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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

**For the Fiscal Year Ended December 31, 2007**

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

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-16454**

**CIMETRIX INCORPORATED**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**87-0439107**

(I.R.S. Employer  
Identification No.)

**6979 South High Tech Drive, Salt Lake City, UT**

(Address of principal executive office)

**84047-3757**

(Zip Code)

**Registrant's telephone number, including area code: (801) 256-6500**

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value \$.0001**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Non-accelerated filer  (Don not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

As of March 31, 2008, the registrant had 31,927,432 shares of its common stock, par value \$.0001, outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2007 was approximately \$7,488,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held May 17, 2008, are incorporated by reference into Part III hereof.

**CIMETRIX INCORPORATED**  
**FORM 10-K**

**For the Year Ended December 31, 2007**

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## PART I

### **ITEM 1. BUSINESS**

#### *Business Overview*

Cimetrix is a software company that designs, develops, markets and supports factory automation solutions worldwide. The Company offers software products and professional services tailored to meet the needs of equipment suppliers in the areas of advanced motion control, general purpose equipment connectivity, and specialized connectivity for 300mm semiconductor wafer fabrication facilities. Revenues are derived from the sales of software and services. Software includes the initial sale of software development kits, the ongoing runtime licenses that equipment suppliers purchase for each machine shipped with Cimetrix software and annual contracts for software license updates and product support. Services include the sales of professional services that provide customers with software solutions typically incorporating Cimetrix software products. While Cimetrix products are installed in a wide range of industries, the Company has focused over the past several years on the global semiconductor and electronics industries.

Cimetrix has traditionally been focused on providing products, services and passionate support to the equipment supplier community, which are referred to herein as original equipment manufacturers (OEMs). Using the core skills of motion control, connectivity and advanced software architectures, Cimetrix has earned the reputation as a first class supplier of solutions to both small and large equipment suppliers through its OEM Solution Center. As more advanced processing, higher throughput, lower cost and faster time-to-market pressures confront equipment suppliers, the opportunity to supply more content of the “tool control” software which helps OEMs address these challenges allows Cimetrix to continue to grow the business available from these customers. During 2007, Cimetrix continued its efforts to also provide software products and professional services tailored to meet the needs of end users in the areas of equipment connectivity and data management. This expansion will take advantage of several new standards and technologies to position the Company to provide solutions on both sides of the network connecting manufacturing equipment with factory level software applications.

During 2007, Cimetrix obtained its first volume shipments for its new CIMPortal™ product family. The CIMPortal product family enables equipment suppliers to collect, manage and transfer large amounts of data generated during the manufacturing process. CIMPortal provides a comprehensive, fully compliant solution for the new Semiconductor Equipment and Materials International (SEMI) standard named Equipment Data Acquisition (EDA, which is also referred to as Interface A). SEMI, an industry group that includes most major semiconductor manufacturers, developed the EDA standard to facilitate the acquisition and improve the quality of data from equipment on the factory floor. Cimetrix made a strategic decision to pursue becoming the industry leader in providing software products and professional services to support this emerging new standard. The Company invested heavily in its CIMPortal product line to develop a technically superior product to provide leading equipment suppliers around the world seeking to evaluate an EDA product, Cimetrix recognized that both semiconductor manufacturers and equipment suppliers have an insatiable need for data to continually improve the manufacturing of computer chips as well as the reliability and predictability of the equipment. Cimetrix’s CIMPortal product line was designed to meet this need for data as well as support the SEMI EDA standards.

Cimetrix also continued the expansion of its professional services organization to both offer its equipment supplier customers a single-source solution provider capable of being their worldwide “outsource partner” for factory automation connectivity, and to provide data management solutions to integrated device maker (IDM) end user customers. Traditionally, Cimetrix’s professional services are offered to equipment supplier customers through its OEM Solutions Center within its Global Services group and to the semiconductor and electronics vertical markets through its Data Management Solution Center.

## ***Key Markets***

The Company has been focused for the past several years on the global semiconductor and electronics industries. Both the semiconductor and electronics industries are a natural fit for the Company's solutions because of the demand for motion intensive manufacturing equipment that can communicate with host computers throughout the manufacturing process. In addition, these are very competitive industries that have a critical need for data to improve their productivity and manufacturing effectiveness. These two industries are discussed in more detail below.

In general, the semiconductor and electronics industries are growing, fiercely competitive and dynamic industries. Rapid technology changes within these industries require machines that are flexible and can be quickly adopted to new requirements. The Company is uniquely positioned to meet these challenges with advanced motion control and connectivity software that is based on open standards and uses the latest in object-oriented design to provide its customers with the necessary flexibility and customization required to meet industry demands.

By focusing efforts on these two industries, the Company's goal is to obtain a leadership position for its products in these segments. This would provide the momentum and cash flow to potentially penetrate other industries. The Company will continue to serve customers in these industries while also exploring opportunities for growth. For financial reporting, the Company considers the semiconductor and electronics industries as one business segment.

### *Semiconductor Industry*

The semiconductor industry includes the manufacturing, packaging and testing of semiconductor wafers. It is a cyclical industry that is currently weathering a downturn of capital equipment investment during 2007. Industry analysts estimated that capital equipment spending increased slightly from 2006 to 2007. However, SEMI indicated in its annual outlook that it expects the semiconductor capital equipment industry to have a more pronounced downturn of 15% in 2008. In 2000, the semiconductor industry began the migration from building 8-inch (200 mm) wafers to building 12-inch (300 mm) wafers. While the industry is cyclical, the majority of recent capital spending has been transitioning to 300mm equipment. The Company's CIMConnect, CIM300 and CIMPortal product lines are directly applicable to makers of 300mm semiconductor tools. Cimetrix equipment supplier customers have now shipped fully automated tools to virtually all of the major 300mm manufacturing facilities throughout the world.

## *Electronics Industry*

In addition to the semiconductor industry, the Company serves customers in a wide variety of electronics industries, including surface mount technology, small parts assembly, disk drive and specialized robotics. The surface mount technology market includes factory equipment to produce and test printed circuit boards. Applications involve high-speed multi-axis motion control with very tight vision system integration. Some equipment suppliers have adopted the use of PCs as equipment controllers, while others typically use proprietary, homegrown controllers. The photovoltaic market is attracting substantial investment and has similarities to the semiconductor industry. The Company is investigating the applicability of its products and services to the photovoltaic industry.

## *Notable Achievements of 2007*

The Company achieved major milestones in 2007 in the areas of overall company revenues, steady growth of its CIMPortal product line, fulfillment of a joint development project with a top tier US based OEM, continued success in the Japanese market and strengthening of the organization with the implementation of Sarbanes-Oxley internal controls.

### *Overall Company Revenues*

Total Company revenues increased 15% during 2007. Software revenues decreased approximately 5% year-over-year, while service revenues increased over 61%. Software revenues include a category for “new software licenses”, which decreased 9% year-over-year. While the Company does not break out revenues in this category, the Company saw an increase in its runtime license revenues. Unfortunately, software revenues associated with the sales of “software development kits” decreased year-over-year for the second consecutive year, which led to the overall decline in new software license revenue. Revenues associated with software license updates and product support increased incrementally by 4% year-over-year.

Service revenues increased over 61% year-over-year with solid growth in professional services revenues from the Company’s OEM Solution Center and Data Management Solution Center. While some customers are happy to purchase Cimetric products and perform the necessary integration services, an increasing number of customers prefer Cimetric to provide a total solution. Typically all professional services projects use one or more Cimetric products, which should lead to increased software license revenues in future years.

### *Steady Growth of CIMPortal Product Line*

The Company has been working hard to establish a leadership position in the emerging market for the new SEMI EDA standards (also called Interface A), which the Company believes will translate into an overall leadership position for SEMI software connectivity. During 2007, Cimetric obtained a number of important “design wins” for its CIMPortal software development kits. In addition, Cimetric received its first volume orders for CIMPortal runtime licenses. More importantly, several leading equipment suppliers plan to use CIMPortal as a key component in their equipment architectures as a high speed data router, regardless of whether the end customer requires EDA. The CIMPortal product line was designed for this purpose, which will contribute to more consistent runtime license revenue as CIMPortal will be used on additional pieces of equipment.

### *Fulfillment of Joint Development Project*

The Company met all major milestones associated with a joint development project with a top tier US based equipment supplier. As a result of the project, Cimatrix owns all of the intellectual property that has been developed and plans to introduce a major new product line in 2008. Cimatrix's joint development partner is serving as the beta customer for this new product line.

### *Continued Success in the Japanese Market*

The Company and its exclusive distributor in Japan, CIM, Inc. based in Yokohama, Japan, continue to both win new customers in Japan and expand the relationships with existing customers. Cimatrix and CIM obtained a number of important design wins for Cimatrix's connectivity products that we believe will lead to important runtime license revenue in future years.

### *Strengthening of the Organization*

As a public company, Cimatrix was required to fully implement Sarbanes-Oxley internal controls procedures. The Company hired a more senior controller to lead the effort to implement the necessary internal control procedures, which involved working with experienced external consultants. While this initiative was substantially more expensive and time consuming than anticipated, the Company is confident that it has improved its internal operations and expanded its "checks and balances" to ensure sound financial management and reporting. The other positive news is that most of the costs should be non-recurring going forward, as the Company transitions to reviewing and auditing its internal controls. In addition, the Company also strengthened the organization with the addition of several senior engineers in various roles within the Global Services group as well as the Software Quality Assurance group.

## ***Cimatrix Product Line***

### *Motion Control*

The Cimatrix Open Development Environment (CODE) is a family of open architecture machine modeling and motion control software products designed to control the most challenging multi-axis machine control applications. CODE 6 contains both a powerful off-line simulation development environment known as CIMulation, and a robust, real-time motion and I/O control system called CIMControl.

Core Motion is an integral part of CODE 6. Core Motion allows customers to eliminate the cost and complexity of a specialized motion card. With Core Motion, these expensive specialized motion cards are replaced through software. Using the proven real-time extensions for Windows, PC processing power is used to move these specialized software functions from the motion card to the PC. A network or low-cost interface card is used to interface the PC controller to the servo hardware.

## *GEM300*

CIMConnect™ is designed for general purpose equipment connectivity and enables production equipment in the electronics industries to communicate data to the factory's host computer through the semiconductor equipment communication standard (SECS), generic equipment model (GEM) and extensible markup language (XML) based communication standards. CIMConnect can also support other emerging communications standards for maximum flexibility. It also supports multiple host interfaces simultaneously, which allows customers to support legacy, custom, and GEM interfaces. CIMConnect is used in semiconductor wafer fabrication, semiconductor back-end (test, assembly and packaging), flat panel display, surface mount technology and disk drive industries.

TESTConnect is a SECS/GEM host emulator used to test equipment to ensure it complies with the SECS standards. TESTConnect simplifies the process of testing SECS implementation through the use of an intuitive, graphical user interface and menu-driven property screens that allow customers to construct message sets and test them without any programming.

CIM300 is a family of software tools for manufacturers of 300mm semiconductor equipment that allows for quick implementation of the required 300mm SEMI standards, including E39, E40, E87, E90, E94 and E116. CIM300 includes CIMFoundation™, CIM40-Process Job™, CIM87-Carrier Management™, CIM90-Substrate Tracking™, CIM94-Control Job™, and CIM116-Equipment Performance Tracking™.

### *Equipment Data Acquisition (EDA)*

CIMPortal is a new family of software tools for manufacturers of semiconductor equipment that allow for quick implementation of the new SEMI standards for Interface A, including E120, E125, E132 and E134, as well as optional features that support the Japanese Tool Data Interface (TDI) standards. The CIMPortal family includes products for equipment makers, fabs and third party application software providers. Interface A specifies a new port on each tool that provides detailed structured data that can be used for advanced process control, e-diagnostics, and other equipment engineering services applications. These software applications will become critical to the fabs as shorter ramp times are required. CIMPortal is a SEMI standards compliant Interface A data collection and routing product with high-speed distributable data collection modules, equipment modeling tools, and a rich set of rules-based security and optimization features.

### ***Competition***

The Company's main product lines face competition from other companies, technologies, and products. These competitive threats are summarized below:

In the 300mm connectivity market, Cimetrix's main competitor is Asyst Technologies, Inc. Asyst is a large automation company focused on hardware-based automation solutions for the semiconductor and flat panel industries. It is not clear how much focus or investment Asyst is making in the software connectivity market or whether connectivity software is a strategic goal for Asyst. However, they have considerable engineering resources and are the largest threat to Cimetrix. Currently, Cimetrix believes it can compete effectively against Asyst with superior software technology and market focus. The Company believes that it has been winning the majority of new 300mm factory automation and Interface A software opportunities for the last several years.

Large equipment suppliers that choose to create their own connectivity software solutions and do not purchase third party products are indirect competitors. For example, Applied Materials is the largest

semiconductor capital equipment manufacturer and typically develops all of its connectivity software internally. There are also a number of integration companies that offer products and/or solutions meeting the 300mm connectivity needs for SECS/GEM, 300mm automation standards and Interface A. All competitors have varying levels of expertise in semiconductor fabs.

PEER Group is an independent systems integrator based in Canada that competes directly with Cimatrix on professional services. PEER Group appears to have an alliance with Asyst and competes with Cimatrix for professional services both for end users and equipment manufacturers.

In the motion control market, the manufacture and sale of automation technology is a highly competitive industry. The largest segment of the market for industrial motion controls is comprised of proprietary systems from large companies including FANUC Ltd., Rockwell Automation and Siemens. Cimatrix has targeted the emerging market of open standards-based industrial controls, in which competition is primarily divided between in-house developed controllers and open controller suppliers.

In-house developed controllers are potentially competitive, but they are also potential customers. Certain electronics equipment suppliers develop their own controllers, some on PC platforms and some on proprietary hardware. Cimatrix offers a distinct advantage to them by increasing software quality through its software re-use techniques, decreasing the time to market for a new open architecture controller, and assisting the transition of their engineering staff to the latest technologies such as Microsoft's .NET, unified modeling language and object-oriented analysis and design techniques. The Company's CODE and equipment communications software products offer these advantages.

With Core Motion technology in CODE 6, manufacturers of intelligent motion cards can be considered competitors for part of the CODE product line, although CODE 6 continues to also support a number of popular motion cards.

Management believes that most, if not all, of the Company's major competitors currently have greater financial resources and market presence than Cimatrix. Accordingly, these competitors may be able to compete very effectively on pricing and to develop technology to increase the flexibility of their products. Further, each of these competitors has already established a share of the market for their products, and may find it easier to limit market penetration by the Company. While management is unaware of any current initiatives, any of these competitors could be developing additional technology that will directly compete with the Company's product offerings. By focusing on the semiconductor and electronics markets for the short term, management believes the Company can earn a leadership position in the face of other competitors.

### ***Sales and Marketing***

The sales and marketing staff are responsible for identifying key end-user customers and the top-tier OEMs in each primary market. Sales and marketing efforts are combined into one unified force, supporting both equipment connectivity and motion control products under David P. Faulkner, executive vice president of sales and marketing. The Company's sales offices are located in Salt Lake City, Utah; Boston, Massachusetts; and Amancy, France. In addition, the Company has key distributors located in Yokohama, Japan and Seoul, Korea.

### ***Global Services***

The Company's professional services and support operations are conducted under the direction of the Company's vice president of global services, Kourosh Vahdani. His group, which includes Professional Services and Quality Customer Support, is responsible for providing support to our customer base, maintaining

the Company's software product lines, and delivering professional service projects. Global Services, OEM Solution Center and Quality Customer Support operate out of the Company's office in Salt Lake City, Utah. The Data Management Solution Center operates out of an office in Tempe, Arizona.

### ***Research and Development***

The Company's research and development operations are conducted under the direction of the Company's director of research and development, William D. Grey. His group is responsible for developing and testing new products. The Company's strategy is to develop standard software products that have been thoroughly tested and deliver/support these products as they are brought to market. A comprehensive software quality program and rigid coding standards are keys to the development process. Expenditures for research and development are discussed below, under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

### ***Intellectual Property Rights***

The open architecture controller technology upon which the Company's CODE software is based was developed from 1984 to 1989 by a team of Brigham Young University engineers led by Dr. W. Edward Red. Effective July 5, 1995, Cimatrix purchased from Brigham Young University all rights to this intellectual property.

In December of 1999, the Company purchased the software products of Systematic Designs International, Inc. of Vancouver, Washington. These products broadened the Company's communication product line and provided valuable inputs to the CIMConnect and CIM300 products designed by Cimatrix.

The technology purchased from Brigham Young University and Systematic Designs, along with other technology developed internally, is proprietary in nature. The Company has obtained a US patent on certain aspects of its technology. This patent was issued in March 1994 and will expire in March of 2011.

In addition, the Company has registered its CODE software system with the US Copyright Office. For the most part, other than the patent it holds and the copyright registrations, the Company relies on confidentiality and non-disclosure agreements with its employees and customers, appropriate security measures, and the encoding of its software to protect the proprietary nature of its technology. No cost has been capitalized with respect to the patent.

### ***Major Customers and Foreign Sales***

During 2007, one customer accounted for \$915,000, or 14% of the Company's total sales. During 2006, no single customer accounted for 10% or more of the Company's total sales.

The following table summarizes domestic and export sales, as a percent of total sales, for the years ended December 31, 2007 and 2006:

<u>Year Ended December 31,</u>	<u>2007</u>	<u>2006</u>
Domestic sales	56%	61%
Export Sales	44%	39%

Through December 31, 2007, all the Company's export sales have been payable in United States dollars.

In 2007 and 2006, no single foreign country accounted for more than 10% of the Company's total sales.

### *Personnel*

As of March 24, 2008, the Company had 41 employees, 28 of whom are involved in software research and development and providing software engineering services and customer support, 5 of whom are involved in sales and marketing, and 8 of whom who are in finance and administrative positions. None of the employees of the Company are represented by a union or subject to a collective bargaining agreement, and the Company considers its relations with its employees to be favorable.

### *Executive Officers*

**Robert H. Reback**, President and Chief Executive Officer, age 48, joined Cimatrix as Vice President of Sales in January 1996, was promoted to Executive Vice President of Sales in January, 1997 and was promoted to President on June 25, 2001. Mr. Reback was the District Manager of Fanuc Robotics' West Coast business unit from 1994 to 1995. From 1985 to 1993, he was Director of Sales/Account Executive for Thesis, Inc., a privately owned supplier of factory automation software, and was previously a Senior Automation Engineer for Texas Instruments. Mr. Reback has a B.S. degree in Mechanical Engineering and a M.S. degree in Industrial Engineering from Purdue University.

**David P. Faulkner**, Executive Vice President of Sales and Marketing, age 52, joined the Company in August 1996. Mr. Faulkner was previously employed as the Manager of PLC Marketing, Manager of Automotive Operations and District Sales Manager for GE Fanuc Automation, a global supplier of factory automation computer equipment specializing in programmable logic controllers, factory software and computer numerical controls from 1986 to 1996. Mr. Faulkner has a B.S. degree in Electrical Engineering and an MBA degree from Rensselaer Polytechnic Institute.

**Kourosh Vahdani**, Vice-President of Global Services, age 46, joined Cimatrix as Vice-President of Global Services in December 2005. Prior to joining Cimatrix, Mr. Vahdani was a Senior Consultant performing contract services for Xilinx, Inc. during 2005. From 1996 to 2003, he was Director of Western Operations for TRW, Inc. Manufacturing Solutions, with responsibility for the systems integration business serving semiconductor manufacturers worldwide. From 1987 to 1996, Mr. Vahdani worked for Advanced Micro Devices in a variety of engineering and management positions associated with factory automation. Mr. Vahdani has a B.S. degree in Computer Sciences from St. Edwards University in Austin, Texas.

**Dennis P. Gauger**, Chief Financial Officer, age 56, joined Cimatrix as Chief Financial Officer in April 2005. Mr. Gauger is a licensed Certified Public Accountant in Utah and Nevada, and serves on a part-time, consulting basis. Over the past eight years, he has served several public and private companies in a variety of industries as a part-time, contract financial executive and consultant. Previously, Mr. Gauger worked for Deloitte & Touche LLP, an international accounting and consulting firm, for 22 years, including 9 years as an accounting and auditing partner, where he directed domestic and international firm interactions with senior executive management, audit committees, and boards of directors. He has a background in SEC accounting and reporting, mergers and acquisitions, technical accounting issues, finance and operations. Mr. Gauger holds a B.S. degree in accounting from Brigham Young University. He is a member of the American Institute of Certified Public Accountants and the Utah Association of Certified Public Accountants.

## **ITEM 1A. RISK FACTORS**

Statements regarding the future prospects of the Company must be evaluated in the context of a number of factors that may materially affect the Company's financial condition and results of operations. Disclosure of these factors is intended to permit the Company to take advantage of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. In addition to the factors discussed elsewhere in this report, these are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of the Company. Although the Company has attempted to list the factors that it is currently aware may have an impact on its operations, there may be other factors of which the Company is currently unaware or to which it does not assign sufficient significance, and the following list should not be considered comprehensive.

***The Company has a history of operating losses and its future liquidity is largely dependent on positive cash flows from operations.***

The Company has an accumulated operating deficit of \$32,094,000 at December 31, 2007 and has total notes payable and long-term debt outstanding of \$744,000. The Company obtained a bank line of credit in December 2007, which allowed the Company to borrow up to \$1,000,000, subject to the amount of its qualifying accounts receivable. At December 31, 2007, the Company had borrowed \$225,000 under the line of credit, and had borrowed \$641,084 under the line of credit as of the date of the filing of this report. At December 31, 2007, the Company was out of compliance with the quick assets to current liabilities ratio covenant of the line of credit. Through the filing date of this report, the bank has not called the amount outstanding under the line of credit, and the Company and the bank are currently discussing modifications to the terms of the line of credit agreement. In the event the bank calls the line of credit, we currently do not have a source of funds to repay the loan. The Company's future liquidity is dependent on obtaining and sustaining positive cash flows from operations, and, to the extent necessary, obtaining additional external financing through the issuance of debt or equity securities. See "Liquidity and Capital Resources." If the Company is unable to generate the cash flow necessary to sustain future operations, retire its outstanding debt, or meet its research and development needs, its future operations would be materially adversely affected.

***The semiconductor industry is highly cyclical.***

The Company's largest source of revenue is the highly cyclical semiconductor industry. The semiconductor industry periodically has severe and prolonged downturns which could cause the Company's operating results to fluctuate significantly. The Company is also exposed to risks associated with industry overcapacity, including reduced capital expenditures, decreased demand for the Company's products and potential delays by customers paying for the Company's products. The Company's business depends in significant part upon capital expenditures by manufacturers of semiconductor devices, including manufacturers that open new or expand existing facilities. Periods of overcapacity and reductions in capital expenditures cause decreases in demand for the Company's products and services.

***The Company is engaged in a highly competitive industry.***

The Company is engaged in a highly competitive industry involving rapidly changing products. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the development of new software and other products and services and the competitive environments in the industry in which the Company operates. There can be no assurance that the Company will not encounter substantial delays and unexpected expenses related to research, development, production, marketing or other unforeseen difficulties in bringing new software products and services to market.

***The Company may experience delays or technical difficulties in the introduction of new products.***

The Company may experience delays or technical difficulties in the introduction of new products, and this may be costly to the Company and adversely affect customer relationships. The Company's success depends in part on continuing to gain "design in" wins for Cimetrix software products, which includes new product ideas. The Company's products are complex and the Company may experience delays and technical difficulties in the introduction of new software products or product enhancements, or difficulties when products are put in high volume production lines. The Company's inability to overcome such difficulties, to meet the technical specifications of any new products or enhancements, or to ship the products or enhancements in a timely manner could materially adversely affect the Company's business and results of operations, as well as customer relationships. The Company may from time to time incur unanticipated costs to ensure the functionality and reliability of products and solutions early in their life cycles, and such costs could be substantial. If the Company experiences reliability or quality problems with its new products or enhancements, it could face a number of difficulties, including reduced orders, higher customer service costs and delays in collection of accounts receivable, all of which could materially adversely affect the Company's business and results of operations.

***The Company's business involves a lengthy sales cycle.***

Sales of the Company's software products and related services depend upon the decision of a prospective customer to change its current software applications. Therefore, the decision to purchase the Company's products and services often requires time consuming internal procedures associated with the evaluation, testing, implementation and introduction of new technologies into customers' software applications. In addition, after the technical evaluation has been successfully completed, the Company may experience further delays finalizing system sales while the customer obtains internal approval for the new software application. Consequently, months or even years may elapse between the first contact with a customer regarding a potential purchase and the customer's placing the order. The Company's lengthy sales cycle increases sales and marketing costs and reduces the predictability of the Company's revenues.

***The Company is dependent upon OEM customers.***

The Company sells its products principally to equipment suppliers, which the Company sometimes refers to as OEMs, which have the relationships with the end users. The quantity of each customer's business with the Company depends substantially on that customer's relationships with end users, market acceptance of the customer's products that utilize the Company's software products and the development cycle of the customer's products. The Company could be materially adversely affected by a downturn in either its customer's sales or their failure to meet the expectations of their end-user customers. The Company will likely from time to time have individual customers that account for a significant portion of its business and any adverse developments in such customers' business would adversely affect the Company.

***The Company's markets are characterized by rapid technological changes.***

The markets for the Company's products are new and emerging, and as such, these markets are characterized by rapid technological change, evolving requirements, developing industry standards, and new product introductions. The dynamic nature of these markets can render existing products obsolete and unmarketable within a short period of time. Accordingly, the life cycle of the Company's products is difficult to estimate. The Company's future success will depend in large part on its ability to enhance its products and to develop and introduce, on a timely basis, new products that keep pace with technological developments and emerging industry standards and gain a competitive advantage.

***The Company is highly dependent upon key personnel.***

The Company is highly dependent on the services of its key managerial and engineering personnel, including, Robert H. Reback, President and Chief Executive Officer, David P. Faulkner, Executive Vice President of Sales and Marketing., and Kourosh Vahdani, Vice President of Global Services. The loss of any member of the Company's senior management team could adversely affect the Company's business prospects. The Company does not maintain key-man insurance for any of its key management personnel.

***The successful integration of the EFS business is key to the Company's future profitability.***

Management believes the strategic acquisition of EFS in late 2005 will add significant services revenue and operating profitability to the Company. The successful integration of the EFS business into the Company's new Data Management Solution Center will be dependent on the Company's ability to continue to serve the former EFS customer base and expand into the anticipated end user markets for data management associated with the new Interface A standards. The sales cycle of the Data Management Solution Center services may be longer than anticipated, resulting in delays in the Company recording additional services revenue and adding profitability from this acquisition.

***The growth of the Company's future sales and revenues is largely dependent upon industry adoption of Interface A.***

Management believes that the semiconductor manufacturing industry will begin to adopt and require its equipment suppliers to meet the new SEMI Interface A standards. However, there is no guarantee that the semiconductor industry will indeed adopt this new standard or that it will ever be required. If the new standard does not become an industry requirement, this would significantly affect the Company's sales and revenues projected for its CIMPortal product line as well as its Data Management Solution Center, which would significantly adversely affect operating results.

***Future litigation may adversely affect the Company.***

If legal proceedings are brought against the Company in the future, there could be adverse consequences. If the Company were sued for a violation of the intellectual property rights of another entity, the target of a class action with respect to fluctuations in its share price, or the defendant (or even the plaintiff) in other major litigation, the business and operations of the Company could be adversely affected. Any such litigation could distract management attention and result in significant costs, without regard to the outcome of the litigation. In addition, any adverse judgment in such litigation could have a material adverse impact on the financial position of the Company and its business prospects.

***Future business acquisitions may be disruptive to the Company's business and dilute stockholder value.***

The Company's ongoing business strategy may include acquisitions of businesses that offer products or services complementary to the Company's. Any such acquisitions may be disruptive to the Company's business, distract management attention and result in unanticipated costs and difficulties in assimilating the operations, products and personnel of the acquired businesses. To the extent that shares of the Company's common stock or rights to purchase shares of the Company's common stock are issued in connection with an acquisition, dilution to existing shareholders will result, and the Company's earnings per share may decrease.

***Continued compliance with regulatory and accounting requirements will be challenging and costly.***

As a result of compliance with the Sarbanes-Oxley Act of 2002, with the potential standards resulting from the Company's stock being listed in the future on an exchange, and with the attestation and accounting

changes required by the Securities and Exchange Commission, the Company is required to implement additional internal controls, to improve existing internal controls, and to comprehensively document and test internal controls. As a result, the Company will be required to hire additional personnel and to obtain additional legal, accounting and advisory services, all of which will cause the Company's general and administrative costs to increase, which may adversely affect its operating results.

***The Company may incur significant stock-based compensation charges related to certain stock options and other stock-based compensation.***

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), *Share-Based Payment*, an amendment of SFAS Statements No. 123 and 95, that addresses the accounting treatment for employee stock options and other share-based compensation transactions. The Company implemented SFAS No. 123(R) on January 1, 2006, requiring that such transactions be accounted for using a fair-value-based method and recognized as expenses. The adoption of this accounting treatment resulted in the Company reporting an increase in operating expenses of \$378,000 and \$350,000 in 2007 and 2006, respectively, and may result in the Company reporting increased operating expenses in future years, which would decrease any reported net income or increase any reported net loss, and could adversely affect the market price of the Company's common stock.

***The price of the Company's common stock has fluctuated in the past and may continue to fluctuate significantly in the future.***

The market price of the Company's common stock has been highly volatile in the past, which may continue in the future. In addition, in recent years the stock market in general, and the market for shares of high technology stocks in particular, have experienced extreme price fluctuations. These fluctuations have often been unrelated to the operating performance of the affected companies, and such fluctuations could adversely affect the market price of the Company's common stock. In the past, securities class action litigation has often been instituted against a company following periods of volatility in its stock price. This type of litigation, if filed against the Company, could result in substantial costs and divert management's attention and resources.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

The Company is not subject to this requirement since it is not an accelerated filer.

#### **ITEM 2. PROPERTIES**

The Company's principal offices are located in a leased facility at 6979 South High Tech Drive, Midvale, Salt Lake County, Utah (about six miles south of Salt Lake City). The lease expired on November 30, 2007, and the Company is currently negotiating terms of a new lease agreement. The present facility consists of approximately 17,000 square feet. All operations of the Company are conducted from its headquarters, with satellite offices located in Boston, Massachusetts, Tempe, Arizona and Amancy, France serving as remote sales and technical support offices. The Arizona office is comprised of approximately 2,300 square feet and is leased through December 2008. The France office is comprised of approximately 200 square feet and is leased through March 2008.

#### **ITEM 3. LEGAL PROCEEDINGS**

The Company is not currently involved with any pending litigation.

#### **ITEM 4. RESULTS OF VOTES OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 2007.

### **PART II**

#### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The common stock of the Company is quoted on the NASD OTC Bulletin Board under the symbol "CMXX.OB". The table below sets forth the high and low bid prices of the Company's common stock for each quarter during the past two fiscal years. The quotations presented reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not necessarily represent actual transactions in the common stock.

<u>Period (Calendar Year)</u>	<u>Price Range</u>	
	<u>High</u>	<u>Low</u>
<u>2006</u>		
First quarter	\$ .49	\$ .35
Second quarter	\$ .86	\$ .39
Third quarter	\$ .50	\$ .28
Fourth quarter	\$ .36	\$ .27
<u>2007</u>		
First quarter	\$ .34	\$ .27
Second quarter	\$ .30	\$ .24
Third quarter	\$ .30	\$ .21
Fourth quarter	\$ .25	\$ .17

On March 24, 2008 the closing bid quotation for the Company's common stock on the NASD OTC Bulletin Board was \$0.16 per share. Potential investors should be aware that the price of the common stock in the trading market may change dramatically over short periods as a result of factors unrelated to the earnings and business activities of the Company.

On March 24, 2008, there were 31,927,432 shares of common stock outstanding held by approximately 660 shareholders of record, which does not include shareholders whose stock is held through securities position listings.

To date, the Company has not paid dividends with respect to its common stock. Management plans to retain future earnings, if any, for working capital and investment in growth and expansion of the business of the Company and does not anticipate paying any dividends on the common stock in the foreseeable future. The Company is also restricted from paying dividends under the terms of its loan agreements with its Bank.

## Equity Compensation Plan Information

In May 2006, the Company's shareholders approved the combined amendment and restatement of the Cimatrix Incorporated 1998 Incentive Stock Option Plan and the Cimatrix Incorporated Director Stock Option Plan as the Cimatrix 2006 Long-Term Incentive Plan (the "Plan"). In addition to stock options, the Plan authorizes the grant of stock appreciation rights, restricted stock awards, and other stock unit and equity-based performance awards.

The following table summarizes the Company's equity compensation plan as of December 31, 2007.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options (1)	Number of Securities Issued as Restricted Stock Grants (2)	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders (3)	4,252,000	\$.50	870,000	1,062,375

- (1) Excludes 266,250 shares issuable upon the exercise of warrants issued to purchasers of the Company's Senior Notes as they were not issued as compensation to Company officers, directors or employees. See Warrants, discussed below.
- (2) During the years ended December 31, 2007 and 2006, restricted stock awards for a total of 105,000 and 765,000 shares of the Company's common stock was approved, with vesting periods ranging from one to four years.
- (3) A total of 6,250,000 shares of common stock have been reserved for issuance under the Plan. To date, a total of 65,625 options have been exercised under the Plan.

A total of 6,250,000 shares of common stock have been reserved for issuance under the Plan. Of this amount, 6,100,000 shares are registered for resale pursuant to a Form S-8 registration statement, which became effective on August 27, 2005. Options issued to employees, directors and former directors began to expire in January of 2007, and, if not exercised, will continue to expire through November 2014.

### *Warrants*

In addition to the shares issuable under the Company's equity compensation Plan, the Company has outstanding warrants held by purchasers of the Company's Senior Notes to purchase 266,250 shares of common stock at an exercise price of \$0.35 per share. The warrants expire in September 2008.

### *Recent Sales of Unregistered Securities*

None.

## **ITEM 6. SELECTED FINANCIAL DATA**

The following consolidated selected financial data as of and for each of the fiscal years in the five year period ended December 31, 2007 were derived from the Company's consolidated financial statements audited by HJ & Associates, LLC, independent registered public accountants, for the years ended December 31, 2006 and 2007 and Tanner LC, independent registered public accountants, for the years ended December 31, 2003

through 2005. The data set forth below should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of this Form 10-K and the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
<b>Results of Operations Data:</b>					
Net sales	\$ 6,389,000	\$ 5,556,000	\$ 4,670,000	\$ 4,542,000	\$ 3,340,000
Income (loss) from operations	(1,309,000)	(1,108,000)	(591,000)	391,000	(592,000)
Net income (loss)	(1,309,000)	(1,149,000)	(706,000)	164,000	(931,000)
Income (loss) per common share - diluted	\$(0.04)	\$(0.04)	\$(0.02)	\$0.01	\$(0.04)
Dividends per common share	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance Sheet Data:</b>					
Total Assets	\$ 1,976,000	\$ 2,538,000	\$ 3,295,000	\$ 2,358,000	\$ 3,032,000
Long-term debt, net of current portion	38,000	446,000	-	691,000	1,865,000
Stockholders' equity (deficit)	(136,000)	922,000	1,758,000	(198,000)	(506,000)

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### ***Overview***

The following is a brief discussion and explanation of significant financial data, which is presented to help the reader understand the results of the Company's financial performance for the years ended December 31, 2007 and 2006, and the Company's financial position at December 31, 2007. The information includes discussions of sales, expenses, capital resources and other significant financial items.

This discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this report. The ensuing discussion and analysis contains both statements of historical fact and forward-looking statements. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, generally are identified by the words “expects,” “believes” and “anticipates” or words of similar import. Examples of forward-looking statements include: (a) projections regarding sales, revenue, liquidity, capital expenditures and other financial items; (b) statements of the plans, beliefs and objectives of the Company or its management; (c) statements of future economic performance; and (d) assumptions underlying statements regarding the Company or its business. Forward-looking statements are subject to factors and uncertainties that could cause actual results to differ materially from the forward-looking statements, including, but not limited to, those factors and uncertainties described below under “Liquidity and Capital Resources” and “Factors Affecting Future Results.”

Cimetrix is a software company that designs, develops, markets and supports factory automation solutions worldwide. The Company offers software products and professional services tailored to meet the needs of equipment suppliers in the areas of advanced motion control, general purpose equipment connectivity,

and specialized connectivity for 300mm semiconductor wafer fabrication facilities. Revenues are derived from the sales of software and services. Software includes the initial sale of software development kits, the ongoing runtime licenses that equipment suppliers purchase for each machine shipped with Cimatrix software and annual contracts for software license updates and product support. Services includes the sale of professional services that provide customers with software solutions typically incorporating Cimatrix software products. While Cimatrix products are installed in a wide range of industries, the Company has focused over the past several years on the global semiconductor and electronics industries. During 2007, Cimatrix expanded its efforts initiated in late 2006 to provide software products and professional services tailored to meet the needs of end users in the areas of equipment connectivity and data management. For a detailed discussion of the Company's products, markets, and other Company information, refer to Item 1, "Business."

### **Critical Accounting Policies**

Management's discussion and analysis of the Company's financial condition and results of operations are based upon financial statements which have been prepared in accordance with U. S. generally accepted accounting principles. The following accounting policies significantly affect the way the financial statements are prepared.

#### ***Revenue Recognition***

The Company derives revenues from two primary sources, software and professional services. Software revenues are reported in two categories, the sale of new software licenses and software license updates and product support. The Company has "off-the-shelf" software packages in the machine control and communications product lines. Machine control products include items such as CODE 6.0, CIMControl, and CIMulation. Communications products include items such as CIM300, CIMConnect and CIMPortal. New software licenses include the sale of software development kits as well as the runtime license fees associated with deployment of the Company's software products. Software license updates and product support are typically annual contracts with customers that are paid in advance, which provides the customer access to new software releases, maintenance releases, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications.

Before the Company recognizes revenue, the following criteria must be met:

- 1) Evidence of a financial arrangement or agreement must exist between the Company and its customer. Purchase orders and signed OEM contracts are two examples of items accepted by the Company to meet this criterion.
- 2) Delivery of the products or services must have occurred. The Company treats either physical or electronic delivery as having met this requirement. It is the policy of the Company to provide its customers a 30-day right to return. However, because the amount of returns has been insignificant, the Company recognizes revenue immediately upon the shipment of the product. If the number of returns were to increase, the Company would establish a reserve based on a percentage of sales to account for any such returns.
- 3) The price of the products or services is fixed and measurable.
- 4) Collectibility of the sale is reasonably assured and receipt is probable. Collectibility of a sale is determined on a customer-by-customer basis. Typically the Company sells to large corporations which have demonstrated an ability to pay. If it is determined that a customer may not have the ability to pay, revenue is deferred until the payment is collected.

The software component of the Company's products is an integral part of its functionality. As such, the Company applies the provisions of the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, *Software Revenue Recognition* as modified by SOP 98-9.

The Company's products are fully functional at the time of shipment. The software components of the Company's products do not require significant production, modification or customization. As such, revenue from product sales is recognized upon shipment provided that the criteria outlined above are met.

Revenue related to services is recognized as services are performed if there is not an extended contract related to such services. If the services are provided pursuant to a contract that extends over a period of time, the revenue from services is recorded ratably over the contract period, generally using the percentage of completion method. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period in which the loss becomes evident.

If a sale involves a bundled package of new software licenses, software license updates and product support, and professional services, and the Company has vendor specific objective evidence of fair value among arrangement elements in accordance with SOP 97-2, then revenue is first allocated to software license updates and product support and professional service obligations at fair market value, and the remaining amount is applied to new software license revenue. Assuming all of the above criteria have been met, revenue from the new software license portion of the package is recognized upon shipment. Revenue from material software license updates and product support contracts is recognized ratably over the term of the contract, which is generally 12 months. Revenue from professional services is recognized as services are performed. Standard payment terms for sales are net 30 days for sales in the United States and net 45 to 60 days for foreign customers. On occasion, extended payment terms will be offered. If the Company provides payment terms greater than 90 days and collection is not reasonably assured, then revenues are generally recognized as payments are received.

In the event that the Company does not have vendor specific objective evidence of fair value among arrangement elements in a bundled package of products and services, the Company reports the revenue in a single revenue line presentation in the consolidated statements of operations in accordance with SOP 97-2.

### ***Stock-Based Compensation***

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, the Company recorded compensation expense of \$378,000 and \$350,000 on a straight-line basis for the year ended December 31, 2007 and 2006, for: (a) the vesting of options granted prior to January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) stock-based awards granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)).

The stock-based compensation expense for the year ended December 31, 2007 has been allocated to the various categories of costs and expenses in a manner similar to the allocation of payroll expense. There was no stock compensation expense capitalized during the year ended December 31, 2007 or 2006. On the date of adoption of SFAS No. 123(R), there were 5,551,500 stock options issued to employees and directors of which, 3,564,875 options were fully vested. During the twelve months ended December 31, 2007, and 2006, options to purchase 441,500 and 1,010,500 shares of the Company's common stock were issued to employees and directors, with a weighted average exercise price of \$0.27 and \$0.41 per share, respectively. During the year ended December 31, 2007 and 2006, restricted stock awards to employees for a total of 105,000 and 765,000, respectively, shares of the Company's common stock were approved, with vesting periods ranging from one to four years.

The fair value of stock options is computed using the Black-Scholes valuation model, which model utilizes inputs that are subject to change over time, and includes assumptions made by the Company with respect to the volatility of the market price of the Company's common stock, risk-free interest rates, requisite service periods, and the assumed life and vesting of stock options and stock-based awards. As new options or stock-based awards are granted and vest, additional non-cash compensation expense will be recorded by the Company.

### ***Accounts Receivable***

Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. The Company offers credit terms on the sale of its products to a majority of its customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for doubtful accounts based upon historical collection experience and expected collectibility of all accounts receivable. The Company's allowance for doubtful accounts, which is determined based on historical experience and a specific review of customer balances, was \$54,000 and \$99,000 as of December 31, 2007 and 2006, respectively. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded as income when received.

### ***Impairment of Long-Lived Assets***

The Company periodically reviews its long-lived assets, including definite-lived intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flows of the related asset or group of assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset.

### ***Income Taxes***

As part of the process of preparing consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current income tax exposure together with assessing temporary differences resulting from differing treatment of items for income tax and financial accounting purposes. These temporary differences result in deferred tax assets and liabilities, the net amount of which is included in the Company's consolidated balance sheet. When appropriate, the Company records a valuation allowance to reduce its deferred tax assets to the amount that the Company believes is more likely than not to be realized. Key assumptions used in estimating a valuation allowance include potential future taxable income, projected income tax rates, expiration dates of net operating loss and tax credit carry forwards, and ongoing prudent and feasible tax planning strategies. At December 31, 2007, the Company had fully reduced its net deferred tax assets by recording a valuation allowance of \$11,935,000. If the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to reduce the valuation allowance would increase income in the period such determination was made.

## **Operations Review**

The following table sets forth the percentage of costs and expenses to net revenues derived from the Company's Consolidated Statements of Operations for each of the two preceding fiscal years.

<b><u>Year Ended December 31,</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>Total revenues</b>	<u>100 %</u>	<u>100 %</u>
<b>Operating costs and expenses:</b>		
Cost of revenues	50	41
Sales and marketing	20	22
Research and development	16	19
General and administrative	27	30
Depreciation and amortization	<u>6</u>	<u>8</u>
<b>Total operating costs and expenses</b>	<u>119</u>	<u>120</u>
Income (loss) from operations	(19)	(20)
Interest expense, net of interest income	(1)	(1)
Other income (expense)	<u>-</u>	<u>-</u>
<b>Net income (loss)</b>	<u>(20)%</u>	<u>(21)%</u>

The Company reported a net loss of \$1,309,000 for the year ended December 31, 2007, compared to a net loss of \$1,149,000 for the year ended December 31, 2006. The net loss for 2007 and 2006 includes non-cash expense of \$378,000 and \$350,000, respectively, related to the implementation of SFAS 123(R) on January 1, 2006. This standard required the Company to expense the fair value of stock options and restricted stock awards issued to employees. The net loss for 2007 and 2006 also includes non-cash expense of \$407,000 and \$432,000, respectively for depreciation and amortization, which significantly increased over prior years as a result of the acquisition of EFS Solutions, Inc. in October 2005.

Net cash used in operating activities was \$169,000 and \$183,000 for the years ended December 31, 2007 and 2006.

## **Results of Operations**

### **Revenues**

The following table summarizes revenues by category and as a percent of total revenues:

Year Ended December 31,	2007		2006	
New software licenses	\$ 2,537,000	40%	\$ 2,783,000	50%
Software license updates and product support	1,142,000	18%	1,095,000	20%
Total software revenues	3,679,000	58%	3,878,000	70%
Professional services	2,710,000	42%	1,678,000	30%
Total revenues	\$6,389,000	100%	\$5,556,000	100%

Total revenues for 2007 increased \$833,000, or 15%, to \$6,389,000, from \$5,556,000 in 2006. As the table above indicates, the increase in net sales in 2007 was attributed to an increase in professional services revenues, and to a lesser extent, software license updates and product support revenues, offset by a decrease in new software revenues. The mix of revenue categories is subject to change on a year-to-year basis. The increase in professional services revenue in the current year compared to last year can be attributed to the positive results realized from the investment in the Global Services group. The decrease in software license revenues in the current year compared to last year can be attributed to lower revenues from the sale of software development kits to new customers. There is increased competitive price pressure for the Company's 300mm OEM Connectivity software development kit and the potential market is limited. The market for the Company's CIMPortal product line has grown more slowly than anticipated as the industry has not acted quickly to adopt the new SEMI Standards for Equipment Data Acquisition (EDA, which is also referred to as Interface A). The Company believes it is well positioned to benefit from the adoption of Interface A, but it is difficult to predict how fast the new SEMI Standards for Interface A will become required by device manufacturers.

### Cost of Revenues

The Company's cost of revenues as a percentage of total revenues for the years ended December 31, 2007 and 2006 was 50% and 41%, respectively. Cost of revenues increased \$914,000, or 40%, to \$3,189,000 for 2007, from \$2,275,000 for 2006. The year-over-year increase was due to the increased percentage of total revenues attributed to professional services, which revenue has higher labor and other costs of revenue than software revenues. In addition, the expansion of the Global Services group resulted in more costs charged to cost of revenues during 2007 and 2006, as compared to prior years. In addition, during the fourth quarter of 2007, a professional services project in the Company's Data Management Solution Center required significant added resources and costs. The Company made appropriate changes in project management and oversight, along with the required investments, to ensure the customer's success. Cost of revenues as a percentage of total revenues will vary from year to year depending on the mix of software and service sales, the type of service projects completed, the pricing strategy for the projects, the extent of utilization of outside resources, and other factors.

### Sales and Marketing

Sales and marketing expenses increased \$32,000, or 3%, to \$1,266,000 in 2007, from \$1,234,000 in 2006. Sales and marketing expenses reflect the direct payroll and related travel expenses of the Company's sales and marketing staff, the development of product brochures and marketing materials, press releases, and the costs related to the Company's representation at industry trade shows.

## **Research and Development**

Research and development expenses decreased \$11,000, or 1%, to \$1,026,000 in 2007, from \$1,037,000 in 2006. Because the Company released its CIMPortal version 1.0 software product in 2006, the costs associated with research and development activities related to products for the new SEMI Standards for Equipment Data Acquisition have decreased during 2007 and 2006. The Company has transitioned the majority of its research and development personnel to development of new product opportunities that the Company believes will expand its markets and contribute to future long term growth. Research and development expenses include only direct costs for wages, benefits, materials, and education of technical personnel. All indirect costs such as rents, utilities, depreciation and amortization are included in general and administrative expenses, as discussed below.

## **General and Administrative**

General and administrative expenses increased \$57,000, or 3%, to \$1,743,000 in 2007, from \$1,686,000 in 2006. General and administrative expenses include all direct costs for administrative and accounting personnel, and all rents and utilities for maintaining Company offices. The Company incurred increased general and administrative expenses in 2007 related to its Sarbanes-Oxley internal controls compliance project. The Company contracted with third party professionals to lead the project and assist the Company in the implementation of enhanced controls and procedures.

## **Depreciation and Amortization**

Depreciation and amortization expense decreased \$25,000, or 6%, to \$407,000 in 2007 from \$432,000 in 2006. Certain of the intangible assets associated with the EFS Solutions acquisition in October 2005 became fully amortized in 2007, resulting in a decrease in depreciation and amortization expense in the current year.

## **Other Income (Expense)**

Interest income decreased by \$17,000, or 65%, to \$9,000 in 2007, from \$26,000 in 2006. The decrease resulted from lower levels of cash reserves in the current year.

Interest expense increased \$4,000, or 6%, to \$76,000, in 2007, compared to \$72,000 in 2006. The increase in 2007 is attributable to the extension of maturity date associated with the Senior Notes.

## **Liquidity and Capital Resources**

At December 31, 2007, the Company had current assets of \$1,434,000, including cash and cash equivalents of \$339,000, and current liabilities of \$2,074,000, resulting in a working capital deficiency of \$640,000. Current liabilities include deferred revenue of \$328,000 at December 31, 2007, which requires the Company to provide services and support but does not represent a scheduled obligation requiring the outlay of Company funds.

As of December 31, 2007, the Company had notes payable and long-term debt totaling \$744,000 comprised of the following:

8% Senior Notes due September 30, 2008	\$ 471,000
Revolving bank line of credit	225,000
Other	<u>48,000</u>
	744,000
Less current portion	<u>706,000</u>
Long-term portion	<u><u>\$ 38,000</u></u>

Included in the Senior Notes Payable at September 30, 2007, are Senior Notes outstanding of \$163,000 to officers, employees or their affiliates.

In December 2007, the Company entered into a revolving line of credit agreement with a bank, of which \$225,000 had been advanced as of December 31, 2007. Line of credit advances are available to the Company in accordance with a defined “Availability Amount”, based in part on qualifying accounts receivable, up to a maximum of \$1,000,000. The line of credit bears interest at the prime rate plus 1% (8.25% at December 31, 2007), and matures in December 2008. The line of credit is collateralized by substantially all operating assets of the Company. Interest payments are payable on the last day of each month, with all principal advances payable on the maturity date of the line of credit. The Company believes that the funds available from the line of credit will be an important source of liquidity in the near term.

Under the line of credit agreement, the Company is required to comply with the following financial covenants:

- Maintain a ratio of quick assets to current liabilities of at least: (i) 1.15 to 1.00 from the effective date of the agreement through May 31, 2008 and (ii) 1.35 to 1.00 from and after June 1, 2008;
- Not incur any loss, calculated on a rolling three-month period, in excess of: (i) \$650,000 from the effective date of the agreement through December 31, 2007; (ii) \$625,000 from January 1, 2008 through March 31, 2008; (iii) \$385,000 from April 1, 2008 through June 30, 2008; (iv) \$200,000 from July 1, 2008 through September 30, 2008; and (v) \$0 from and after October 1, 2008.

The Company or any of its subsidiaries shall not do any of the following without the bank’s consent:

- Convey, sell, convey, transfer or otherwise dispose of parts of its business or defined property;
- Engage in any line of business other than that in effect on the effective date of the agreement, permit a change in control or change its jurisdiction of formation;
- Merge or consolidate with other entity or acquire all of the capital stock or property of another entity;
- Create, incur, assume or be liable for any new indebtedness;
- Create, incur, allow or suffer any lien on its property, or assign any right to receive income;
- Maintain any other collateral account;
- Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, or make other than certain defined investments;
- Directly or indirectly enter into any material transaction with any affiliate, except for transactions that are in the ordinary course of business;
- Make any payment on any defined subordinated debt or amend any provision in any document relating to subordinated debt;
- Become an “investment company” or a company controlled by an “investment company” under the Investment Company Act of 1940.

At December 31, 2007, the Company was out of compliance with the quick assets to current liabilities ratio covenant of the line of credit, primarily as a result of the Company incurring unanticipated costs on a service contract during the fourth quarter of 2007 and the Company accruing and expensing in the fourth quarter of 2007 the estimated remaining costs on the contract to be incurred during the first quarter of 2008, in accordance with its accounting policy for service contracts. As of the filing date of this report, we had borrowed \$641,084 under the line of credit. Through the filing date of this report, the bank has not called the amount outstanding under the line of credit, and the Company and the bank are currently discussing modifications to the terms of the line of credit agreement. In the event the bank calls the line of credit, we currently do not have a source of funds to repay the loan.

Historically, the Company has incurred net losses and negative cash flows from operations. As of December 31, 2007, the Company had an accumulated deficit of \$32,094,000, and total stockholders' deficit of \$136,000. During the year ended December 31, 2007, the Company reported a net loss of \$1,309,000 and net cash used in operating activities of \$169,000. Results of operations during 2007 were negatively impacted by significant non-cash expenses, including \$407,000 of depreciation and amortization, much of which resulted from the amortization of intangible assets recorded in the EFS Solutions acquisition, and \$378,000 of stock-based compensation. Management believes that continued increases in sales and improvements in operations, together with funds available from the bank line of credit, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and maintain positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding or be forced to scale back its development plans or to curtail operations.

Net cash used in operating activities for the year ended December 31, 2007 was \$169,000, compared to net cash used in operating activities of \$183,000 for the year ended December 31, 2006. The decrease in net cash used in operating activities resulted primarily from revenues increasing at a higher percentage on a year-over-year basis than operating expenses.

Net cash used in investing activities for the years ended December 31, 2007 and 2006 was \$5,000 and \$65,000, respectively, to purchase property and equipment.

Net cash provided by financing activities was \$200,000 for the year ended December 31, 2007, comprised of \$225,000 borrowings from the bank line of credit, partially offset by a \$25,000 reduction of Senior Notes. Net cash used in financing activities for the year ended December 31, 2006 was \$217,000, representing reductions of Senior Notes.

The Company has not been adversely affected by inflation. Revenues from foreign customers were \$2,795,000 during the year ended December 31, 2007, representing 44% of the Company's total revenues, compared to \$2,144,000, or 39%, of total revenues during the year ended December 31, 2006. There are potential economic risks inherent in foreign trade. To minimize the risk from changes in foreign currency exchange rates, the Company's export sales are transacted in United States dollars.

The Company considers its cash resources, projected cash from operations, and funds available from its bank line of credit to be sufficient to meet the operating needs of its current level of business for the next twelve months.

### **Contractual Obligations and Commitments**

The Company has various contractual obligations that are recorded as liabilities in its consolidated financial statements. The Company also has employment commitments with its executive officers and other key employees. Such commitments with the Company's executive officers are described in the Company's

Proxy Statement for its 2008 Annual Meeting of Shareholders, which is incorporated by reference into Part III, Item 10, “Executive Compensation”, in this Annual Report on Form 10-K.

The Company has entered into operating leases for its office facilities and office equipment. The table below summarizes the obligations pursuant to these leases, assuming that all lease arrangements run to full term.

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1 to 3 Years</b>	<b>4 to 5 Years</b>
Operating leases	\$64,000	\$54,000	\$6,000	\$4,000

### Recently Issued Accounting Standards

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or the Company’s fiscal year beginning January 1, 2009, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is unable to determine what impact the future application of this pronouncement may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. This statement replaces SFAS No. 141, *Business Combinations* and applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration. This statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financials statements to evaluate the nature and financial effects of the business combination. This statement will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company’s fiscal year beginning January 1, 2009. Earlier adoption is prohibited. The Company currently is unable to determine what impact the future application of this pronouncement may have on our financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and amends Accounting Research Bulletin (“ARB”) 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51’s consolidation procedures for consistency with the requirements of SFAS No. 141 (revised 2007). This statement will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company’s fiscal year beginning January 1, 2009. Earlier adoption is prohibited. The Company currently is unable to determine what impact the future application of this pronouncement may have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 on January 1, 2008, resulting in no financial statement impact.

In September 2006, the FASB issued SFAS Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This new standard will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The Company adopted SFAS No. 158 on December 31, 2007, resulting in no financial statement impact since the Company currently does not sponsor the defined benefit pension or postretirement plans within the scope of the standard.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, companies are required to provide enhanced disclosure regarding financial instruments in one of the categories, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, which delays by one year the effective date of SFAS No. 157 for certain types of non-financial assets and non-financial liabilities. As a result, SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, or the Company's fiscal year beginning January 1, 2008, for financial assets and liabilities carried at fair value on a recurring basis, and on January 1, 2009, for non-recurring non-financial assets and liabilities that are recognized or disclosed at fair value. The Company adopted SFAS No. 157 on January 1, 2008, for financial assets and liabilities carried at fair value on a recurring basis, with no material impact on its financial statements. The Company is currently unable to determine what impact the application of SFAS No. 157 on January 1, 2009, for non-recurring non-financial assets and liabilities that are recognized or disclosed at fair value, will have on its financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. This statement amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, a replacement of FASB Statement 125, or SFAS 140, regarding (1) the circumstances under which a servicing asset or servicing liability must be recognized, (2) the initial and subsequent measurement of recognized servicing assets and liabilities, and (3) information required to be disclosed relating to servicing assets and liabilities. The Company adopted this standard on January 1, 2007, with no impact on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The Company adopted this standard on January 1, 2007, with no impact on its consolidated financial statements.

The FASB has issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* –

An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 on January 1, 2007, and the provisions of FIN 48 were applied to all tax positions upon initial adoption of this standard. There was no financial statement impact of adopting FIN 48.

EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, was issued in June 2007. The EITF reached a consensus that nonrefundable payments for goods and services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered and the related services are performed. Entities should continue to evaluate whether they expect the goods to be delivered or services to be rendered. If the entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. This pronouncement is effective for financial statements issued for fiscal years beginning after December 15, 2007 (the Company's fiscal year beginning January 1, 2008) and interim periods within those fiscal years. Earlier application is not permitted. Entities are required to report the effects of applying this pronouncement prospectively for new contracts entered into on or after the effective date of this pronouncement. The Company currently is not a party to research and development arrangements that include nonrefundable advance payments. To the extent that the Company enters into research and development arrangements in the future that include nonrefundable advance payments, the future application of this pronouncement may have a material effect on its financial condition and results of operations.

### **Factors Affecting Future Results**

Total revenues for 2007 increased 15% compared to 2006. However, new software license revenues decreased during this period compared to the same period last year. Revenues from new software licenses include sales of Software Development Kits and runtime revenue associated with OEM customer machine shipments. Runtime revenue remained flat year-over-year as new customer shipments balanced the overall decline in the industry capital equipment shipments. Sales of Software Development Kits are difficult for the Company to forecast, as the Company is highly dependent on the timing of the decision of equipment suppliers to initiate a new machine development program and to utilize the Company's products. While the Company believes it continues to win the majority of the available Software Development Kit opportunities for its products, it appears that fewer companies are entering the market for semiconductor 300mm capital equipment, which has presented fewer opportunities for the Company. In addition, there is increased price pressure as some of the Company's competitors have lowered their prices to more effectively compete with the Company. The Company believes that as the new SEMI Standards for EDA (Interface A) begin to obtain market acceptance, the number of Software Development Kit opportunities will also increase, but industry adoption has been slower than anticipated.

The Company continues to focus on incrementally expanding its customer base and product line in order to increase revenues. In addition, management believes the formation of its new Data Management Solution Center continues to add services revenue as the Company provides service to the prior EFS Systems customers and leverages the Company's expertise in EDA (Interface A) to sell products and services directly to end user customers. Management believes that its expanded customer base will enable the Company to continue to increase its revenues year-over-year for fiscal 2007, while industry analysts continue to predict a flat to slightly up market in capital equipment spending for the industries served by the Company. As discussed below, the Company is also investing in a number of initiatives that management expects to contribute to future growth.

The Company has also been investing in pursuing the Japanese market for its products with its new distributor, CIM, Inc. While these efforts have led to some increased sales in Japan, it is not clear if CIM and the Company will be successful in winning sufficient new business in Japan, and if so, when the Company will see an increase in revenues sufficient to offset the additional costs incurred by the Company.

The Company continues to invest in its Global Services group, which is available to assist customers by providing professional services and complete turnkey solutions. As discussed above, the increase in professional services revenue in the current period compared to the same period last year can be attributed to the positive results realized from the investment in the Global Services group.

The Company's future operating results and financial condition are difficult to predict and will be affected by a number of factors. The markets for the Company's products are emerging and specialized. There can be no assurance that the markets for industrial motion control that are served by the Company will continue to grow, or that the Company's existing and new products will satisfy the requirements of those markets and achieve a successful level of customer acceptance.

Because of these and other factors, past financial performance is not necessarily indicative of future performance, and historical trends should not be used to anticipate future operating results.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A significant portion of the Company's cash equivalents and short-term investments bear variable interest rates that are adjusted to market conditions. Changes in market rates will affect interest earned and potentially the market value of the principal of these instruments. The Company does not utilize derivative instruments to offset the exposure to interest rate changes. Significant changes in interest rates may have a material impact on the Company's investment income, but not on the Company's consolidated results of operations.

The Company does have significant sales to foreign customers and is therefore subject to the effects of changes in foreign currency exchange rates may have on demand for its products and services. The Company does not utilize derivative instruments to offset the exposure to changes in foreign currency exchange rates. To minimize foreign exchange risk, the Company's export sales are transacted in United States dollars.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements of the Company called for by this item are contained in a separate section of this report. See "Index to Consolidated Financial Statements" on Page F-1.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

Not applicable.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

*(a) Evaluation of disclosure controls and procedures*

The Company's management, under the supervision and with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007. Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that the disclosure controls and procedures employed at the Company are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

### **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Exchange Act Rules 13a-15(f). The Company's internal control system is designed to provide reasonable assurance to its management and board of directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under that framework, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. The Company's internal control over financial reporting was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

#### ***(b) Changes in internal controls***

During the most recent fiscal quarter covered by this report, and since that date there has been no change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item, other than the information regarding executive officers which is contained in Part I of this report, is incorporated by reference from the information in the Company's definitive Proxy Statement to be filed for the 2008 Annual Meeting of Stockholders.

### **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is incorporated by reference from the information in the Company's definitive Proxy Statement to be filed for the 2008 Annual Meeting of Stockholders.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required by this item is incorporated by reference from the information in the Company's definitive Proxy Statement to be filed for the 2008 Annual Meeting of Stockholders.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item, other than the information regarding our equity compensation plans which is contained in Part I of this report is incorporated by reference from the information in the Company's definitive Proxy Statement to be filed for the 2008 Annual Meeting of Stockholders.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this item is incorporated by reference from the information in the Company's definitive Proxy Statement to be filed for the 2008 Annual Meeting of Stockholders.

## **PART IV**

## **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

### **(a) Financial Statements and Schedules**

The audited consolidated financial statements of the Company and the report of independent registered public accountants required in Part II, Item 8 are included beginning on page F-1. See the Index to Consolidated Financial Statements on page F-1.

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included in the consolidated financial statements and notes thereto.

### **(b) Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
3.1	Articles of Incorporation (1)
3.2	Articles of Merger of Cimatrix (USA) Incorporated with Cimatrix Incorporated (2)
3.3	Amended Bylaws (3)
10.1	Loan and Security Agreement with Silicon Valley Bank*
11	Statement re: computation of per share earnings (4)
21	List of Subsidiaries (4)
23.1	Independent Auditors' Consent – HJ & Associates, LLC*
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-1 4(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-

	Oxley Act of 2002*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
99.1	Press Release dated March 31, 2008*

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\* Exhibits filed with this report.

- (1) Incorporated by reference to Annual Report on Form 10-K for the fiscal year ended December 31, 1993.
- (2) Incorporated by reference to Quarterly Report on Form 10-QSB for the quarter ended September 30, 1995.
- (3) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- (4) Included in Notes to Consolidated Financial Statements contained in this filing
- (5) Incorporated by reference to Exhibit 16.1 included with the report on Form 8-K dated June 20, 2007.

## SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of March, 2008.

## REGISTRANT

### CIMETRIX INCORPORATED

By: /S/ Robert H. Reback  
Robert H. Reback  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /S/ Dennis P. Gauger  
Dennis P. Gauger  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Robert H. Reback</u> Robert H. Reback	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2008
<u>/S/ Dennis P. Gauger</u> Dennis P. Gauger	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2008
<u>/S/ Scott C. Chandler</u> Scott C. Chandler	Director	March 31, 2008
<u>/S/ C. Alan Weber</u> C. Alan Weber	Director	March 31, 2008
<u>/S/ Michael B. Thompson</u> Michael B. Thompson	Director	March 31, 2008

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Index to Consolidated Financial Statements**

<b>Report of Independent Registered Public Accounting Firm</b>	<b>F-2</b>
<b>Consolidated Balance Sheets</b>	<b>F-3</b>
<b>Consolidated Statements of Operations</b>	<b>F-4</b>
<b>Consolidated Statements of Stockholders' Equity (Deficit)</b>	<b>F-5</b>
<b>Consolidated Statements of Cash Flows</b>	<b>F-6</b>
<b>Notes to Consolidated Financial Statements</b>	<b>F-7</b>

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of Cimatrix Incorporated and subsidiaries  
Salt Lake City, Utah

We have audited the consolidated balance sheets of Cimatrix Incorporated and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cimatrix Incorporated and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years ended December 31, 2007 and 2006 in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assertion about the effectiveness of Cimatrix Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2007 included in the accompanying Form 10-K and, accordingly, we do not express an opinion thereon.

/s/HJ & ASSOCIATES, LLC  
**HJ & ASSOCIATES, LLC**

Salt Lake City, Utah  
March 29, 2008

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

<b>ASSETS</b>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Current assets:		
Cash and cash equivalents	\$ 339,000	\$ 313,000
Accounts receivable, net	1,035,000	1,337,000
Inventories	8,000	11,000
Prepaid expenses and other current assets	52,000	45,000
Total current assets	1,434,000	1,706,000
Property and equipment, net	165,000	177,000
Intangible assets, net	284,000	563,000
Goodwill	64,000	64,000
Other assets	29,000	28,000
	\$ 1,976,000	\$ 2,538,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 438,000	\$ 153,000
Accrued expenses	602,000	378,000
Deferred revenue	328,000	614,000
Notes payable - related parties, net	163,000	-
Notes payable and current portion of long-term liabilities, net	543,000	25,000
Total current liabilities	2,074,000	1,170,000
Long-term liabilities:		
Notes payable – related parties, net	-	154,000
Notes payable, net	38,000	292,000
Total long-term liabilities	38,000	446,000
Total liabilities	2,112,000	1,616,000
Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock; \$.0001 par value, 100,000,000 shares authorized, 31,952,432 shares issued	3,000	3,000
Additional paid-in capital	32,004,000	31,753,000
Treasury stock, at cost	(49,000)	(49,000)
Accumulated deficit	(32,094,000)	(30,785,000)
Total stockholders' equity (deficit)	(136,000)	922,000
	\$ 1,976,000	\$ 2,538,000

See accompanying notes to consolidated financial statements

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Operations**

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenues:		
New software licenses	\$ 2,537,000	\$ 2,783,000
Software license updates and product support	1,142,000	1,095,000
Total software revenues	3,679,000	3,878,000
Professional services	2,710,000	1,678,000
Total revenues	6,389,000	5,556,000
Operating costs and expenses:		
Cost of revenues	3,189,000	2,275,000
Sales and marketing	1,266,000	1,234,000
Research and development	1,026,000	1,037,000
General and administrative	1,743,000	1,686,000
Depreciation and amortization	407,000	432,000
Total operating costs and expenses	7,631,000	6,664,000
Loss from operations	(1,242,000)	(1,108,000)
Other income (expense):		
Interest income	9,000	26,000
Interest expense	(76,000)	(72,000)
Gain on extinguishment of debt	-	-
Other income (expense)	-	5,000
Total other expense, net	(67,000)	(41,000)
Loss before income taxes	(1,309,000)	(1,149,000)
Provision for income taxes	-	-
Net loss	\$ (1,309,000)	\$ (1,149,000)
Income (loss) per common share:		
Basic	\$ (0.04)	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.04)
Weighted average number of shares outstanding:		
Basic	31,927,000	31,927,000
Diluted	31,927,000	31,927,000

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**Years Ended December 31, 2007 and 2006**

	Treasury Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance, January 1, 2006	25,000	\$ (49,000)	31,952,432	\$ 3,000	\$ 31,440,000	\$ (29,636,000)	\$ 1,758,000
Stock-based compensation	-	-	-	-	280,000	-	280,000
Issuance of common stock warrants attached to senior notes	-	-	-	-	33,000	-	33,000
Net loss	-	-	-	-	-	(1,149,000)	(1,149,000)
Balance, December 31, 2006	25,000	(49,000)	31,952,432	3,000	31,753,000	(30,785,000)	922,000
Stock-based compensation	-	-	-	-	238,000	-	238,000
Issuance of common stock warrants attached to senior notes	-	-	-	-	13,000	-	13,000
Net loss	-	-	-	-	-	(1,309,000)	(1,309,000)
Balance, December 31, 2007	25,000	\$ (49,000)	31,952,432	\$ 3,000	\$ 32,004,000	\$ (32,094,000)	\$ (136,000)

See accompanying notes to consolidated financial statements

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net loss	\$ (1,309,000)	\$ (1,149,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	407,000	432,000
Provision for doubtful accounts	(45,000)	(15,000)
Option and warrants issued for services	-	-
Stock-based compensation	378,000	350,000
Amortization of bond discount	38,000	20,000
Gain on extinguishment of debt	-	(8,000)
(Increase) decrease (net of acquisition) in:		
Accounts receivable	347,000	(33,000)
Inventories	3,000	(11,000)
Prepaid expenses and other current assets	(4,000)	16,000
Other assets	(1,000)	-
Increase (decrease) in:		
Accounts payable	219,000	(33,000)
Accrued expenses	84,000	39,000
Deferred revenue	(286,000)	209,000
	(169,000)	(183,000)
Cash flows from investing activities:		
Purchase of property and equipment	(5,000)	(65,000)
Acquisition of business	-	-
Net sales of marketable securities	-	-
	(5,000)	(65,000)
Cash flows from financing activities:		
Payments of debt	(25,000)	(217,000)
Proceeds from the sale of common stock	-	-
Proceeds from the issuance of debt	225,000	-
	200,000	(217,000)
Net increase (decrease) in cash and cash equivalents	26,000	(465,000)
Cash and cash equivalents, beginning of year	313,000	778,000
Cash and cash equivalents, end of year	\$ 339,000	\$ 313,000

See accompanying notes to consolidated financial statements

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**Note 1: Organization and Significant Accounting Policies**

**Organization** – Cimetrix Incorporated, a Nevada corporation, and its subsidiaries (Cimetrix or the Company) are primarily engaged in the development and sale of open architecture, standards-based, personal computer software for controlling machine tools, robots, electronic equipment, and communication products that allow communication between equipment on the factory floor and host systems, and semiconductor connectivity products that connect new semiconductor tools to each other and to host systems.

**Principles of Consolidation** – The consolidated financial statements include the accounts of Cimetrix Incorporated and its wholly owned subsidiaries, Cimetrix Europe, Inc. and Cimetrix Data Management Solutions, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents** – The Company considers all investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents were \$0 as of December 31, 2007 and 2006. Cash was \$339,000 and \$313,000 as of December 31, 2007 and 2006, respectively. As of December 31, 2007, the Company had \$104,000 of cash and cash equivalents that was federally insured. All remaining amounts of cash and cash equivalents exceed federally insured limits, or are deposited in institutions that are not federally insured.

**Accounts Receivable** – Trade receivables are carried at original invoice amount less an estimate made for doubtful accounts. The Company offers credit terms on the sale of its products to a majority of its customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for doubtful accounts based upon historical collection experience and expected collectibility of all accounts receivable. The Company's allowance for doubtful accounts, which is determined based on historical experience and a specific review of customer balances, was \$54,000 and \$99,000 as of December 31, 2007 and 2006, respectively. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded as income when received.

**Inventories** – Inventories, consisting of certain product licenses resold with the Company's products, are stated at the lower of cost or market, with cost determined on a first-in, first out (FIFO) method.

**Software Development Costs** – The Company accounts for its software development costs in accordance with FAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (as amended). Costs incurred prior to the establishment of technological feasibility, including costs of planning, designing, coding and testing are expensed as incurred. The Company has determined that technological feasibility for its software products is reached shortly before the products are released in their final form. Costs incurred after technological feasibility is established have not been material, and, accordingly, the Company has expensed all research and development costs when incurred. Accordingly, no software development costs were capitalized during the years ended December 31, 2007 and 2006.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
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Amortization of capitalized software development costs is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product. Software costs are carried at the unamortized cost or net realizable value. Net realizable value is reviewed on an annual basis after assessing potential sales of the product in that the unamortized capitalized cost relating to each product is compared to the net realizable value of that product and any excess is written off.

**Research and Development** - Research and development expenses include direct costs for wages, benefits, materials, and education of technical personnel and are expensed as incurred for software that has not achieved technological feasibility. The Company also expenses hardware design and prototype expenses as incurred as research and development costs.

**Patents and Copyrights** - The Company has obtained a patent related to certain technology. In addition, the Company has registered most of its software system products with the Copyright Office of the United States, and will continue to timely register any updates to current products or any new products. Generally, other than the patent and the copyright registrations, the Company relies on confidentiality and nondisclosure agreements with its employees and customers, appropriate security measures, and the encoding of its software in order to protect the proprietary nature of its technology. No cost has been capitalized with respect to the patent.

**Property and Equipment** – Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets ranging from one to seven years. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated life of the asset or the expected term of the related lease. Depreciable lives by asset group are as follows:

Equipment	2 – 7 years
Office equipment and software	1 - 7 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	7 years
Automobiles	5 years

Maintenance and repairs are charged to costs and expenses as incurred. The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and any related gain or loss on disposition is reflected in net income or loss for the period.

**Intangible Assets** – Intangible assets include the costs to obtain the Company’s AART and SDI SECS/GEM technology and intangible assets acquired in the 2006 acquisition of EFS Solutions, Inc. Intangible assets that are determined to have finite lives are amortized over their estimated useful lives to the Company. The amortization lives of definite-lived assets are as follows:

Technology	10 years
Customer relationships	5 years
Covenant not to compete	2 years

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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**Goodwill** – Goodwill, representing the excess of the purchase price of EFS Solutions, Inc. over the fair value of the identifiable net assets acquired, is not amortized but tested for impairment annually or when events or circumstances indicate that the carrying value may not be recoverable. The Company performs the annual assessment of goodwill in the fourth quarter.

**Impairment of Long-Lived Assets** – The Company periodically reviews its long-lived assets, including definite-lived intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flows of the related asset or group of assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset. No impairment loss was recognized during the years ended December 31, 2007 and 2006.

**Revenue Recognition** – The Company derives revenues from two primary sources, software and professional services. Software revenues are reported in two categories, the sale of new software licenses and software license updates and product support. The Company has “off-the-shelf” software packages in the machine control and communications product lines. Machine control products include items such as CODE 6.0, CIMControl, and CIMulation. Communications products include items such as CIM300, CIMConnect and CIMPortal. New software licenses include the sale of software development kits as well as the runtime license fees associated with deployment of the Company’s software products. Software license updates and product support are typically annual contracts with customers that are paid in advance, which provides the customer access to new software releases, maintenance releases, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications.

Before the Company recognizes revenue, the following criteria must be met:

- 1) Evidence of a financial arrangement or agreement must exist between the Company and its customer. Purchase orders and signed OEM contracts are two examples of items accepted by the Company to meet this criterion.
- 2) Delivery of the products or services must have occurred. The Company treats either physical or electronic delivery as having met this requirement. It is the policy of the Company to provide its customers a 30-day right to return. However, because the amount of returns has been insignificant, the Company recognizes revenue immediately upon the shipment of the product. If the number of returns were to increase, the Company would establish a reserve based on a percentage of sales to account for any such returns.
- 3) The price of the products or services is fixed and measurable.
- 4) Collectibility of the sale is reasonably assured and receipt is probable. Collectibility of a sale is determined on a customer-by-customer basis. Typically the Company sells to large corporations which have demonstrated an ability to pay. If it is determined that a customer may not have the ability to pay, revenue is deferred until the payment is collected.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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The software component of the Company's products is an integral part of its functionality. As such, the Company applies the provisions of the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, *Software Revenue Recognition* as modified by SOP 98-9.

The Company's products are fully functional at the time of shipment. The software components of the Company's products do not require significant production, modification or customization. As such, revenue from product sales is recognized upon shipment provided that the criteria outlined above are met.

Revenue related to services is recognized as services are performed if there is not an extended contract related to such services. If the services are provided pursuant to a contract that extends over a period of time, the revenue from services is recorded ratably over the contract period, generally using the percentage of completion method. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period in which the loss becomes evident.

If a sale involves a bundled package of new software licenses, software license updates and product support, and professional services, and the Company has vendor specific objective evidence of fair value among arrangement elements in accordance with SOP 97-2, then revenue is first allocated to software license updates and product support and professional service obligations at fair market value, and the remaining amount is applied to new software license revenue. Assuming all of the above criteria have been met, revenue from the new software license portion of the package is recognized upon shipment. Revenue from material software license updates and product support contracts is recognized ratably over the term of the contract, which is generally 12 months. Revenue from professional services is recognized as services are performed. Standard payment terms for sales are net 30 days for sales in the United States and net 45 to 60 days for foreign customers. On occasion, extended payment terms will be offered. If the Company provides payment terms greater than 90 days and collection is not reasonably assured, then revenues are generally recognized as payments are received.

In the event that the Company does not have vendor specific objective evidence of fair value among arrangement elements in a bundled package of products and services, the Company reports the revenue in a single revenue line presentation in the consolidated statements of operations in accordance with SOP 97-2.

**Income Taxes** – As part of the process of preparing consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current income tax exposure together with assessing temporary differences resulting from differing treatment of items for income tax and financial accounting purposes. These temporary differences result in deferred tax assets and liabilities, the net amount of which is included in the Company's consolidated balance sheet. When appropriate, the Company records a valuation allowance to reduce its deferred tax assets to the amount that the Company believes is more likely than not to be realized. Key assumptions used in estimating a valuation allowance include potential future taxable income, projected income tax rates, expiration dates of net operating loss and tax credit carry forwards, and ongoing prudent and feasible tax planning strategies. At December 31, 2007,

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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the Company had fully reduced its net deferred tax assets by recording a valuation allowance of \$11,935,000. If the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to reduce the valuation allowance would increase income in the period such determination was made.

**Advertising Costs** – Advertising costs, including trade show participation, newsletters, press releases and sales literature, are expensed as incurred, and totaled \$59,000 and \$78,000, for the years ended December 31, 2007 and 2006, respectively.

**Earnings (Loss) Per Common Share** – The computation of basic earnings (loss) per common share is based on the weighted average number of shares outstanding during each year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the year. Options and warrants to purchase 4,518,250 and 4,581,750 shares of common stock were outstanding at December 31, 2007 and 2006, respectively. No options, warrants or restricted stock awards were included in the computation of weighted average number of shares because the effect would have been anti-dilutive.

**Concentration of Credit Risk** – Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations.

The Company maintains its cash in bank deposit accounts and brokerage investment accounts. At times, the bank deposits may exceed federally insured limits and the brokerage investment accounts are not insured. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in its cash deposits.

**Use of Estimates** – The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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**Recent Accounting Pronouncements** – In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or the Company's fiscal year beginning January 1, 2009, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is unable to determine what impact the future application of this pronouncement may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. This statement replaces SFAS No. 141, *Business Combinations* and applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration. This statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financials statements to evaluate the nature and financial effects of the business combination. This statement will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company's fiscal year beginning January 1, 2009. Earlier adoption is prohibited. The Company currently is unable to determine what impact the future application of this pronouncement may have on our financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and amends Accounting Research Bulletin ("ARB") 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141 (revised 2007). This statement will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company's fiscal year beginning January 1, 2009. Earlier adoption is prohibited. The Company currently is unable to determine what impact the future application of this pronouncement may have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted

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**Years Ended December 31, 2007 and 2006**  
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SFAS No. 159 on January 1, 2008, resulting in no financial statement impact.

In September 2006, the FASB issued SFAS Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This new standard will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The Company adopted SFAS No. 158 on December 31, 2007, resulting in no financial statement impact since the Company currently does not sponsor the defined benefit pension or postretirement plans within the scope of the standard.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, companies are required to provide enhanced disclosure regarding financial instruments in one of the categories, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, which delays by one year the effective date of SFAS No. 157 for certain types of non-financial assets and non-financial liabilities. As a result, SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, or the Company's fiscal year beginning January 1, 2008, for financial assets and liabilities carried at fair value on a recurring basis, and on January 1, 2009, for non-recurring non-financial assets and liabilities that are recognized or disclosed at fair value. The Company adopted SFAS No. 157 on January 1, 2008, for financial assets and liabilities carried at fair value on a recurring basis, with no material impact on its financial statements. The Company is currently unable to determine what impact the application of SFAS No. 157 on January 1, 2009, for non-recurring non-financial assets and liabilities that are recognized or disclosed at fair value, will have on its financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. This statement amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, a replacement of FASB Statement 125, or SFAS 140, regarding (1) the circumstances under which a servicing asset or servicing liability must be recognized, (2) the initial and subsequent measurement of recognized servicing assets and liabilities, and (3) information required to be disclosed relating to servicing assets and liabilities. The Company adopted this standard on January 1, 2007, with no impact on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The Company adopted this standard on January 1, 2007, with no impact on its consolidated financial statements.

The FASB has issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 on January 1, 2007, and the provisions of FIN 48 were applied to all tax positions upon initial adoption of this standard. There was no financial statement impact of adopting FIN 48.

EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, was issued in June 2007. The EITF reached a consensus that nonrefundable payments for goods and services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered and the related services are performed. Entities should continue to evaluate whether they expect the goods to be delivered or services to be rendered. If the entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. This pronouncement is effective for financial statements issued for fiscal years beginning after December 15, 2007 (the Company's fiscal year beginning January 1, 2008) and interim periods within those fiscal years. Earlier application is not permitted. Entities are required to report the effects of applying this pronouncement prospectively for new contracts entered into on or after the effective date of this pronouncement. The Company currently is not a party to research and development arrangements that include nonrefundable advance payments. To the extent that the Company enters into research and development arrangements in the future that include nonrefundable advance payments, the future application of this pronouncement may have a material effect on its financial condition and results of operations.

**Comprehensive Income (Loss)** – The only component of comprehensive income (loss) in 2007 and 2006 was net loss.

**Reclassifications** – Certain amounts in the consolidated financial statements for the year ended December 31, 2006 have been reclassified to conform to the presentation used in the year ended December 31, 2007.

**Note 2 – Stock-Based Compensation**

In May 2006, the Company's shareholders approved the combined amendment and restatement of the Cimetric Incorporated 1998 Incentive Stock Option Plan and the Cimetric Incorporated Director Stock Option Plan as the Cimetric 2007 Long-Term Incentive Plan (the "Plan"). In addition to stock options, the Plan authorizes the grant of stock appreciation rights, restricted stock awards, and other stock unit and equity-based performance awards.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share Based Payments*. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award granted using the Black-Scholes option pricing model, and recognized over the period in which the award vests.

The stock-based compensation expense for the years ended December 31, 2007 and 2006 has been allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense as follows:

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Cost of revenues	\$ 17,000	\$ 16,000
Sales and marketing	97,000	55,000
Research and development	29,000	50,000
General and administrative	235,000	229,000
 Total stock-based compensation expense realized and increase in net loss	 \$ 378,000	 \$ 350,000
 Impact on basic loss per common share	 \$ (0.01)	 \$ (0.01)
 Impact on diluted loss per common share	 \$ (0.01)	 \$ (0.01)

There was no stock compensation expense capitalized during the years ended December 31, 2007 and 2006.

During the year ended December 31, 2007, options to purchase 441,500 shares of the Company’s common stock were issued to the Company’s employees, with exercise prices ranging from \$0.23 to \$0.28 per share. The Company estimated the grant-date fair value of these options using the Black-Scholes option pricing model using the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	85.31%
Risk free interest rate	4.47%
Expected life of options	7 years

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The following table summarizes the stock option activity during 2007:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	4,115,500	\$ 0.53		
Granted	441,500	0.27		
Exercised	-	-		
Expired	(75,000)	0.57		
Forfeited	<u>(230,000)</u>	0.43		
Outstanding at December 31, 2007	<u>4,252,000</u>	0.50	2.62	\$ -
Options vested and exercisable at December 31, 2007	<u>2,811,708</u>	0.56	1.51	\$ -

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$0.20 as of December 31, 2007, which would have been received by the holders of in-the-money options had the option holders exercised their options as of that date.

During the year ended December 31, 2007, the Company granted to officers and directors restricted stock awards for a total of 105,000 shares of the Company's common stock, with vesting periods ranging from one to four years. During the year ended December 31, 2006, the Company entered into employment agreements with officers providing for the grant of restricted stock awards for a total of 765,000 shares of the Company's common stock, with vesting periods ranging from one to four years. The grant-date fair value of these restricted stock awards was estimated on the effective date of the restricted stock awards or related employment agreements using the closing market price of the Company's common stock on that date, with the compensation expense amortized over the vesting period of the restricted stock awards. The issuance of the shares was approved by the Board of Directors. Included in accrued expenses in the accompanying consolidated balance sheets are liabilities of \$211,000 and \$70,000 as of December 31, 2007 and 2006, respectively, representing the 2007 and 2006 vested portions of the compensation for the restricted stock awards for which shares have not been issued.

As of December 31, 2007, the total future compensation cost related to non-vested stock-based awards not yet recognized in the condensed consolidated statements of operations was \$409,000, and the weighted average period over which these awards are expected to be recognized was 2.40 years.

**Note 3: Acquisition of EFS Solutions, Inc.**

On October 3, 2005, the Company, Cimetric Merger Corporation, a Nevada corporation and wholly owned subsidiary of the Company ("Cimetric Merger"), EFS Solutions, Inc., a privately owned corporation ("EFS"), and the shareholders of EFS entered into an Acquisition Agreement and

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
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Agreement of Plan of Merger (the “Merger Agreement”), providing for the acquisition of 100% of the outstanding common shares of EFS by the Company, pursuant to the merger of EFS into Cimetric Merger. EFS provides specialty engineering services to semiconductor companies. EFS has been integrated into the Company’s recently formed Global Services Data Management Solution Center where it is expected that this strategic acquisition will add services revenue and profitability to the Company. Subsequent to the acquisition of EFS, Cimetric Merger changed its name to Cimetric Data Management Solutions, Inc.

On October 4, 2005, the Company completed the acquisition and paid approximately \$1,241,000 in total consideration to the shareholders of EFS pursuant to the terms of the Merger Agreement, had transaction costs and recorded a deferred tax liability resulting from the difference in the book and tax basis of the assets acquired as follows:

Cash	\$ 614,000
Issuance of 1,394,336 shares of common stock of the Company valued at \$.45 per share	627,000
Transaction costs	66,000
Deferred tax liability	464,000
 Total	 \$ 1,771,000

The following table summarizes the estimated fair values of the assets acquired at the date of the acquisition:

Accounts receivable	\$ 454,000
Property and equipment	6,000
Intangible assets:	
Customer relationships	356,000
Covenant not to compete	427,000
Goodwill	528,000
 Total	 \$ 1,771,000

As a result of recording the deferred tax liability in the EFS acquisition, \$464,000 of the valuation allowance recorded against the Company’s net deferred tax assets was reduced. The Company subsequently reduced the value assigned to the goodwill recorded in the EFS acquisition by the \$464,000 amount of the reduction in the valuation allowance, resulting in goodwill of \$64,000 recorded in the transaction.

The results of EFS operations have been included in the consolidated financial statements of the Company since October 4, 2005.

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**Note 4: Accounts Receivable**

Accounts receivable consist of the following:

	December 31,	
	2007	2006
Trade receivables	\$ 1,089,000	\$ 1,436,000
Less allowance for doubtful accounts	(54,000)	(99,000)
	\$ 1,035,000	\$ 1,337,000

**Note 5: Property and Equipment**

Property and equipment consist of the following:

	December 31,	
	2007	2006
Software development costs	\$ 464,000	\$ 464,000
Equipment	480,000	455,000
Office equipment and software	579,000	488,000
Furniture and fixtures	208,000	208,000
Leasehold improvements	95,000	95,000
Automobiles	52,000	52,000
	1,878,000	1,762,000
Less accumulated depreciation and amortization	(1,713,000)	(1,585,000)
	\$ 165,000	\$ 177,000

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2007 and 2006 was \$128,000 and \$101,000, respectively.

**Note 6: Intangible Assets and Goodwill**

Intangible assets subject to amortization consist of the following at December 31:

	2007		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Technology	\$ 1,091,000	\$ 1,003,000	\$ 88,000
Customer relationships	356,000	160,000	196,000
Covenant not to compete	427,000	427,000	-
	\$ 1,874,000	\$ 1,590,000	\$ 284,000

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

	<b>2006</b>		
	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Technology	\$ 1,091,000	\$ 955,000	\$ 136,000
Customer relationships	356,000	89,000	267,000
Covenant not to compete	427,000	267,000	160,000
	\$ 1,874,000	\$ 1,311,000	\$ 563,000

The amounts for customer relationships and covenant not to compete were recorded in connection with the 2006 acquisition of EFS (Note 2).

Goodwill of \$64,000 also originated in the acquisition of EFS, and is not amortized but tested periodically for impairment.

Amortization expense was \$279,000 and \$331,000 for the years ended December 31, 2007 and 2006, respectively.

The estimated future annual amortization expense for identifiable intangible assets is as follows:

2008	\$ 118,000
2009	113,000
2010	53,000
	\$ 284,000

**Note 7: Accounts Payable and Accrued Expenses**

Accounts payable consist of the following:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Trade	\$ 364,000	\$ 90,000
Related parties	74,000	63,000
	\$ 438,000	\$ 153,000

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

Accrued expenses consist of the following:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Accrued salaries and wages	\$ 67,000	\$ 153,000
Accrued vacation	118,000	120,000
Accrued payroll taxes	40,000	26,000
Accrued interest payable	9,000	9,000
Restricted stock payable (Note 2)	211,000	70,000
Accrued contract costs	147,000	-
Other	10,000	-
	\$ 602,000	\$ 378,000

**Note 8: Lease Obligations**

The Company leases certain office space and equipment under noncancelable operating lease agreements. Future minimum lease payments required under operating leases are as follows:

<b>Year ending December 31,</b>	
2008	\$ 54,000
2009	3,000
2010	3,000
2011	3,000
2012	1,000
	\$ 64,000

Rental expense for the years ended December 31, 2007 and 2006 under operating leases was \$180,000 and \$177,000, respectively.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

**Note 9: Notes Payable and Long-Term Debt**

The Company's notes payable consisted of the following:

**Related Parties:**

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Senior Notes, unsecured, with interest at 8% payable semiannually on April 1 and October 1, 2007 and 2008, maturing September 30, 2008, payable to officers, employees, or their affiliates	\$ 163,000	\$ 163,000
Less discount	-	(9,000)
Total	163,000	154,000
Less current portion	163,000	-
Long-term portion	\$ -	\$ 154,000

**Other:**

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Senior Notes, unsecured, with interest at 8% payable semiannually on April 1 and October 1, 2007 and 2008, maturing September 30, 2008	\$ 308,000	\$ 308,000
Senior Notes, unsecured, with interest at 12% payable semiannually on April 1 and October 1, 2006 and 8% payable semiannually on April 1, and October 1, 2007, matured September 30, 2007	-	25,000
Revolving bank line of credit, secured by the operating assets of the Company, with interest at the prime rate plus 1% (8.25% at December 31, 2007)	225,000	-
Installment notes payable to financing company, payable in monthly payments totaling \$1,901, including interest at 24.49%, from March 2008 through February 2011,	48,000	-
Less discount	-	(16,000)
Total	581,000	317,000
Less current portion	543,000	25,000
Long-term portion	\$ 38,000	\$ 292,000

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

At December 31, 2007, there were warrants issued to the Senior Note holders to purchase a total of 266,250 common shares of the Company at an exercise price of \$0.35 per share. The warrants expire on September 30, 2008. The value of the warrants has been recorded as a reduction of the principal amount of the Senior Notes and an increase to additional paid-in capital. This discount is accreted and recognized as interest expense over the remaining life of the Senior Notes.

During March 2007, the Company closed an offer to extend the maturity date of the Senior Notes due September 30, 2007. The Company offered to extend the maturity date to September 30, 2008 of all the outstanding principal amount of the Senior Notes held by each holder and extend the expiration date to September 30, 2008 of the warrants that were issued in connection with the Senior Notes. The holders of all Senior Notes elected to extend the maturity date.

In December 2007, the Company entered into a revolving line of credit agreement with a bank, of which \$225,000 had been advanced as of December 31, 2007. Line of credit advances are available to the Company in accordance with a defined "Availability Amount", based in part on qualifying accounts receivable, up to a maximum of \$1,000,000. The line of credit bears interest at the prime rate plus 1% (8.25% at December 31, 2007), and matures in December 2008. The line of credit is collateralized by substantially all operating assets of the Company. Interest payments are payable on the last day of each month, with all principal advances payable on the maturity date of the line of credit.

Under the line of credit agreement, the Company is required to comply with the following financial covenants:

- Maintain a ratio of quick assets to current liabilities of at least: (i) 1.15 to 1.00 from the effective date of the agreement through May 31, 2008 and (ii) 1.35 to 1.00 from and after June 1, 2008;
- Not incur any loss, calculated on a rolling three-month period, in excess of: (i) \$650,000 from the effective date of the agreement through December 31, 2007; (ii) \$625,000 from January 1, 2008 through March 31, 2008; (iii) \$385,000 from April 1, 2008 through June 30, 2008; (iv) \$200,000 from July 1, 2008 through September 30, 2008; and (v) \$0 from and after October 1, 2008.

The Company or any of its subsidiaries shall not do any of the following without the bank's consent:

- Convey, sell, convey, transfer or otherwise dispose of parts of its business or defined property;
- Engage in any line of business other than that in effect on the effective date of the agreement, permit a change in control or change its jurisdiction of formation;
- Merge or consolidate with other entity or acquire all of the capital stock or property of another entity;
- Create, incur, assume or be liable for any new indebtedness;
- Create, incur, allow or suffer any lien on its property, or assign any right to receive income;
- Maintain any other collateral account;
- Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

- stock, or make other than certain defined investments;
- Directly or indirectly enter into any material transaction with any affiliate, except for transactions that are in the ordinary course of business;
- Make any payment on any defined subordinated debt or amend any provision in any document relating to subordinated debt;
- Become an “investment company” or a company controlled by an “investment company” under the Investment Company Act of 1940.

At December 31, 2007, the Company was out of compliance with the quick assets to current liabilities ratio covenant of the line of credit. Through the filing date of this report, the bank has not called the amount outstanding under the line of credit, and the Company and the bank are currently discussing modifications to the terms of the line of credit agreement.

Future maturities of notes payable and long-term debt are as follows:

<b>Year ending December 31,</b>	
2008	\$ 543,000
2009	15,000
2010	19,000
2011	4,000
	<hr/>
	\$ 581,000
	<hr/>

**Note 10: Income Taxes**

The benefit (provision) for income taxes is different than amounts which would be provided by applying the statutory federal income tax rate to (loss) income before income taxes for the following reasons:

	<b>Years Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Income tax benefit at statutory rate	\$ 445,000	\$ 391,000
Meals and entertainment	(9,000)	(6,000)
Research and development credit	7,000	80,000
Stock-based compensation	(81,000)	(95,000)
Other	-	3,000
Change in valuation allowance	(362,000)	(373,000)
	<hr/>	<hr/>
	\$ -	\$ -
	<hr/>	<hr/>

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

Deferred tax assets (liabilities) are comprised of the following:

	December 31	
	2007	2006
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 9,637,000	\$ 9,019,000
Asset impairment	1,182,000	1,415,000
Depreciation and amortization	163,000	395,000
Allowance for doubtful accounts	20,000	37,000
Accrued expenses	178,000	71,000
Deferred income	123,000	229,000
Inventory reserve	-	49,000
Research and development credits	747,000	799,000
	12,050,000	12,014,000
Less valuation allowance	(11,935,000)	(11,770,000)
Net deferred tax assets	115,000	244,000
<b>Deferred tax liabilities:</b>		
Accounts receivable	(42,000)	(85,000)
Intangible assets	(73,000)	(159,000)
	(115,000)	(244,000)
<b>Net deferred taxes</b>	\$ -	\$ -

At December 31, 2007, the Company has a net operating loss carry forward available to offset future taxable income of approximately \$26,000,000, which will begin to expire in 2008. If substantial changes in the Company's ownership should occur, there would also be an annual limitation of the amount of the net operating loss carry forward which could be utilized.

The FASB has issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Fin 48 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of FIN 48, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by FIN 48.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the year ended December 31, 2007.

The Company classifies interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations under general and administrative expenses. As of December 31, 2007, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. U.S. federal net operating loss carry forwards from the year ended December 31, 2005 through the year ended

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

December 31, 2007 are subject to examination.

**Note 11: Supplemental Cash Flow Information**

**During the year ended December 31, 2007:**

- The Company acquired property and equipment through accounts payable of \$63,000.
- The Company recorded a discount for warrants attached to senior notes in the amount of \$13,000.
- The Company increased prepaid expenses and increased accounts payable by \$3,000

**During the year ended December 31, 2006:**

- The Company acquired property and equipment through accounts payable of \$24,000.
- The Company recorded a discount for warrants attached to senior notes in the amount of \$33,000.

	<b>Years Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Cash paid for interest	\$ 38,000	\$ 56,000
Cash paid for income taxes	\$ -	\$ -

**Note 12: Major Customers**

During 2007, one customer accounted for 14% of the Company's total revenues. During 2006 no customer accounted for 10% or more of the Company's total revenues.

Export sales to unaffiliated customers were approximately \$2,795,000 and \$1,899,000 in 2007 and 2006, respectively.

During 2007 and 2006, the Company had no export sales to countries which exceeded 10% of net sales.

**Note 13: Employee Benefit Plan**

The Company has a defined contribution retirement savings plan, which is qualified under Section 401(K) of the Internal Revenue Code. The plan provides retirement benefits for employees

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2007 and 2006**  
*Continued*

meeting minimum age and service requirements. Participants may contribute up to the maximum amounts allowed under the Internal Revenue Code.

The Company will match 50% of the employees' contribution up to a maximum of 2% of the employees' annual pay. Participants vest in the employers' contribution over a five-year period. For the years ended December 31, 2007 and 2006, the Company contributed approximately \$52,000 and \$33,000, respectively, to the plan.

**Note 14: Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, receivables, payables, and notes payable. The carrying amount of cash and cash equivalents, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

**Note 15: Commitments and Contingencies**

**Product Warranties**

The Company provides certain product warranties to customers including repayment or replacement for defect in materials and workmanship of hardware products. The Company also warrants that software and firmware products will conform to published specifications and not fail to execute the Company's programming instructions due to defects in materials and workmanship. If the Company is unable to repair or replace any product to a condition warranted within a reasonable time, the Company will provide a refund to the customer. As of December 31, 2007 and 2006, no provision for warranty claims has been established since historically any amounts expended in connection with warranties has not been material. Management believes that any allowance for warranty would be immaterial to the financial condition of the Company.

**Note 16: Related Party Transactions**

For the years ended December 31, 2007 and 2006, the Company had revenues totaling \$369,000 and \$312,000, respectively, from two customers that are also stockholders of the Company. The Company had accounts receivable from these two customers totaling \$8,000 and \$29,000 at December 31, 2007 and 2006, respectively. .

As of December 31, 2007 and 2006, the Company had Senior Notes payable of \$163,000 to holders who were officers, employees or their affiliates (see Note 9). During the years ended December 31, 2007 and 2006, the Company paid interest expense of \$15,000 and \$15,000, respectively, to these related parties.

As of December 31, 2007 and 2006, accrued expenses included an obligation of \$211,000 and \$70,000, respectively for the issuance of restricted stock awards to officers and directors of the Company (see Notes 2 and 7).

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Cimetrix Incorporated:**

We consent to the incorporation by reference in Registration Statement No. 333-118624 on Form S-8 of our report dated March 29, 2008, relating to the consolidated financial statements of Cimetrix, Inc. and subsidiaries appearing in this Annual Report on Form 10-K of Cimetrix, Inc. and subsidiaries for the years ended December 31, 2007 and 2006.

/s/HJ & ASSOCIATES, LLC  
**HJ & ASSOCIATES, LLC**

Salt Lake City, Utah  
March 29, 2008

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a – 15(e) OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert H. Reback, certify that:

1. I have reviewed this annual report on Form 10-K of Cimetric Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2008  
(Date)

/s/ Robert H. Reback  
Robert H. Reback  
President (principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a – 15(e) OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dennis P. Gauger, certify that:

1. I have reviewed this annual report on Form 10-K of Cimetric Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2008  
(Date)

/s/ Dennis P. Gauger  
Dennis P. Gauger,  
Chief Financial Officer (principal  
financial and accounting officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002**

In connection with the annual report of Cimatrix Incorporated (the "Company") on Form 10-K for the year ended December 31, 2007, Robert H. Reback hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, that to the best of his knowledge:

1. The annual report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2008  
(Date)

/s/ Robert H. Reback  
Robert H. Reback  
President (principal executive officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002**

In connection with the annual report of Cimatrix Incorporated (the "Company") on Form 10-K for the year ended December 31, 2007, Dennis P. Gauger hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, that to the best of his knowledge:

1. The annual report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2008  
(Date)

/s/ Dennis P. Gauger  
Dennis P. Gauger  
Chief Financial Officer (principal  
financial and accounting officer)

## Exhibit 99.1

### Press Release

#### **Company Contact:**

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Cimetrix Incorporated  
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dave.faulkner@cimetrix.com

#### **Media & Analysts Contact:**

Stew Chalmers  
Positio Public Relations  
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Fax: (408) 453-2404  
stew@positio.com

### **Cimetrix Announces 2007 Year-End Financial Results**

**SALT LAKE CITY, UT — March 31, 2008** — Cimetrix, Incorporated (OTC: CMXX), a leading provider of factory automation software and solutions for the global semiconductor and electronics industries, today reported financial results for the year ended December 31, 2007.

Total revenues for 2007 increased 15% year-over-year to \$6,389,000 from \$5,556,000. The Company reported a net loss of \$1,309,000, or \$0.04 per basic and diluted share in 2007, compared to a net loss of \$1,149,000, or \$0.04 per basic and diluted share in 2006. Fourth quarter 2007 revenues were \$1,582,000, compared with fourth quarter 2006 revenues of \$1,512,000 and third quarter 2007 revenues of \$1,630,000.

“Despite the current downturn in the semiconductor capital equipment industry, we recorded year-over-year growth in revenue. We had a strong increase in professional services revenues in 2007, which we believe will lead to increases in software license revenue in future years. However, we encountered a number of larger than anticipated costs during the fourth quarter, which affected our performance,” said Bob Reback, president and CEO. “During the fourth quarter, a professional services project in our relatively new Data Management Solution Center required significant added resources and costs. Cimetrix made appropriate changes in project management and procedures, along with the required investments, to ensure our customer’s success. In addition, as a public company, we were required to implement Sarbanes-Oxley internal controls, which consumed more time and expense than anticipated. Fortunately, both of these matters were mostly non-recurring costs.”

#### **2007 Highlights**

- Fulfillment of joint development project. Cimetrix met all major milestones associated with a joint development project with a top tier US based equipment supplier. This major equipment supplier will serve as the beta and reference customer for a new Tool Control product line that Cimetrix plans to introduce during 2008.
- Continued success in Japanese market. Cimetrix continued working closely with its exclusive distributor in Japan, CIM, Inc., to both win new customers and expand relationships with existing customers. Cimetrix and CIM obtained a number of important “design wins” for the Company’s CIM300 and CIMPortal connectivity products that should lead to increases in software license revenue in future years.

#### **Outlook for 2008**

Cimetrix has clear evidence that the industry is experiencing a slowdown in short term shipments and orders which will negatively affect our performance in the first quarter of 2008. Longer term, software revenues are poised to grow as new top tier customers gained over the past several years increase shipments of equipment using Cimetrix software and as we continue to expand our product line.

### **About Cimetrix Incorporated**

Cimetrix designs, develops, markets, and supports factory automation software for the global semiconductor and electronics industries. Cimetrix's connectivity software allows equipment manufacturers to quickly implement the SECS/GEM standards, with over 10,000 connections shipped worldwide. It also provides solutions to meet the 300mm SEMI communications standards, with OEM customer installations in all major 300mm fabs, and products designed for the new Interface A standards. Cimetrix's PC-based motion control software is used by leading equipment manufacturers for demanding robotic applications. Cimetrix provides total solutions for its customers with engineering services and passionate technical support. Major products include CIMConnect™, CIM300™, CIMPortal and CODE™ (Cimetrix Open Development Environment). For more information, please visit [www.cimetrix.com](http://www.cimetrix.com).

### **Safe Harbor Statement:**

The matters discussed in this news release include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements about the Company's prospects for future growth and results of operations are forward-looking statements. The comments made by the Company's senior management in regards to future revenue and results are based on current expectations and involve risks and uncertainties that may adversely affect expected results including but not limited to capital expenditures by semiconductor chip manufacturers, market acceptance of the Company's products, the timing and degree of adoption of Interface A by the semiconductor industry, the ability of the Company to control its costs associated with providing products and services, the mix between products and services (which generally have higher associated costs of revenue) provided by the Company, the competitive position of the Company and its products, which include CODE, CIMConnect, CIM300 and CIMPortal product families, the economic climate in the markets in which the Company's products are sold, technological improvements, and other risks discussed more fully in filings by the Company with the Securities and Exchange Commission. Many of these factors are beyond the control of the Company. Reference is made to the Company's most recent filing on Form 10-K, which further details such risk factors.

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

<b>ASSETS</b>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Current assets:		
Cash and cash equivalents	\$ 339,000	\$ 313,000
Accounts receivable, net	1,035,000	1,337,000
Inventories	8,000	11,000
Prepaid expenses and other current assets	52,000	45,000
Total current assets	1,434,000	1,706,000
Property and equipment, net	165,000	177,000
Intangible assets, net	284,000	563,000
Goodwill	64,000	64,000
Other assets	29,000	28,000
	\$ 1,976,000	\$ 2,538,000
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 438,000	\$ 153,000
Accrued expenses	602,000	378,000
Deferred revenue	328,000	614,000
Current portion of notes payable - related parties, net	163,000	-
Current portion of notes payable, net	543,000	25,000
Total current liabilities	2,074,000	1,170,000
Long-term liabilities:		
Notes payable – related parties, net	-	154,000
Notes payable, net	38,000	292,000
Total long-term liabilities	38,000	446,000
Total liabilities	2,112,000	1,616,000
Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock; \$.0001 par value, 100,000,000 shares authorized, 31,952,432 shares issued	3,000	3,000
Additional paid-in capital	32,004,000	31,753,000
Treasury stock, at cost	(49,000)	(49,000)
Accumulated deficit	(32,094,000)	(30,785,000)
Total stockholders' equity (deficit)	(136,000)	922,000
	\$ 1,976,000	\$ 2,538,000

**CIMETRIX INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Operations**

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenues:		
New software licenses	\$ 2,537,000	\$ 2,783,000
Software license updates and product support	1,142,000	1,095,000
Total software revenues	<u>3,679,000</u>	<u>3,878,000</u>
Professional services	2,710,000	1,678,000
Total revenues	<u>6,389,000</u>	<u>5,556,000</u>
Operating costs and expenses:		
Cost of revenues	3,189,000	2,275,000
Sales and marketing	1,266,000	1,234,000
Research and development	1,026,000	1,037,000
General and administrative	1,743,000	1,686,000
Depreciation and amortization	407,000	432,000
Total operating costs and expenses	<u>7,631,000</u>	<u>6,664,000</u>
Income (loss) from operations	<u>(1,242,000)</u>	<u>(1,108,000)</u>
Other income (expense):		
Interest income	9,000	26,000
Interest expense	(76,000)	(72,000)
Gain on extinguishment of debt	-	-
Other income (expense)	-	5,000
Total other expense, net	<u>(67,000)</u>	<u>(41,000)</u>
Income (loss) before income taxes	(1,309,000)	(1,149,000)
Provision for income taxes	-	-
Net income (loss)	<u>\$ (1,309,000)</u>	<u>\$ (1,149,000)</u>
Income (loss) per common share:		
Basic	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding:		
Basic	31,927,000	31,927,000
Diluted	31,927,000	31,927,000