products and services by us and our competitors; and
- changes in telecommunications legislation and regulations may affect the competitive environment for our services.

Our contracts for data management services generally include a separate non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to the Company's systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

**Our sales cycle is relatively long and difficult to predict.**

Our potential customers typically commit significant resources to the technical evaluation of our services and products, and we typically spend substantial time, effort and money providing education regarding our 9-1-1 OSS solution. The evaluation process often results in an extensive and lengthy sales cycle, typically ranging between one month and two years, making it difficult for us to forecast the timing and magnitude of sales contracts. Delays associated with customers' internal approval and contracting procedures, procurement practices, and testing and acceptance processes are common. For example, customers' budgetary constraints and internal acceptance reviews may cause potential customers to delay or forego a purchase. The delay or failure to complete one or more large contracts could have a material adverse effect on our business, financial condition and results of operations and cause our operating results to vary significantly from quarter to quarter.

**We depend on large contracts from a limited number of significant customers, and the loss of any of those contracts would adversely affect our operating results.**

We historically have depended on, and expect to continue to depend on, large contracts from a limited number of significant customers. We provide our services to a range of customers, including ILECs, CLECs, wireless carriers and state and local government agencies. We also license our software and provide 9-1-1 data clearinghouse services directly and indirectly to over 750 independent telephone companies. During the year ended December 31, 1999, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. No other customers accounted for more than 10% of our total revenue during those years. We believe that these customers will continue to represent a substantial portion of our total revenue in the future. Certain of our contracts with these customers allow them to cancel their contracts with us in the event of changes in regulatory, legal, labor or business conditions. Our contracts with these customers expire through 2005. The loss of any of these customers would have a material adverse effect on our business, financial condition and results of operations.

Two of our significant customers, Ameritech and US WEST, have entered into merger agreements with companies that are not our customers. We cannot predict what effect, if any, these acquisitions will have on us and we cannot assure you that these acquisitions or any future consolidation in the telecommunications industry will not have a material adverse effect on our business, financial condition and results of operation.

None of our major customers has any obligation to purchase additional products or additional services beyond those currently contemplated by their existing contracts. Consequently, our failure to develop relationships with significant new customers could have a material adverse effect on the rate of growth in our revenue, if any. If we fail to monitor and maintain adequately the quality of our product and services, expand the breadth of our services and products, advance our technology or continue to price our services and products competitively, one or more of our major customers may select alternative providers or seek to develop services and products internally.

***If we lose the services of George Heinrichs or other key personnel, our business will suffer.***

Our future success depends in large part on the continued service of our key management, sales, product development and operational personnel, including George Heinrichs, our President and Chief Executive Officer. We have not entered into employment agreements with Mr. Heinrichs or any of our other key personnel. Losing the services of one or more of these individuals might hinder our ability to achieve our business objectives.

***We must hire and retain qualified personnel in a competitive labor market.***

Our success in large part depends on our ability to continue to attract, motivate and retain highly qualified employees, including technical, managerial and sales and marketing personnel. We expect to continue to expand the number of employees engaged in all aspects of our business. Competition in the recruitment of highly qualified personnel in the software and telecommunications services industry is intense and has become particularly difficult in the Denver metropolitan area. Our inability to hire and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our current business, development efforts and future business prospects.

***Our business will be adversely affected if Public Safety Answering Points do not demand E9-1-1 services at the rate we expect.***

We expect the percentage of our revenue derived from the management of 9-1-1 data records for wireless carriers to increase. Recognizing the public safety need for improved wireless 9-1-1 service, the FCC issued Report and Order 94-102 on June 12, 1996 and subsequent orders in 1999 and 2000 that mandated the adoption of 9-1-1 technology by wireless carriers in two phases. Phase I requires wireless carriers to provide to requesting PSAPs at the time of a 9-1-1 call, the caller's telephone number and location of the receiving cell site. Phase II requires wireless carriers to locate a 9-1-1 caller more accurately, subject to FCC guidelines. However, under the FCC rules, wireless carriers are not required to provide wireless 9-1-1 service without a PSAP request. To provide an additional impetus for wireless 9-1-1 implementation, the Federal Wireless Communications and Public Safety Act was signed into law in October 1999. This legislation provides liability protection to wireless carriers that is in parity with wireline carriers' liability protection. However, there is no assurance that the legislation will have the desired effect of accelerating wireless E9-1-1 deployment. The FCC continues to work with the wireless industry to facilitate wireless E9-1-1 implementation. The FCC has outlined a phased implementation schedule for Phase II. We believe that the technological challenges confronting wireless carriers attempting to comply with Report and Order 94-102 will encourage them to outsource their E9-1-1 services. If many wireless carriers decide not to outsource such services, our business, financial condition and results of operations could be materially and adversely affected. Due to cost recovery, liability and operational issues, the number of PSAPs demanding services complying with Report and Order 94-102 from wireless carriers has been less than anticipated by us. If the rate of adoption by PSAPs continues to be slow because of cost recovery, liability or operational issues, extensions granted by the FCC or other reasons, we will continue to experience delays in receiving revenue under our current wireless contracts that, because we have already incurred costs in expectation of such revenue, could have a material adverse effect on our business, financial condition and results of operations.

***Our market is characterized by rapid technological change, and we could lose our competitive position and fail to grow our business if we do not develop and offer new products and services.***

The market for our services is characterized by rapid technological change, frequent new product or service introductions, evolving industry standards and changing customer needs. We launched our Emergency Warning and Evacuation (EWE) product, in the fourth quarter of 1999, which allows PSAPs to call all numbers in a given area and warn citizens of imminent danger. We intend to offer other new products in the future. The introduction of products and services embodying new technologies and the emergence of new industry and technology standards

can render existing products and services obsolete and unmarketable in short periods of time. We expect other vendors to regularly introduce new products and services, as well as enhancements to their existing products and services, that will compete with the services and products offered by us. As a result, the life cycles of our services and products are difficult to estimate. We believe that our future success will depend in large part on our ability to maintain and enhance our current service and product offerings, to develop and regularly introduce new services and products that will keep pace with technological advances and satisfy evolving customer requirements, and to achieve acceptable levels of sales of our new services and products through our current customers that resell our solutions to their subscribers. However, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction or marketing of such new services and products or that our new services and products will adequately meet the requirements of the marketplace and achieve market acceptance. Announcements of currently planned or other new service and product offerings by us or our competitors may cause customers to defer the purchase of our existing services and products. Our inability to develop on a timely basis new services or products, or the failure of such new services or products to achieve market acceptance, could have a material adverse effect on our business, financial condition and results of operations. The development of new, technologically advanced products and services is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will successfully develop, introduce or manage the transition to new services and products. Furthermore, services and products such as those offered by us may contain undetected or unresolved errors when they are first introduced or as new versions are released. We cannot assure you that, despite extensive testing by us, errors will not be found in new services and products after commencement of commercial availability, resulting in delay in or loss of market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs, any of which could have a material adverse effect on our business, financial condition and results of operations. Significant delays in meeting deadlines for announced service or product introductions or performance problems with such products or upgrades could result in an undermining of customer confidence in our services and products, which would materially adversely affect our customer relationships as well.

In addition, we plan to introduce transaction-based services and software products to industries different from those we have traditionally supported. We cannot assure you that we will be successful in developing and marketing these new services and products or that our current or new services and products will adequately meet the demands of our new markets. Because it is generally not possible to predict the time required and costs involved in reaching certain research, development and engineering objectives related to entering new markets, actual development costs could exceed budgeted amounts and estimated development schedules could require extensions. Furthermore, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these services and products. If we are unable to develop and introduce new services and products to these new markets in a timely manner, or if a new release of a product or service to such new markets does not achieve market acceptance, our business, financial condition and results of operations could be materially adversely affected.

**Substantially all of our revenue is derived from our 9-1-1 OSS solution, and our operating results will depend upon our ability to continue to sell this solution.**

We currently derive substantially all of our revenue from the provisioning of our 9-1-1 OSS solution to ILECs, CLECs, wireless carriers and state and local government agencies. Accordingly, we are susceptible to adverse trends affecting this market segment, such as government regulation, technological obsolescence and the entry of new competition. We expect that this market will continue to account for substantially all of our revenue in the near future. As a result, our future success will depend on our ability to continue to sell our 9-1-1 OSS solution, maintain and increase our market share by providing other value-added services to the market, and successfully adapt our technology and services to other related markets. We cannot assure you that markets for our existing services and products will continue to expand or that we will be successful in our efforts to penetrate new markets.

**Our operating results could be adversely affected if we underestimate costs on our fixed price contracts.**

During 1999, approximately 88% of our revenue was generated on a fixed price per subscriber basis. We generally enter into contracts with two- to ten-year terms. We generally receive a fixed monthly fee based upon the number of subscribers and upon the services selected by the customer. Therefore, our failure to estimate accurately the resources required for a fixed price per subscriber contract could have a material adverse effect on our business, financial condition and results of operations.

**We could incur substantial costs from product liability claims relating to our software.**

Because our services and products are utilized by our customers to provide critical 9-1-1 services, the provisioning of services and licensing of software by us may entail the risk of product liability and related claims. Our agreements with our customers typically require us to indemnify our customers for our own acts of negligence. Product liability insurance is expensive and may not be available in the future. We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in a sufficient amount, that our insurer will not disclaim coverage as to a future claim or that a product liability claim would not otherwise adversely affect our business, operating results or financial condition.

**Our success depends upon the continued growth of wireline and wireless telecommunications markets.**

We provide our 9-1-1 OSS solution to telecommunications carriers in the wireline and wireless markets. Although these markets have experienced significant growth and have been characterized by increased deregulation and competition in recent years, we cannot assure you that such trends will continue at similar rates or that we will be able to market and sell effectively our products and services in such markets. In addition, many of the new entrants in the telecommunications market are companies that lack significant financial and other resources. To cultivate relationships with such new market entrants, we may be required to offer alternative pricing arrangements, which may provide for deferred payments. However, we cannot assure you that we will be able to develop such relationships or that new carriers that become our customers will gain market acceptance for their telecommunications services. If we permit customers that do not have adequate financial resources to pay us for our services on a deferred basis, we ultimately may be unable to collect payments for such services. Because we historically have depended on a limited number of long-term customer relationships, our failure to develop relationships with, make sales to, or collect payments from new telecommunications carriers, or the failure of our customers to compete effectively in the telecommunications market, could have a material adverse effect on our business, financial condition and results of operations. In addition, the telecommunications industry is experiencing substantial consolidations and changes that are unpredictable, and any such consolidation or change could have a material adverse effect on our business, financial condition and results of operations.

**Our business is subject to government regulation and other legal uncertainties, which could adversely affect our operations.**

The market for our services and products has been influenced by the adoption of regulations under the Telecommunications Act, the new duties imposed on ILECs by the Telecommunications Act to open the local telephone markets to competition, and the requirements imposed on wireless carriers by Report and Order 94-102. Therefore, any changes to such legal requirements, the adoption of new regulations by federal or state regulatory authorities under the Telecommunications Act or any legal challenges to the Telecommunications Act could have a material adverse effect upon the market for our services and products. Although the Telecommunications Act was designed to expand competition in the telecommunications industry, the realization of the objectives of the Telecommunications Act is subject to many uncertainties, including judicial and administrative proceedings designed to define rights and obligations pursuant to the Telecommunications Act, actions or inactions by ILECs and other carriers that affect the pace at which changes contemplated by the Telecommunications Act occur, resolution of questions concerning which parties will finance such changes, and other regulatory, economic and political factors.

We are aware of litigation challenging the validity of the Telecommunications Act and the local telephone competition rules adopted by the FCC to implement the Telecommunications Act. The U.S. Supreme Court in *AT&T v. Iowa* invalidated the unbundling requirements adopted by the FCC while upholding a portion of the FCC's local competition rules. The FCC adopted new unbundling requirements on September 15, 1999 to comply with the decision of the Supreme Court. The final impact of the application of these rules is not yet known. Such litigation may serve to delay full implementation of the Telecommunications Act, which could adversely affect demand for our services and products. Any delays in the deadlines imposed by the Telecommunications Act, the FCC, or any invalidation, repeal or modification in the requirements imposed by the Act or the FCC could have a material adverse effect on our business, financial condition and results of operations. Moreover, customers may require, or we otherwise may deem it necessary or advisable, that we modify our services and products to address actual or anticipated changes in the regulatory environment. Any other delays in implementation of the Telecommunications Act, or other regulatory changes, could materially adversely affect our business, financial condition and results of operations.

We signed a contract to provide 9-1-1 data management services to the General Services Commission of the State of Texas. This contract was assigned by the General Services Commission to the Texas Commission for State Emergency Communications. As this is the first time that a state entity has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party, federal and state regulations governing 9-1-1 service provisioning, which have typically applied to local exchange services providers, are being challenged and clarified for the first time. In accordance with Texas law, and on the recommendation of the Texas Public Utilities Commission, we have been granted a Service Provider Certificate of Operating Authority in the State of Texas. We successfully completed the field trial required under the contract in July 1999 and are in the process of marketing our services to the state's public safety agencies and implementing services to those who opt into the contract. Prior to commencement of the field trial, SBC Communications, which historically has been responsible for the provisioning of 9-1-1 OSS, data transport and data management services in Texas, challenged whether we have a right to access SBC Communications' source systems and 9-1-1 database, whether they must allow other parties to interconnect to their selective routing switches and whether they are obligated by law to unbundle components of their network functionality. An interim agreement among the involved parties was reached in March 1999 that allowed us to perform the field trial to test the interfacing technology solutions in the Houston area. As part of the interim agreement, the legal challenges and all related proceedings were placed in abeyance to permit the parties to proceed with the field trial. Those matters are still held in abeyance.

As required by the agreement, SBC Communications filed wireline and wireless tariffs regarding its portion of the unbundled services. SBC Communications failed to unbundle its tariffs in a manner that allowed the cost of our solution to be competitively neutral to the grandfathered SBC Communications' solution, and the tariffs were contested by the Texas Commission for State Emergency Communications, us and various other parties. The outcome of the tariff filing is uncertain, although the parties to the tariff matters have executed a second interim agreement for both wireline and wireless services, which sets the rates to be charged to public safety agencies who wish to procure our solution until a final tariff is determined. We believe that these legal and technological issues and their associated cost implications are likely to be readdressed by the PUC, which is expected to decide on these matters in 2000. Until such resolution, this interim tariff agreement will govern those rates and charges. We believe that the services that we will provide under our contract with the General Services Commission are permitted within the scope of the existing regulations and that the outcome of the matter before the PUC will be favorable to us and the Texas Commission for State Emergency Communications. However, we cannot assure you that the PUC will decide in favor of us and the Texas Commission for State Emergency Communications or that SBC Communications will not resume its desire to pursue this legal challenge on a longer term basis, thus causing further delay of the commencement of the services by exercising its right to appeal a PUC decision that favors us or the Texas Commission for State Emergency Communications. If the PUC does not decide in our favor or places contingencies on the manner in which the services are provided, we may be prohibited from delivering our services to the State of Texas, may expend significant resources to appeal the PUC's decision or may expend additional costs to redesign the methodology by which the services are provided. In addition, if SBC Communications exercises its right to appeal, we may be required to spend significant resources to defend our right to provide our services in the State of Texas. The tariff proceedings have been held in abeyance pending resolution of Project 19203, a rulemaking initiated by the PUC to establish the roles and responsibilities of 9-1-1 service providers in Texas. We cannot assure you that Project 19203 will be resolved in our favor or that the final rule will not affect the manner in which we delivers our services in Texas.

9-1-1 services generally are funded by a locally imposed fee per subscriber per month. A portion of this tax is paid to the local carrier providing the 9-1-1 services. We generally receive a monthly fee per subscriber from our customers for management of 9-1-1 data records, allowing the carrier to match our fixed revenue stream for 9-1-1 services with a fixed cost for record management. Changes by local governments in the funding mechanism for 9-1-1 services or the parties responsible for the provision of such services could have a material adverse effect on our business, financial condition and results of operations.

**Our operating results could be adversely affected by any interruption of our services because of system failure.**

Our operations depend on our ability to maintain our computer and telecommunications equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. Although all of our mission-critical systems and equipment are designed with built-in redundancy and security, we cannot assure you that a fire, natural disaster, power loss,

telecommunications failure or similar event would not result in an interruption of our services. Any damage, failure or delay that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any future addition or expansion of our facilities to increase capacity could increase our exposure to damage from fire, natural disaster, power loss, telecommunications failure or similar events. We cannot assure you that our property and business interruption insurance will be adequate to compensate us for any losses that may occur in the event of a system failure or that such insurance will continue to be available to us at all or, if available, that it will be available on commercially reasonable terms.

**Our failure to manage our growth effectively could adversely affect our ability to increase our revenue and could increase our operating expenses.**

We have expanded our operations rapidly over the past several years, placing significant demands on our administrative, operational and financial personnel and systems. Additional expansion by us may further strain our management, operational, financial reporting, and other systems and resources. We cannot assure you that our systems, resources, procedures, controls and existing space will be adequate to support such expansion of our operations. Our future operating results will depend substantially on the ability of our officers and key employees to manage changing business conditions and to implement and improve our management, operational, financial control and other reporting systems. In addition, our future operating results depend on our ability to attract, train and retain qualified consulting, technical, sales, financial, marketing and management personnel. Failure to hire, train or retain qualified personnel necessary to keep pace with our development of products and services could have a material adverse effect on our business, financial condition and results of operations. Continued expansion will require our management to:

- enhance management information and reporting systems;
- standardize implementation methodologies of our operations;
- further develop our infrastructure; and
- continue to maintain customer satisfaction.

If we are unable to respond to and manage changing business conditions, the quality of our products and services, our ability to retain key personnel and our business, financial condition and results of operation could be materially adversely affected.

**The market for 9-1-1 OSS solutions is highly competitive, and we could lose our market position if we fail to compete effectively.**

The market for 9-1-1 OSS solutions is intensely competitive and we expect competition to increase in the future. We believe that the principal competitive factors affecting the market for 9-1-1 OSS services include flexibility, reliability, manageability, technical features, wireless support, performance, ease of use, price, scope of product offerings, and customer service and support. We cannot assure you that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, support service, technical and other competitive resources.

Our principal competitors generally fall within one of three categories:

- internal development departments of major carriers or consulting firms that support such departments;
- relatively smaller companies that offer applications featuring portions of our comprehensive set of E9-1-1 solutions; and
- larger companies that are either in the process of entering our market or have the potential to develop products and services that compete with our service offerings.

There are a number of companies that market and sell various products and services to telecommunications carriers, such as billing software and advanced telecommunications equipment, that have been broadly adopted by our customers and potential customers. In addition, vendors of telecommunications software and hardware in the future may enhance their products to include functionality that is currently provided by our solutions. The widespread inclusion of the functionality of our service offerings as standard features of other telecommunications software or hardware could render our services obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of our services. Furthermore, even if the 9-1-1 functionality provided as standard features by telecommunications software or networking hardware is more limited than that of our services,

we cannot assure you that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional products or services.

Many of our competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products and services, than us. If these companies were to introduce products or services that effectively compete with our service offerings, they could be in a position to substantially lower the price of their 9-1-1 products and services or to bundle such products and services with their other product and service offerings.

**We may be unable to protect our proprietary technology rights.**

Our success and our ability to compete depends significantly upon our proprietary rights. We rely primarily on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. We cannot assure you that such measures will be adequate to protect our proprietary rights. Further, we may be subject to additional risks as we enter into transactions in foreign countries where intellectual property laws are not well developed or are difficult to enforce. Legal protections of our proprietary rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights, we cannot assure you that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third-party development of our technology, or to prevent an unauthorized third party from copying or otherwise obtaining and using our technology. There also can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us. Any such events could have a material adverse effect on our business, financial condition and results of operations.

**Claims by other companies that our products infringe their proprietary rights could adversely affect our financial condition.**

As the number of entrants to our markets increases and the functionality of our services and products increases and overlaps with the products and services of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. In certain of our customer agreements, we agree to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In some instances, the amount of the indemnities may be greater than the revenue we received from the customer. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our business, financial condition and results of operations.

**We face additional risks from any international operations we undertake.**

Although substantially all of our revenue is generated from sales to customers in the United States, we have generated revenue in Canada and intend to enter additional international markets, which will require significant management attention and financial resources. International sales are subject to a variety of risks, including difficulties in establishing and managing international distribution channels, and in translating products and related materials into foreign languages. International operations are also subject to difficulties in collecting accounts receivable, staffing, managing personnel and enforcing intellectual property rights. Other factors that can adversely affect international operations include fluctuations in the value of foreign currencies and currency exchange rates, changes in import/export duties and quotas, introduction of tariff or non-tariff barriers and economic or political changes in international markets. We cannot assure you that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition and results of operations. Furthermore, any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

**Acquisitions could cause financial or operational problems.**