

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

FORM 8-K

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

Date of report (Date of earliest event reported): August 10, 2007

Wireless Ronin Technologies, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction
of incorporation)

1-33169
(Commission
File Number)

41-1967918
(IRS Employer
Identification No.)

5929 Baker Road, Suite 475
Minnetonka, Minnesota 55345
(Address of principal executive offices, including zip code)

(952) 564-3500
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

TABLE OF CONTENTS

[ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.](#)

[ITEM 8.01 OTHER EVENTS.](#)

[ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[Press Release dated August 10, 2007](#)

[Cautionary Statement](#)

[Table of Contents](#)

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 10, 2007, we publicly announced results of operations for the second quarter of 2007. For further information, please refer to the press release attached hereto as Exhibit 99.1, which is incorporated by reference herein.

ITEM 8.01 OTHER EVENTS.

We are filing herewith a Cautionary Statement pursuant to the Private Securities Litigation Reform Act of 1995 for use as a readily available written document to which reference may be made in connection with forward-looking statements, as defined in such act. Such Cautionary Statement, which appears as Exhibit 99.2 to this report, is incorporated by reference in response to this Item 8.01.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(d) See "Exhibit Index".

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 10, 2007

Wireless Ronin Technologies, Inc.

By: /s/ John A. Witham
John A. Witham
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release reporting results of operations for the second quarter of 2007, dated August 10, 2007.
99.2	Cautionary Statement, dated August 10, 2007.

Wireless Ronin Reports 2007 Second Quarter Results

MINNEAPOLIS — August 10, 2007 —

Key recent highlights include:

- **Achieves revenue of \$3.1 million in the second quarter**
- **Attains first half 2007 gross margin of 38.7 percent**
- **Holds current contracts and agreements for 2007 installations totaling \$17.1 million**
- **Continues expansion of the Reuters Infopoint rollout**
- **Completes follow-on equity offering of 4.3 million common shares**
- **Relocates headquarters to support sales efforts and future growth**
- **Announces agreement to acquire McGill Digital Solutions to expand vertical market footprint**

Wireless Ronin Technologies, Inc. (NASDAQ: RNIN) today announced its financial results for the 2007 second quarter. The company reported revenue of \$3.1 million for the second quarter of 2007, in comparison to \$0.3 million in the second quarter of 2006, a net loss of \$1.0 million compared to a net loss of \$2.2 million last year, and a basic and diluted loss per share of \$0.09 compared to a basic and diluted loss per share of \$2.80 last year. The decline in the net loss for the 2007 second quarter was primarily attributable to increased revenue levels outpacing expense growth over the same period. Second-quarter results also benefited from a sharp increase in interest income resulting from investment of the net proceeds of the company's initial public offering and recent follow-on equity offering. Also included in the 2006 second quarter loss was \$1.1 million of interest expense and loss on debt modification, which had all but been eliminated in the 2007 reporting period. Second-quarter results also included costs of approximately \$136,000 after-tax, or \$0.01 per basic and diluted share, of non-cash stock option expense related to FAS123R. The company adopted FAS123R for reporting purposes in the first quarter of 2006.

Jeffrey Mack, Wireless Ronin's chairman, president and chief executive officer said, "I am pleased with our accomplishments in the second quarter and the progress we made toward our future growth and profitability objectives. During the quarter we achieved record revenue levels, maintained gross margin levels of nearly 40 percent, moved our corporate headquarters in order to facilitate our sales and marketing efforts, further invested in our sales team and took a major step to cushion our capital base and give us the leverage to be successful. The closing of our follow-on offering in June improved our liquidity, created a solid platform for growth and allows us to respond to the consolidation opportunities within our industry."

First Half Results

For the first six months of 2007, the company reported revenue of \$3.3 million compared to \$0.9 million in the first half of 2006, a net loss of \$4.0 million compared to a net loss of \$4.2 million last year, and a basic and diluted loss per share of \$0.40 compared to a basic and diluted loss per share of \$5.27 last year. The slight decline in net loss during 2007 was primarily attributable to the increase in year-over-year revenue levels as well as the sharp decline in interest expense, as the company's debt has been virtually eliminated. Offsetting these benefits were a substantial increase in sales and marketing expense to support growth opportunities as well as higher general and administrative expense associated with being a public company. The decline in basic and diluted loss per share was due primarily to the increase in shares outstanding. The 2007 results also included costs of approximately \$732,000 after-tax, or \$0.07 per basic and diluted share, of non-cash stock option expense related to FAS123R.

Operations Detail

For the second quarter of 2007, gross margins averaged 38.7 percent, as compared to a gross margin of 37.9 percent in the second quarter of 2006. The slight increase in year-over-year gross margin primarily reflected a greater percentage of higher-margin software revenue.

Second quarter 2007 operating expenses totaled \$2.4 million, as compared to \$1.3 million in the prior year. Included in those totals was FAS 123R-related expense of \$136,000 and \$156,000, respectively.

General and administrative expense for the 2007 second quarter was \$1.5 million compared to \$0.7 million during the same period last year, primarily reflecting higher staffing levels. Increased expenses also resulted from higher professional services fees, partially offset by a slight decline in FAS 123R-related expenses.

Sales and marketing expense totaled \$0.7 million in the second quarter of 2007, compared to \$0.3 million in the second quarter of 2006. The year-over-year increase in sales and marketing expense resulted from the further investment in building the team of sales associates, higher commission levels as well as expenses related to tradeshows and other new business activities.

Cash and marketable securities at June 30, 2007 was approximately \$38.9 million compared to \$15.5 million at the end of 2006, reflecting the addition of the proceeds from the company's recent follow-on equity offering. Due to the company's loss carryforward position, it does not currently pay income taxes.

Full Year 2007 Guidance and Business Outlook

Wireless Ronin has been advised by NewSight Corporation, Wireless Ronin's largest customer during the first six months of 2007, that NewSight has re-prioritized various elements of its planned digital signage system implementations. In particular, NewSight has delayed the rollout of network installations into large, upscale malls, and the launch, installation and operation of digital signage networks in physicians' offices throughout the U.S. As a new top digital signage priority for NewSight, Wireless Ronin has entered into an agreement to provide digital signage to a large grocery store chain in the mid-Atlantic region. In particular, Wireless Ronin will retrofit their existing network and newly configure approximately 75 stores. NewSight plans to allocate certain equipment purchased from Wireless Ronin during the second quarter of 2007 for these installations. Despite the addition of the grocery store chain installations, NewSight's re-prioritization of pending projects will negatively impact Wireless Ronin's 2007 revenue from NewSight. However, Wireless Ronin's continued focus on other customer opportunities and the implementation of other customers' digital signage systems, prompts the company to maintain full year sales guidance in the range of \$18 million to \$21 million. The company also continues to target a gross margin at 40% or higher.

"We feel that our performance in the second quarter and the proposals and opportunities we see on the horizon will enable us to achieve our financial objectives for the full year," concluded Mack. "We demonstrated the effectiveness of our sales and marketing engine as we delivered record revenue levels. With the successful completion of our follow-on offering late in the quarter, we continue to strengthen our balance sheet and position ourselves to be opportunistic regarding consolidation opportunities. We are excited by the potential from the new vertical markets presented by our recently announced agreement to acquire McGill Digital Solutions and the growth opportunities we see before us. We are maintaining our revenue outlook for the year, even with the delay at NewSight, because of our continued focus on other customer opportunities. We are confident in our future success."

A conference call to review the second quarter results and to provide further information regarding our active proposals and opportunity pipeline is scheduled for today at 9:00 a.m. (CDT). A live webcast of Wireless Ronin's earnings conference call can be accessed on the Investor section of its corporate website at www.wirelessronin.com. Alternatively, a live broadcast of the call may be heard by dialing (888) 633-9563 inside the United States or Canada, or by calling (706) 679-6372 from international locations. An operator will direct you to the Wireless Ronin conference call. A webcast replay of the call will be archived on Wireless Ronin's corporate Web site. An archive of the call is also accessible via telephone by dialing (800) 642-1687 domestically and (706) 645-9291 internationally with pass code 10458276. The conference call archive will be available through August 24, 2007.

About Wireless Ronin Technologies, Inc.

Wireless Ronin Technologies (www.wirelessronin.com) is the developer of RoninCast®, a complete software solution designed to address the evolving digital signage marketplace. RoninCast® provides clients with the ability to manage a digital signage network from one central location. The software suite allows for customized distribution with network management, playlist creation and scheduling, and database integration. An array of services is offered by Wireless Ronin to support RoninCast® including consulting, creative development, project management, installation, and training. The company's common stock is traded on the NASDAQ Capital Market under the symbol "RNIN".

This release contains certain forward-looking statements of expected future developments, as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect management's expectations and are based on currently available data; however, actual results are subject to future risks and uncertainties, which could materially affect actual performance. Risks and uncertainties that could affect such performance include, but are not limited to, the following: our estimates of future expenses, revenue and profitability; the pace at which we complete installations and recognize revenue; trends affecting our financial condition and results of operations; our ability to convert proposals into customer orders; the ability of our customers to pay for our products and services; the revenue recognition impact of changing customer requirements; customer cancellations; the availability and terms of additional capital; our ability to develop new products; our dependence on key suppliers, manufacturers and strategic partners; industry trends and the competitive environment; and the impact of losing one or more senior executives or failing to attract additional key personnel. These and other risk factors are discussed in detail in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, on August 10, 2007.

In addition, this release contains certain non-GAAP financial measures, including references to adjusted operating loss. As compared to the nearest GAAP measurement for our company, adjusted operating loss represents operating loss with the add-back of depreciation and amortization, termination of partnership agreement and stock-based compensation expense. We use adjusted operating loss as internal measurement of operating performance. Adjusted operating loss as we define it may not be comparable to similar measurements used by other companies and is not a measure of performance or liquidity presented in accordance with GAAP. The company believes that adjusted operating loss is an important component of its financial results because it is a widely used measurement within the company's industry to evaluate performance. The company uses adjusted operating loss as a means of evaluating its financial performance compared with its competitors. This non-GAAP measurement should not be used as a substitute for operating loss. A reconciliation of adjusted operating loss to operating loss for the three and six months ended June 30, 2007 and 2006 is provided herein.

CONTACTS:

Investors

John Witham — CFO
jwitham@wirelessronin.com
(952) 564-3520

Media

Holly Heitkamp — Marketing Coordinator
hheitkamp@wirelessronin.com
(952) 564-3560

WIRELESS RONIN® TECHNOLOGIES, INC.

**BALANCE SHEETS
JUNE 30, 2007 AND DECEMBER 31, 2006**

ASSETS

	June 30, 2007 <u>(unaudited)</u>	December 31, 2006 <u>(Audited)</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 31,864,038	\$ 8,273,388
Marketable securities — available for sale	6,556,726	7,193,511
Accounts receivable, net	2,320,336	1,128,730
Inventories	252,107	255,850
Prepaid expenses and other current assets	80,411	148,024
Total current assets	<u>41,073,618</u>	<u>16,999,503</u>
 PROPERTY AND EQUIPMENT, net	 <u>723,979</u>	 <u>523,838</u>
OTHER ASSETS		
Restricted cash	450,000	—
Deposits	237,594	22,586
Total Other Assets	<u>687,594</u>	<u>22,586</u>
 TOTAL ASSETS	 <u>\$ 42,485,191</u>	 <u>\$ 17,545,927</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 106,762	\$ 106,311
Accounts payable	1,319,035	948,808
Deferred revenue	450,968	202,871
Accrued liabilities	338,182	394,697
Total current liabilities	<u>2,214,947</u>	<u>1,652,687</u>
LONG-TERM LIABILITIES		
Capital lease obligations, less current maturities	<u>106,377</u>	<u>155,456</u>
Total liabilities	<u>2,321,324</u>	<u>1,808,143</u>
 COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Capital stock, \$0.01 par value, 66,666,666 shares authorized		
Preferred stock, 16,666,666 shares authorized, no shares issued and outstanding at June 30, 2007 and December 31, 2006	—	—
Common stock, 50,000,000 shares authorized; 14,260,151 and 9,825,621 shares issued and outstanding at June 30, 2007, and December 31, 2006, respectively	142,601	98,256
Additional paid-in capital	77,487,624	49,056,509
Accumulated deficit	(37,463,989)	(33,433,713)
Accumulated other comprehensive income (loss)	(2,369)	16,732
Total shareholders' equity	<u>40,163,867</u>	<u>15,737,784</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 <u>\$ 42,485,191</u>	 <u>\$ 17,545,927</u>

STATEMENTS OF OPERATIONS
JUNE 30, 2007 AND 2006

	Three months ended		Six months ended	
	June 30, 2007 <u>(unaudited)</u>	June 30, 2006 <u>(unaudited)</u>	June 30, 2007 <u>(unaudited)</u>	June 30, 2006 <u>(unaudited)</u>
Sales				
Hardware	\$ 2,484,133	\$ 270,235	\$ 2,520,238	\$ 568,082
Software	290,097	37,536	352,839	301,546
Services and other	280,633	24,889	378,222	64,598
Total sales	<u>3,054,863</u>	<u>332,660</u>	<u>3,251,299</u>	<u>934,226</u>
Cost of sales				
Hardware	1,685,579	189,262	1,735,708	396,471
Software	—	—	—	—
Services and other	187,445	17,481	240,579	37,462
Total cost of sales	<u>1,873,024</u>	<u>206,743</u>	<u>1,976,287</u>	<u>433,933</u>
Gross profit	1,181,839	125,917	1,275,012	500,293
Operating expenses				
Sales and marketing expenses	653,526	347,913	1,278,175	778,817
Research and development expenses	257,858	196,935	507,289	430,540
General and administrative expenses	1,519,218	749,618	3,275,807	1,741,928
Termination of partnership agreement	—	—	653,995	—
Total operating expenses	<u>2,430,602</u>	<u>1,294,466</u>	<u>5,715,266</u>	<u>2,951,285</u>
Operating loss	(1,248,763)	(1,168,549)	(4,440,254)	(2,450,992)
Other income (expenses)				
Interest expense	(9,634)	(868,113)	(20,515)	(1,347,196)
Loss on debt modification	—	(195,199)	—	(367,153)
Interest income	278,686	6,284	431,984	6,488
Other	—	(74)	(1,491)	559
	<u>269,052</u>	<u>(1,057,102)</u>	<u>409,978</u>	<u>(1,707,302)</u>
Net loss	<u>\$ (979,711)</u>	<u>\$ (2,225,651)</u>	<u>\$ (4,030,276)</u>	<u>\$ (4,158,294)</u>
Basic and diluted loss per common share	<u>\$ (0.09)</u>	<u>\$ (2.80)</u>	<u>\$ (0.40)</u>	<u>\$ (5.27)</u>
Basic and diluted weighted average shares outstanding	<u>10,446,571</u>	<u>794,454</u>	<u>10,141,126</u>	<u>789,320</u>

WIRELESS RONIN® TECHNOLOGIES, INC.
2006 SUPPLEMENTARY QUARTERLY FINANCIAL DATA

Supplementary Data

Income (Loss) Statement	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	\$ 601,565	\$ 332,661	\$ 983,188	\$ 1,227,975	\$ 3,145,389
Cost of sales	227,188	206,743	331,333	780,003	1,545,267
Operating Expenses	1,656,819	1,294,466	1,213,172	1,753,999	5,918,456
Interest expense	651,038	1,063,312	1,235,271	7,174,595	10,124,216
Loss on debt modification	0	0	367,153	0	367,153
Other	(837)	(6,209)	(3,750)	(11,170)	(21,966)
Net Loss	(\$1,932,643)	(\$2,225,651)	(\$2,159,991)	(\$8,469,452)	(\$14,787,737)
FASB 123R (included in Operating Expenses)	\$ 373,568	\$ 156,105	\$ 91,735	\$ 165,806	\$ 787,214

Reconciliation Between GAAP and Non-GAAP Operating Loss

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
GAAP Operating Loss	(\$1,248,763)	(\$1,168,549)	(\$4,440,254)	(\$2,450,992)
Adjustments:				
Depreciation and amortization	74,507	214,269	140,773	310,959
Termination partnership agreement	—	—	653,995	—
Stock-based compensation expense	136,339	156,106	732,359	529,674
Total operating expense adjustments	210,846	370,375	1,527,127	840,633
Non-GAAP Operating Loss	(\$1,037,917)	(\$798,174)	(\$2,913,127)	(\$1,610,359)

CAUTIONARY STATEMENT

Wireless Ronin Technologies, Inc., or persons acting on our behalf, or outside reviewers retained by us making statements on our behalf, or underwriters of our securities, from time to time, may make, in writing or orally, "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. This Cautionary Statement, when used in conjunction with an identified forward-looking statement, is for the purpose of qualifying for the "safe harbor" provisions of the Litigation Reform Act and is intended to be a readily available written document that contains factors which could cause results to differ materially from such forward-looking statements. These factors are in addition to any other cautionary statements, written or oral, which may be made, or referred to, in connection with any such forward-looking statement.

The following matters, among others, may have a material adverse effect on our business, financial condition, liquidity, results of operations or prospects, financial or otherwise, or on the trading price of our common stock. Reference to this Cautionary Statement in the context of a forward-looking statement or statements shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements.

Risks Related to Our Business

Our operations and business are subject to the risks of an early stage company with limited revenue and a history of operating losses. We have incurred losses since inception, and we have had only nominal revenue. We may not ever become or remain profitable.

Since inception, we have had limited revenue from the sale of our products and services, and we have incurred net losses. We incurred net losses of \$4,789,925 and \$14,787,737, respectively, for the years ended December 31, 2005 and 2006. We had a net loss of \$4,030,276 for the six months ended June 30, 2007. As of June 30, 2007, we had an accumulated deficit of \$37,463,989. We expect to increase our spending significantly as we continue to expand our infrastructure and our sales and marketing efforts and continue research and development.

We have not been profitable in any year of our operating history and anticipate incurring additional losses into the foreseeable future. We do not know whether or when we will become profitable. Even if we are able to achieve profitability in future periods, we may not be able to sustain or increase our profitability in successive periods. We may require additional financing in the future to support our operations. For further information, please review the risk factor "Adequate funds for our operations may not be available, requiring us to curtail our activities significantly" below.

We have formulated our business plans and strategies based on certain assumptions regarding the acceptance of our business model and the marketing of our products and services. However, our assessments regarding market size, market share, or market acceptance of our products and services or a variety of other factors may prove incorrect. Our future success will depend upon many factors, including factors which may be beyond our control or which cannot be predicted at this time.

Our success depends on our RoninCast system achieving and maintaining widespread acceptance in our targeted markets. If our products contain errors or defects, our business reputation may be harmed.

Our success will depend to a large extent on broad market acceptance of RoninCast and our other products and services among our prospective customers. Our prospective customers may still not use our solutions for a number of other reasons, including preference for static signage, unfamiliarity with our technology or perceived lack of reliability. We believe that the acceptance of RoninCast and our other products and services by our prospective customers will depend on the following factors:

- our ability to demonstrate RoninCast's economic and other benefits;
- our customers becoming comfortable with using RoninCast; and
- the reliability of the software and hardware comprising RoninCast and our other products.

Our software is complex and must meet stringent user requirements. Our products could contain errors or defects, especially when first introduced or when new models or versions are released, which could cause our customers to reject our products, result in increased service costs and warranty expenses and harm our reputation. We must develop our products quickly to keep pace with the rapidly changing digital signage and communications market. In the future, we may experience delays in releasing new products as problems are corrected. In addition, some undetected errors or defects may only become apparent as new functions are added to our products. Delays, costs and damage to our reputation due to product defects could harm our business.

We may experience fluctuations in our quarterly operating results.

We may experience variability in our total sales on a quarterly basis as a result of many factors, including the condition of the electronic communication and digital signage industry in general, shifts in demand for software and hardware products, technological changes and industry announcements of new products and upgrades, absence of long-term commitments from customers, timing and variable lead-times of customer orders, delays in or cancellations of customer orders, effectiveness in managing our operations and changes in economic conditions in general. We may not consider it prudent to adjust our spending levels on the same timeframe; therefore, if total sales decline for a given quarter, our operating results may be materially adversely affected. As a result of the potential fluctuations in our quarterly operating results, we believe that period-to-period comparisons of our financial results should not be relied upon as an indication of future performance. Further, it is possible that in future quarters our operating results will be below the expectations of public market analysts and investors. In such event, the price of our common stock would likely be materially adversely affected.

During the first half of 2007, sales to one customer generated 72.4 percent of our revenue and any decrease in revenue from this customer, who recently informed us of a re-prioritization of its digital signage projects, could have an adverse effect on our net revenue and operating results.

The markets for our products are highly concentrated. Our revenues are typically derived from a limited number of customers. Revenues from our largest customer accounted for 72.4 percent of our revenue for the six months ended June 30, 2007. This customer also has advised us of its re-prioritization of its planned digital signage implementations. In particular, this customer has delayed the rollout of network installations into large, upscale malls, and the launch, installation and operation of digital signage networks in physicians' offices throughout the U.S. This re-prioritization of pending projects will negatively impact our 2007 revenue from this customer. Furthermore, our customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Any downturn in the business of our key customers or potential new customers could have a negative impact on our sales to such customers, which could adversely affect our net revenues and results of operations.

We expect that a small number of customers will continue to account for a large amount of our revenues. The decision by any large customer to decrease or cease using our products would harm our business. The loss of one or more of our customers, or a significant reduction in the use of our services by one or more of our customers, could have a material adverse effect on our results of operations.

During the first half of 2007, our accounts receivable with one customer represented 75.6 percent of our accounts receivable and our dependence on such customer, who recently informed us of a re-prioritization of its digital signage projects, represents a significant concentration of credit risk.

Due to our dependence on a limited number of customers, we are subject to a concentration of credit risk with results to accounts receivable. Accounts receivable due from our largest customer accounted for 75.6 percent of our accounts receivable as of June 30, 2007. As noted above, this customer has advised us of its re-prioritization of its planned digital signage implementations. In the case of insolvency by one of our significant customers, accounts receivable with respect to that customer might not be collectible, might not be fully collectible, or might be collectible over longer than normal terms, each of which could adversely affect our financial position. There can be no assurance that we will not suffer credit losses in the future.

The integration and operation of McGill Digital Solutions may disrupt our business and create additional expenses and we may not achieve the anticipated benefits of the acquisition. In the event we elect to expand our business through additional acquisitions, we cannot assure that such future acquisitions, if pursued and consummated, will be advantageous or profitable.

Integration of an acquisition involves numerous risks, including difficulties in converting information technology systems and assimilating the operations and products or services of an acquired business, the diversion of management's attention from other business concerns, risks of entering markets in which we have limited or no direct prior experience, assumption of unknown liabilities, the potential loss of key associates and/or customers, difficulties in completing strategic initiatives already underway in the acquired or acquiring companies, unfamiliarity with partners of the acquired company, and difficulties in attracting additional key employees necessary to manage acquired operations, each of which could have a material adverse effect on our business, results of operations and financial condition. The success of our integration of McGill Digital Solutions assumes certain synergies and other benefits. We cannot assure you that these risks or other unforeseen factors will not offset the intended benefits of the acquisition, in whole or in part. Furthermore, completion of the acquisition remains subject to customary closing conditions.

We may determine to grow through future acquisitions of technologies, products or businesses. We may complete future acquisitions using cash, or through issuances of equity securities which could be dilutive, or through the incurrence of debt which could contain restrictive covenants. In addition, acquisitions may result in significant amortization expenses related to intangible assets. Such methods of financing could adversely affect our earnings. We cannot assure you that we will be successful in integrating any business acquired in the future. In addition, we cannot assure you that we will pursue or consummate future acquisitions or that any acquisitions, if consummated, will be advantageous or profitable for our company.

Most of our contracts are terminable by our customers with limited notice and without penalty payments, and early terminations could have a material effect on our business, operating results and financial condition.

Most of our contracts are terminable by our customers following limited notice and without early termination payments or liquidated damages due from them. In addition, each stage of a project

often represents a separate contractual commitment, at the end of which the customers may elect to delay or not to proceed to the next stage of the project. We cannot assure you that one of more of our customers will not terminate a material contract or materially reduce the scope of a large project in the future. The delay, cancellation or significant reduction in the scope of a large project or number of projects could have a material adverse effect on our business, operating results and financial condition.

Our prospective customers often take a long time to evaluate our products, and this lengthy and variable sales cycle makes it difficult to predict our operating results.

It is difficult for us to forecast the timing and recognition of revenue from sales of our products because our prospective customers often take significant time evaluating our products before purchasing them. The period between initial customer contact and a purchase by a customer may be more than one year. During the evaluation period, prospective customers may decide not to purchase or may scale down proposed orders of our products for various reasons, including:

- reduced need to upgrade existing visual marketing systems;
- introduction of products by our competitors;
- lower prices offered by our competitors; and
- changes in budgets and purchasing priorities.

Our prospective customers routinely require education regarding the use and benefit of our products. This may also lead to delays in receiving customers' orders.

Adequate funds for our operations may not be available, requiring us to curtail our activities significantly.

Based on our current and anticipated expense levels, existing capital resources and the net proceeds of this offering, we anticipate that our cash will be adequate to fund our operations for at least the next twelve months. Our future capital requirements, however, will depend on many factors, including our ability to successfully market and sell our products, develop new products and establish and leverage our strategic partnerships and reseller relationships. In order to meet our needs should we not become cash flow positive or should we be unable to sustain positive cash flow, we may be required to raise additional funding through public or private financings, including equity financings. Any additional equity financings may be dilutive to shareholders, and debt financing, if available, may involve restrictive covenants. Adequate funds for our operations, whether from financial markets, collaborative or other arrangements, may not be available when needed or on terms attractive to us. If adequate funds are not available, our plans to expand our business may be adversely affected and we could be required to curtail our activities significantly.

Difficulty in developing and maintaining relationships with third party manufacturers, suppliers and service providers could adversely affect our ability to deliver our products and meet our customers' demands.

We rely on third parties to manufacture and supply parts and components for our products and provide order fulfillment, installation, repair services and technical and customer support. Our strategy to rely on third party manufacturers, suppliers and service providers involves a number of significant risks, including the loss of control over the manufacturing process, the potential absence of adequate

capacity, the unavailability of certain parts and components used in our products and reduced control over delivery schedules, quality and costs. For example, we do not generally maintain a significant inventory of parts or components, but rely on suppliers to deliver necessary parts and components to third party manufacturers, in a timely manner, based on our forecasts. If delivery of our products and services to our customers is interrupted, or if our products experience quality problems, our ability to meet customer demands would be harmed, causing a loss of revenue and harm to our reputation. Increased costs, transition difficulties and lead times involved in developing additional or new third party relationships could adversely affect our ability to deliver our products and meet our customers' demands and harm our business.

Reductions in hardware costs will likely decrease hardware pricing to our customers and would reduce our per unit revenue.

Our product pricing includes a standard percentage markup over our cost of product components, such as computers and display monitors. As such, any decrease in our costs to acquire such components from third parties will likely be reflected as a decrease in our hardware pricing to our customers. Therefore, reductions in such hardware costs could potentially reduce our revenue. Because our business model relies upon strategic partners and resellers, we expect to face risks not faced by companies with only internal sales forces.

We currently sell most of our products through an internal sales force. We anticipate that strategic partners and resellers will become a larger part of our sales strategy. We may not, however, be successful in forming relationships with qualified partners and resellers. If we fail to attract qualified partners and resellers, we may not be able to expand our sales network, which may have an adverse effect on our ability to generate revenue. Our anticipated reliance on partners and resellers involves several risks, including the following:

- we may not be able to adequately train partners and resellers to sell and service our products;
- they may emphasize competitors' products or decline to carry our products; and
- channel conflict may arise between other third parties and/or our internal sales staff.

Our industry is characterized by frequent technological change. If we are unable to adapt our products and develop new products to keep up with these rapid changes, we will not be able to obtain or maintain market share.

The market for our products is characterized by rapidly changing technology, evolving industry standards, changes in customer needs, heavy competition and frequent new product introductions. If we fail to develop new products or modify or improve existing products in response to these changes in technology, customer demands or industry standards, our products could become less competitive or obsolete.

We must respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in using new technologies, developing new products or enhancing existing products in a timely and cost effective manner. These new technologies or enhancements may not achieve market acceptance. Our pursuit of necessary technology may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept. Finally, we may not succeed in adapting our products to new technologies as they emerge.

Our future success depends on key personnel and our ability to attract and retain additional personnel.

Our key personnel include:

- Jeffrey C. Mack, Chairman of the Board of Directors, Chief Executive Officer and President;
- John A. Witham, Executive Vice President and Chief Financial Officer;
- Christopher F. Ebbert, Executive Vice President and Chief Technology Officer; and
- Scott W. Koller, Executive Vice President of Sales and Marketing.

If we fail to retain our key personnel or to attract, retain and motivate other qualified employees, our ability to maintain and develop our business may be adversely affected. Our future success depends significantly on the continued service of our key technical, sales and senior management personnel and their ability to execute our growth strategy. The loss of the services of our key employees could harm our business. We may in the future be unable to retain our employees or to attract, assimilate and retain other highly qualified employees who could migrate to other employers who offer competitive or superior compensation packages.

Our ability to execute our business strategy depends on our ability to protect our intellectual property, and if any third parties make unauthorized use of our intellectual property, or if our intellectual property rights are successfully challenged, our competitive position and business could suffer.

Our success and ability to compete depends substantially on our proprietary technologies. We regard our copyrights, service marks, trademarks, trade secrets and similar intellectual property as critical to our success, and we rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers and others to protect our proprietary rights. Despite our precautions, unauthorized third parties might copy certain portions of our software or reverse engineer and use information that we regard as proprietary. No U.S. or international patents have been granted to us. As of August 1, 2007, we had applied for three U.S. patents, but we cannot provide assurance that they will be granted. Even if they are granted, our patents may be successfully challenged by others or invalidated. In addition, any patents that may be granted to us may not provide us a significant competitive advantage. We have been granted trademarks, but they could be challenged in the future. If future trademark registrations are not approved because third parties own these trademarks, our use of these trademarks would be restricted unless we enter into arrangements with the third party owners, which might not be possible on commercially reasonable terms or at all. If we fail to protect or enforce our intellectual property rights successfully, our competitive position could suffer. We may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and may lose competitive position in the market. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share.

Our industry is characterized by frequent intellectual property litigation, and we could face claims of infringement by others in our industry. Such claims are costly and add uncertainty to our business strategy.

The digital media and communications industry is characterized by uncertain and conflicting intellectual property claims and frequent intellectual property litigation, especially regarding patent rights. We could be subject to claims of infringement of third party intellectual property rights, which could result in significant expense and could ultimately result in the loss of our intellectual property rights. From time to time, third parties may assert patent, copyright, trademark or other intellectual property rights to technologies that are important to our business. In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed which relate to our industry of which we are not aware. We may in the future receive notices of claims that our products infringe or may infringe intellectual property rights of third parties. Any litigation to determine the validity of these claims, including claims arising through our contractual indemnification of our business partners, regardless of their merit or resolution, would likely be costly and time consuming and divert the efforts and attention of our management and technical personnel. If any such litigation resulted in an adverse ruling, we could be required to:

- pay substantial damages;
- cease the manufacture, use or sale of infringing products;
- discontinue the use of certain technology; or
- obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available on reasonable terms or at all.

MediaTile Company USA has informed us that it filed a patent application in June 2005 related to the use of cellular technology for delivery of digital content. We currently use cellular technology to deliver digital content on a limited basis. While MediaTile has not alleged that our products infringe its rights, they may do so in the future.

Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our products and services.

Our business may be adversely affected by malicious applications that make changes to our customers' computer systems and interfere with the operation and use of our products. These applications may attempt to interfere with our ability to communicate with our customers' devices. The interference may occur without disclosure to or consent from our customers, resulting in a negative experience that our customers may associate with our products. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. In addition, we offer a number of products and services that our customers download to their computers or that they rely on to store information and transmit information over the Internet. These products and services are subject to attack by viruses, worms and other malicious software programs, which could jeopardize the security of information stored in a customer's computer or in our computer systems and networks. The ability to reach customers and provide them with a superior product experience is critical to our success. If our efforts to combat these malicious applications fail, or if our products and services have actual or perceived vulnerabilities, there may be claims based on such failure or our reputation may be harmed, which would damage our business and financial condition.

We could have liability arising out of our previous sales of unregistered securities.

Prior to our initial public offering, we financed our development and operations with proceeds from the sale to accredited investors of debt and equity securities. These securities were not registered under federal or state securities laws because we believed such sales were exempt under Section 4(2) of the Securities Act of 1933, as amended, and under Regulation D under the Securities Act. In addition, we issued stock purchase warrants to independent contractors and associates as compensation or as incentives for future performance. We have received no claim that such sales were in violation of securities registration requirements under such laws, but should a claim be made, we would have the burden of demonstrating that sales were exempt from such registration requirements. In addition, it is possible that a purchaser of our securities could claim that disclosures to them in connection with such sales were inadequate, creating potential liability under the anti-fraud provisions of federal and state securities or other laws. If successful, claims under such laws could require us to pay damages, perform rescission offers, and/or pay interest on amounts invested and attorneys' fees and costs. Depending upon the magnitude of a judgment against us in any such actions, our financial condition and prospects could be materially and adversely affected.

We compete with other companies that have more resources, which puts us at a competitive disadvantage.

The market for digital signage software is highly competitive and we expect competition to increase in the future. Some of our competitors or potential competitors have significantly greater financial, technical and marketing resources than our company. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than our company.

We expect competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. Successful new product introductions or enhancements by our competitors could reduce sales and the market acceptance of our products, cause intense price competition or make our products obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. If we do not have sufficient resources to make these investments or are unable to make the technological advances necessary to be competitive, our competitive position will suffer. Increased competition could result in price reductions, fewer customer orders, reduced margins and loss of market share. Our failure to compete successfully against current or future competitors could seriously harm our business.

Risks Related to Our Securities

We must implement additional finance and accounting systems, procedures and controls in order to satisfy requirements applicable to public companies, which will increase our costs and divert management's time and attention.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements and corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the Securities and Exchange Commission and NASDAQ.

As an example of reporting requirements, we continue to evaluate our internal control systems in order to allow management to report on our internal control over financing reporting beginning with our annual report for the year ended December 31, 2007, and our independent registered public accounting firm to attest to our internal control over financing reporting beginning with our annual report for the year ended December 31, 2008, as required by Section 404 of the Sarbanes-Oxley Act of 2002. As a

company with limited capital and human resources, we anticipate that more of management's time and attention will be diverted from our business to ensure compliance with these regulatory requirements than would be the case with a company that has established controls and procedures. This diversion of management's time and attention could have an adverse effect on our business, financial condition and results of operations.

In the event we identify significant deficiencies or material weaknesses in our internal control over financial reporting that we cannot remediate in a timely manner, or if we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal control over financial reporting, investors and others may lose confidence in the reliability of our financial statements and the trading price of our common stock and ability to obtain any necessary equity or debt financing could suffer. In addition, in the event that our independent registered public accounting firm is unable to rely on our internal control over financial reporting in connection with its audit of our financial statements, and in the further event that it is unable to devise alternative procedures in order to satisfy itself as to the material accuracy of our financial statements, and related disclosures, it is possible that we would be unable to file our annual report with the Securities and Exchange Commission, which could also adversely affect the trading price of our common stock and our ability to secure any necessary additional financing, and could result in the delisting of our common stock from NASDAQ and the ineligibility of our common stock for quotation on the OTC Bulletin Board. In that event, the liquidity of our common stock would be severely limited and the market price of our common stock would likely decline significantly.

In addition, the new rules could make it more difficult or more costly for us to obtain certain types of insurance, including directors' and officers' liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, on Board committees or as executive officers.

Our management has broad discretion over the use of the remaining net proceeds from our initial public offering as well as the net proceeds from our follow-on offering and may apply the proceeds in ways that do not improve our operating results or increase the value of our common stock.

Our management has significant discretion in the use of the remaining net proceeds of our initial public offering and the net proceeds of our follow-on offering. Accordingly, our investors will not have the opportunity to evaluate the economic, financial and other relevant information that we may consider in the application of such net proceeds. Therefore, it is possible that we may allocate such net proceeds in ways that fail to improve our operating results, increase the value of our common stock or otherwise maximize the return on these proceeds.

If we fail to comply with the NASDAQ requirements for continued listing, our common stock could be delisted from NASDAQ, which could hinder our investors' ability to obtain timely quotations on the price of our common stock, or trade our common stock in the secondary market.

Our common stock must sustain a minimum bid price of at least \$1.00 per share and we must satisfy the other requirements for continued listing on NASDAQ. In the event our common stock is delisted from NASDAQ, trading in our common stock could thereafter be conducted in the over-the-counter markets in the so-called pink sheets or the OTC Bulletin Board. In such event, the liquidity of our common stock would likely be impaired, not only in the number of shares which could be bought and sold, but also through delays in the timing of the transactions, and there would likely be a reduction in the coverage of our company by securities analysts and the news media, thereby resulting in lower prices for our common stock than might otherwise prevail.

The market price of our stock may be subject to wide fluctuations.

The price of our common stock may fluctuate, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause our investors to lose part or all of their investment in our shares of common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of companies in our industry;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of financial market analysts;
- investor perceptions of our industry, in general, and our company, in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- loss of external funding sources;
- sales of large blocks of our stock or sales by insiders; or
- departures of key personnel.

Our directors, executive officers and the Spirit Lake Tribe together may exercise significant control over our company.

As of August 1, 2007, our directors, executive officers and the Spirit Lake Tribe beneficially owned approximately 4.9% of the outstanding shares of our common stock. As a result, these shareholders, if acting together, may be able to influence or control matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may also have interests that differ from our other investors and may vote in a way with which such investors disagree and which may be adverse to such investors' interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Our articles of incorporation, bylaws and Minnesota law may discourage takeovers and business combinations that our shareholders might consider in their best interests.

Anti-takeover provisions of our articles of incorporation, bylaws and Minnesota law could diminish the opportunity for shareholders to participate in acquisition proposals at a price above the then current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our Board of Directors, without further shareholder approval, may issue up to

16,666,666 shares of undesignated preferred stock and fix the powers, preferences, rights and limitations of such class or series, which could adversely affect the voting power of our common stock. In addition, our bylaws provide for an advance notice procedure for nomination of candidates to our Board of Directors that could have the effect of delaying, deterring or preventing a change in control. Further, as a Minnesota corporation, we are subject to provisions of the Minnesota Business Corporation Act, or MBCA, regarding “control share acquisitions” and “business combinations.” We may, in the future, consider adopting additional anti-takeover measures. The authority of our board to issue undesignated preferred stock and the anti-takeover provisions of the MBCA, as well as any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of our company not approved by our Board of Directors.

We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future.

We have never declared or paid any cash dividends on our shares of common stock. We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for investors in our common stock for the foreseeable future.

A substantial number of shares are eligible for sale by our current investors and the sale of those shares could adversely affect our stock price.

If our existing shareholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the contractual lock-up and other legal restrictions discussed below lapse, the trading price of our common stock could be adversely effected.

Our directors, executive officers and Spirit Lake Tribe have agreed not to sell, offer to sell, contract to sell, pledge, hypothecate, grant any option to purchase, transfer or otherwise dispose of, grant any rights with respect to, or file or participate in the filing of a registration statement with the SEC, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, or be the subject of any hedging, short sale, derivative or other transaction that is designed to, or reasonably expected to lead to, or result in, the effective economic disposition of, or publicly announce his, her or its intention to do any of the foregoing with respect to, any shares of common stock, or any securities convertible into, or exercisable or exchangeable for, any shares of common stock for a period of 180 days after June 15, 2007, without the prior written consent of the underwriters of our follow-on offering.

Commencing May 29, 2007, 2,528,630 shares of our outstanding common stock, 1,328,880 shares underlying warrants and 81,000 shares underlying options became eligible for sale in the public market. Upon the expiration of the lock-up agreements applicable to our directors, executive officers and Spirit Lake Tribe, 1,928,667 additional shares of our outstanding common stock, 1,111,986 additional shares underlying warrants and 848,330 additional shares underlying options will become eligible for sale. Substantially all of the foregoing shares and shares underlying warrants are registered for resale under a registration statement that was declared effective by the SEC on February 8, 2007. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could be adversely affected.