GLENAYRE TECHNOLOGIES INC
Form 10-Q
August 08, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2003**

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

For the transition period from ___________ to ___________

Commission File Number **0-15761**

GLENAYRE TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**98-0085742**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

11360 LAKEFIELD DRIVE, DULUTH, GEORGIA	**30097**
(Address of principal executive offices)	(Zip Code)

(770) 283-1000

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No x

The number of shares outstanding of the Registrant s common stock, par value $.02 per share, at August 7, 2003 was 65,762,110 shares.

Glenayre Technologies, Inc. and Subsidiaries

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Glenayre Technologies, Inc. and Subsidiaries
Independent Auditors Review Report

To the Board of Directors and Stockholders of
Glenayre Technologies, Inc.
Atlanta, Georgia

We have reviewed the accompanying condensed consolidated balance sheet of Glenayre Technologies, Inc. and subsidiaries as of June 30, 2003 and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2003 and 2002, the condensed consolidated statement of stockholders equity for the six-month period ended June 30, 2003 and the condensed consolidated statements of cash flows for the six-month period ended June 30, 2003 and 2002. These financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Glenayre Technologies, Inc. as of December 31, 2002, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated February 14, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Atlanta, Georgia
August 4, 2003

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 47,968	$ 64,333
Short-term investments	49,725	43,884
Accounts receivable, net	10,663	5,584
Inventories, net	6,709	6,943
Assets, net, discontinued operations	10,394	11,709
Prepaid expenses and other current assets	3,046	6,698
Total Current Assets	128,505	139,151
Property, plant and equipment, net	8,309	5,858
Other assets	776	795
TOTAL ASSETS	$ 137,590	$ 145,804
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 3,832	$ 3,226
Accrued liabilities	25,923	22,497
Accrued liabilities, discontinued operations	11,409	10,574
Total Current Liabilities	41,164	36,297
Other liabilities	6,147	6,416
Accrued liabilities, discontinued operations - noncurrent	12,614	15,299
Stockholders Equity:		
Preferred stock, $.01 par value; authorized: 5,000,000 shares, no shares issued and outstanding		
Common stock, $.02 par value; authorized: 200,000,000 shares, outstanding: 2003 - 65,674,690 shares; 2002 - 65,448,353 shares	1,313	1,308
Contributed capital	361,681	361,485
Accumulated deficit	(285,999)	(275,001)
Accumulated other comprehensive income	670	
Total Stockholders Equity	77,665	87,792
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 137,590	$ 145,804

See notes to condensed consolidated financial statements

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2003	**2002**
REVENUE:		
Product sales	$ 10,420	$ 13,747
Service revenue	4,208	4,360
Total Revenue	14,628	18,107
COST of REVENUE (exclusive of depreciation and amortization shown separately below):		
Cost of sales	5,593	6,149
Cost of services	2,729	2,470
Total Cost of Revenue	8,322	8,619
GROSS MARGIN (exclusive of depreciation and amortization shown separately below):	6,306	9,488
OPERATING EXPENSES:		
Selling, general and administrative expense	5,563	7,330
Provision for doubtful receivables, net of recoveries	(47)	(403)
Research and development expense	4,774	4,110
Restructuring expense	1,582	577
Depreciation and amortization expense	264	2,280
Total Operating Expenses	12,136	13,894
OPERATING LOSS	(5,830)	(4,406)
OTHER INCOME (EXPENSES):		
Interest income, net	460	520
Gain on disposal of assets, net		36
Realized and unrealized gain on securities, net		122
Other, net	3	93
Total Other Income	463	771
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(5,367)	(3,635)
Provision for income taxes		
LOSS FROM CONTINUING OPERATIONS	(5,367)	(3,635)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,104)	15,782
NET INCOME (LOSS)	$ (6,471)	$ 12,147
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE:		

Loss from continuing operations	$ (0.08)	$ (0.06)
Income (loss) from discontinued operations	(0.02)	0.24
Net income (loss) per weighted average common share	$ (0.10)	$ 0.19
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION:		
Loss from continuing operations	$ (0.08)	$ (0.06)
Income (loss) from discontinued operations	(0.02)	0.24
Net income (loss) per weighted average common share	$ (0.10)	$ 0.19

See notes to condensed consolidated financial statements

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 30,	
	2003	**2002**
REVENUE:		
Product sales	$ 19,827	$ 33,083
Service revenue	8,144	8,458
Total Revenue	27,971	41,541
COST of REVENUE (exclusive of depreciation and amortization shown separately below):		
Cost of sales	9,309	12,443
Cost of services	5,330	4,754
Total Cost of Revenue	14,639	17,197
GROSS MARGIN (exclusive of depreciation and amortization shown separately below):	13,332	24,344
OPERATING EXPENSES:		
Selling, general and administrative expense	13,519	15,294
Provision for doubtful receivables, net of recoveries	(215)	(342)
Research and development expense	9,983	8,442
Restructuring expense	1,804	368
Depreciation and amortization expense	408	4,510
Total Operating Expenses	25,499	28,272
OPERATING LOSS	(12,167)	(3,928)
OTHER INCOME (EXPENSES):		
Interest income, net	885	999
Gain on disposal of assets, net	14	33
Realized and unrealized loss on securities, net		(250)
Other, net	96	99
Total Other Income	995	881
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(11,172)	(3,047)
Provision (benefit) for income taxes	28	(2,413)
LOSS FROM CONTINUING OPERATIONS	(11,200)	(634)
INCOME FROM DISCONTINUED OPERATIONS	202	15,858
NET INCOME (LOSS)	$ (10,998)	$ 15,224
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE:		

Loss from continuing operations	$ (0.17)	$ (0.01)
Income from discontinued operations	0.00	0.24
Net income (loss) per weighted average common share	$ (0.17)	$ 0.23
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION:		
Loss from continuing operations	$ (0.17)	$ (0.01)
Income from discontinued operations	0.00	0.24
Net income (loss) per weighted average common share	$ (0.17)	$ 0.23

See notes to condensed consolidated financial statements

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Contributed Capital	Accumulated Deficit	Accumulative Other Comprehensive Income	Total Stockholders' Equity and Comprehensive Loss
Balances, January 1, 2003	65,448	$ 1,308	$ 361,485	$ (275,001)	$	$ 87,792
Net loss				(10,998)		(10,998)
Other Comprehensive Income:						
Foreign currency translation adjustment					670	670
Comprehensive Loss						(10,328)
Shares issued for ESP Plan and option exercises	263	6	229			235
Repurchase of common stock	(36)	(1)	(33)			(34)
Balances, June 30, 2003	65,675	$ 1,313	$ 361,681	$ (285,999)	$ 670	$ 77,665

See notes to condensed consolidated financial statements

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2003	**2002**
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (7,919)	$ 9,435
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,806)	(1,450)
Proceeds from sale of building and equipment		4,517
Investment in short-term securities, net	(5,841)	(5,000)
Proceeds from sale of available-for-sale securities		406
NET CASH USED IN INVESTING ACTIVITIES	(8,647)	(1,527)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	235	327
Purchase of treasury stock	(34)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	201	327
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,365)	8,235
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	64,333	89,149
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 47,968	$ 97,384
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 42	$ 24
Income taxes	22	165

See notes to condensed consolidated financial statements

Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

1. Summary of Significant Accounting Policies

Description of Business

Glenayre Technologies, Inc. and subsidiaries (Glenayre or the Company) is an established provider of network-based messaging and communications systems and software that enable applications like voice messaging, multimedia messaging and other enhanced telephony services. The Company designs, manufactures, markets and services its products principally under the Glenayre name. The Company s customers are communications service providers (CSPs), including wireless and fixed network carriers, as well as broadband and cable service providers. The Company s products make it possible for CSPs to provide a variety of messaging services like voice mail, one-number services, voice-activated dialing and picture messaging to their customers. Glenayre is headquartered in Atlanta, Georgia.

Prior to June 2001, the Company s operations also included its Wireless Messaging (Paging) business. In May 2001, the Company began exiting the Wireless Messaging (Paging) business and as a result the Wireless Messaging (Paging) segment was reported as a disposal of a segment of business in the second quarter of 2001. The operating results of the Wireless Messaging (Paging) segment are reported as discontinued operations in the accompanying financial statements (see Note 3).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Glenayre Technologies, Inc. and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions are eliminated in consolidation. Certain reclassifications have been made to the prior period s financial information to conform with the presentation used in 2003. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Glenayre s financial results in any quarter are highly dependent upon various factors, including the timing and size of customer orders and the shipment of products for large orders. Large orders from customers can account for a significant portion of products shipped in any quarter. Accordingly, the shipment of products in fulfillment of such large orders can dramatically affect the results of operations of any single quarter.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Glenayre Technologies, Inc. Annual Report on Form 10-K for the year ended December 31, 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. These investments generally consist of high-grade commercial paper, bank certificates of deposit, Treasury bills, notes or agency securities guaranteed by the U.S. Government and repurchase agreements backed by U.S. Government securities.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are large diversified entities with operations throughout the U.S. and Company policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company s investment strategy.

Short-Term Investments

Short-term investments consist of highly liquid investments purchased with original maturities of greater than three months and less than twelve months when purchased.

Accounts Receivable, Net

Accounts receivable are presented net of an allowance for doubtful accounts of $588,000 and $805,000 at June 30, 2003 and December 31, 2002, respectively. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. On a monthly basis the Company applies a reserve calculation based on the aging of its receivables and either increases or decreases its estimate of doubtful accounts accordingly. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which such allowances, if any, would be recorded in the period the impairment is identified.

Inventories

Inventories are valued at the lower of average cost or market. In assessing the ultimate realization of inventories, the Company is required to make judgments as to future demand requirements and compare these with the current or committed inventory levels. The reserve requirements generally increase as projected demand requirements decrease due to market conditions, technological and product life cycle changes, and longer than previously expected usage periods. The Company has experienced changes in required reserves in recent periods due to the discontinuances of product lines, as well as declining market conditions. As a result, charges for obsolescence and slow-moving inventory were approximately $665,000 and $883,000 for the six month periods ended June 30, 2003 and 2002, respectively. At June 30, 2003 and December 31, 2002, inventories of $6.7 million and $6.9 million, respectively, were net of reserves of approximately $5.5 million and $4.9 million, respectively. It is possible that significant changes in required inventory reserves may continue to occur in the future if there is a further decline in market conditions or if additional product lines are discontinued. In connection with the introduction of new products and services as well as in an effort to demonstrate its products to new and existing customers, the Company, from time to time, delivers new product test systems for demonstration and test to customer third-party locations. The Company expenses the cost associated with new product test equipment upon shipment from the Company s facilities.

Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

Property, Plant and Equipment

Property, plant and equipment, including internally developed software, are stated at cost less accumulated depreciation. Depreciation is computed principally using the straight-line method based on the estimated useful lives of the related assets (buildings, 20 years; furniture, fixtures and equipment, 3-7 years; internally developed software for internal use, 5-10 years).

Impairment of Long-Lived Assets

The Company reviews the recoverability of its long-lived assets, including buildings, equipment and internal use software when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company s ability to recover the carrying value of the asset from the expected future pre-tax cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Foreign Currency Translation

The accounts of foreign subsidiaries have been translated into U.S. dollars using the current exchange rate in effect at the balance sheet date for monetary assets and liabilities; and for non-monetary items, the exchange rates in effect when acquired. Revenue and expenses are translated into U.S. dollars using average exchange rates, except for depreciation, which is translated at the exchange rate in effect when the related assets were acquired. The resulting gains or losses on currency translations are reflected in the Condensed Consolidated Statements of Operations or the Condensed Consolidated Statement of Stockholders Equity and Comprehensive Loss.

Revenue Recognition

The Company recognizes revenue in accordance with the guidance of Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, and with Statement of Position 97-2, Software Revenue Recognition, and related interpretations. The Company recognizes revenue for products sold at the time delivery occurs, collection of the resulting receivable is deemed probable, the price is fixed and determinable and evidence of an arrangement exists. Certain products sold by the Company have operating software imbedded in the configuration of the system. Existing customers may purchase product enhancements and upgrades after such enhancements or upgrades are developed by the Company based on a standard price list in effect at the time such product enhancements and upgrades are purchased. The Company generally has no significant performance obligations to customers after the date products, product enhancements and upgrades are delivered, except for product warranties (see *Estimated Warranty Costs* below).

The Company recognizes service revenue from installation and repair services based on a standard price list in effect when such services are provided to customers. Installation is not essential to the functionality of the products sold and is inconsequential or perfunctory to the sale of the products. Revenues derived from postcontract support services are recognized ratably over the contract support period.

Significant Customers

During the six months ended June 30, 2003, Nextel Communications, Nortel Networks, an OEM distributor, United States Cellular, Alltel Communications, Verizon Wireless and Nextel Partners individually accounted for approximately 23%, 17%, 9%, 8%, 8% and 8%, respectively, of the Company s total revenue from continuing operations. During the six months ended June 30, 2002, Nextel, Nortel, Verizon and Alltel individually accounted for approximately 24%, 18%, 15% and 7%, respectively, of the Company s total revenue from continuing operations. Nortel sells the Company s products to several end user customers including T-Mobile whose purchases of Glenayre s products from Nortel represented approximately 14% of the Company s total revenue during both the six months ended June 30, 2003 and 2002.

Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

Software Costs

Product related computer software development costs are expensed as incurred. Such costs are required to be expensed until the point of technological feasibility is established. Costs that may otherwise be capitalized after such point are generally not significant and are therefore expensed as incurred.

Internal Use Software Development Costs

The Company capitalizes the cost associated with the internal development of major business process application software in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal use. The Company expenses preliminary project assessment, research and development, re-engineering and application maintenance costs.

Estimated Warranty Costs

The Company generally warrants its products for one year after sale and a provision for estimated warranty costs is recorded at the time of sale. The following is a summary of activity of the Company s continuing operations warranty obligation for the six months ended June 30, 2003:

Balance at January 1, 2003	$2,193
Provision for warranty obligations	53
Payments of warranty obligations	(33)
Balance at March 31, 2003	2,213
Provision (credit) for warranty obligations	(86)
Payments of warranty obligations	(280)
Balance at June 30, 2003	$1,847

The Company also offers postcontract extended warranty and support services, known as Glenayre Care, for its products and services to customers. The Company generally requires its customers to enter into Glenayre Care agreements of varying terms which typically require payment in advance of the performance of the extended warranty service. Revenue derived from postcontract support services are recognized ratably over the contracted support period. Deferred revenue at June 30, 2003 related to postcontract support services was approximately $1.8 million.

Stock-Based Compensation

The Company grants stock options and issues shares under option plans and an employee stock purchase plan as described in Note 9 to the Company s Consolidated Financial Statements. The Company accounts for stock option grants and shares sold under the employee stock purchase plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, records compensation expense for options granted and sales made at prices that are less than fair market value at the date of grant or sale. No compensation expense is recognized for options granted to employees with an exercise price equal to the fair value of the shares at the date of grant.

The following table compares the Company s results of continuing operations as reported, in which stock-based compensation expense is recorded under the intrinsic value method in accordance with APB 25, as compared to the pro forma results of continuing operations whereby stock-based compensation is computed under the fair value method. There was no expense recorded under the intrinsic value method in accordance with APB 25 for the six months ended June 30, 2003 and 2002, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the options vesting period, for each of the three and six month periods ended June 30:

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Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Income (loss) from continuing operations as reported	$(5,367)	$(3,635)	$(11,200)	$ (634)
Pro forma stock option expense (1)	(28)	(328)	(269)	(707)
Income (loss) from continuing operations pro forma	$(5,395)	$(3,963)	$(11,469)	$(1,341)
Income (loss) from continuing operations per common share as reported	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.01)
Pro forma stock option expense				(0.01)
Income (loss) from continuing operations per common share pro forma	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.02)
Income (loss) from continuing operations, assuming dilution as reported	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.01)
Pro forma stock option expense				(0.01)
Income (loss) from continuing operations, assuming dilution pro forma	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.02)

(1) As a result of employee terminations in 2003 and 2002 resulting from restructuring activities, a credit to the pro forma stock option expense was included in the June 30, 2003 and 2002 pro forma stock option expense. The credit for the three months ended June 30, 2003 and 2002 was approximately $214,000, or $.00 per share, and $147,000 or $.00 per share, respectively. The credit for the six months ended June 30, 2003 and 2002 was approximately $290,000, or $0.00 per share, and $423,000, or $0.01 per share, respectively. This credit related to the pro forma stock option expense previously recognized for these employees in prior years.

Income Taxes

Income taxes are accounted for using the liability method in accordance with SFAS 109, *Accounting for Income Taxes*.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, trade accounts and notes receivable, and other current and long-term liabilities approximates their respective fair values.

Income (Loss) Per Common Share

The Company computes income (loss) per common share pursuant to SFAS No. 128, Earnings per Share . The computation of basic income (loss) per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share is based on the weighted average number of common shares outstanding plus, when their effect is dilutive, potential common stock consisting of shares subject to stock options. There were no shares of potential common stock included in the calculation of diluted loss per share as their effect would be antidilutive. See Note 9.

Impact of Recently Issued Accounting Standards

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

Reporting the Results of Operations for a disposal of a segment of a business. FAS 144 was adopted by the Company effective January 1, 2002 and the initial adoption did not have a significant impact on the Company s financial position or results of operations. However, during the fourth quarter of 2002, the Company recorded an impairment loss of approximately $21.3 million associated with assets held for use in its continuing operations. The Company has facilities associated with its discontinued paging operations located in Vancouver, British Columbia and Singapore. These facilities are currently being actively marketed for sale and are considered held for sale assets. The Company continues to monitor the status of the sales activities and market conditions surrounding these held for sale facilities and has made adjustments, as required, to the estimated market values. The Company has received and accepted offers on both the Vancouver and Singapore facilities. The Company anticipates that these future sales of this real estate could generate approximately $10.4 million of cash proceeds in the second half of 2003, however there can be no assurance that these sale transactions will be completed.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* (FAS 146). FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity Including Certain Costs Incurred in a Restructuring*. FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF 94-3 had recognized the liability at the commitment date to an exit plan. The Company adopted the provisions of FAS 146 effective January 1, 2003

On December 31, 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (FAS 148). The Company currently utilizes the intrinsic value method of accounting for its stock-based employee compensation described in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. FAS 148 does not amend FAS 123, *Accounting for Stock-Based Compensation,* to require companies to account for their employee stock-based awards using the fair value approach. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting as described in FAS 123 or the intrinsic value method described in APB Opinion No. 25. In addition, FAS 148 amends the disclosure provisions of FAS 123 to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation reported in net income and earnings per share in annual and interim financial statements.

FAS 148 amends FAS 123 to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation should the Company decide to change its method of accounting from the intrinsic value method to the fair value method. The three methods provided in FAS 148 include (1) the prospective method which is the method currently provided for in FAS 123, (2) the retroactive restatement method which would allow companies to restate all periods presented and (3) the modified prospective method which would allow companies to present the recognition provisions to all outstanding stock-based employee compensation instruments as of the beginning of the fiscal year of adoption. The Company believes that it has provided the disclosures required under FAS 148 in these condensed consolidated financial statements and has no current plans to change its accounting for stock-based compensation to the fair value method.

At the November 21, 2002 meeting, the Emerging Issues Task Force of the FASB reached a consensus on EITF Issue 00-21, which addresses revenue recognition for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. In certain instances, the model would impact the application of SEC Staff Accounting Bulletin No. 101, *Income Recognition*. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003 with early adoption permitted. Additionally, companies will be permitted to apply the consensus guidance to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, *Accounting Changes*. Application of the model is likely to have a significant effect on current accounting practices in a variety of industries and may require changes to current policies and methods of gathering information used in reporting revenue. The Company s adoption of EITF 00-21 is not expected to have a significant impact on the Company s financial position or results of operations.

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In November 2002, the FASB issued FASB Interpretation Number 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires an entity to disclose in its interim and annual financial statements information with respect to its obligations under certain guarantees that it has issued. It also requires an entity to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The Company does not believe that the recognition requirements will have a material impact on the Company s financial position, cash flows or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires variable interest entities (commonly referred to as Special Purpose Entities or SPEs) to be consolidated by the primary beneficiary of the entity if certain criteria are met. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 become effective for the Company during the third quarter of 2003. For variable interest entities acquired prior to February 1, 2003, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the variable interest entity will be recognized as a cumulative effect of an accounting change. The Company currently has no variable interest entities and therefore the Company believes the adoption of FIN 46 will not have a material impact on its financial position.

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , (FAS 150). This Statement establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. FAS 150 is only the first phase of the FASB s Liabilities and Equity Project. It represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. The Company does not believe the adoption of FAS 150 will have a material impact on its financial position.

Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current presentation.

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2. Business Restructuring of Continuing Operations

During the first quarter of 2003, the Company recorded a restructuring charge of $234,000 for severance and outplacement services related to the reduction of the Company s workforce by approximately 19 positions impacting several functional areas within the Company. Additionally, the Company recorded net favorable adjustments to its original estimates associated with the Company s 2002 and 2001 restructuring activities of $12,000 primarily related to a reduction in accrued severance benefits.

During the second quarter of 2003, the Company recorded a restructuring charge of $1.4 million for severance and outplacement services related to the reduction of the Company s workforce by approximately 64 positions impacting several functional areas within the Company. In addition to the restructuring charge, a net favorable adjustment of $41,000 was recorded related to the original estimates associated with the Company s first quarter of 2003 restructuring charge for severance. Additionally, the Company recorded a restructuring charge of $183,000 related to lease cancellation and other exit costs expected to be incurred by the Company through October 2006.

During the first quarter 2002, the Company recorded a restructuring credit of $210,000 primarily related to the collection of accounts receivable previously reserved for in the 2001 restructuring charge and the change in estimate of accrued severance benefits related to the reduction of the Company s workforce.

During the second quarter of 2002, the Company recorded a restructuring charge of $759,000 for severance and outplacement services related to the further reduction of the Company s workforce by approximately 30 positions. Additionally, the Company recorded net favorable adjustments to its original estimates associated with the Company s 2001 restructuring activities of $182,000 primarily related to a reduction in the prepaid product line warranty obligation partially offset by additional facility lease expenses.

The following is a summary of activity for the six months ended June 30, 2003 related to the restructuring reserves:

	Severance and Benefits	Lease Cancellation and Other Exit Costs	Total
Balance at January 1, 2003	$ 265	$ 1,483	$1,748
Expense accrued	234		234
Credits and changes in estimates	(12)		(12)
Payments and charges	(166)	(178)	(344)
Balance at March 31, 2003	321	1,305	1,626
Expense accrued	1,440	183	1,623
Credits and changes in estimates	(41)		(41)
Payments and charges	(673)	(150)	(823)
Balance at June 30, 2003	$1,047	$ 1,338	$2,385

3. Discontinued Operations

In May 2001, the Company began exiting its Wireless Messaging (Paging) business and refocusing all of its strategic efforts on the Enhanced Services Platform and Unified Communication systems business segment based in Atlanta, Georgia. As a result, the Wireless Messaging (Paging) segment was reported as a disposal of a segment of business in the second quarter 2001 in accordance with APB Opinion No. 30. Accordingly,

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the operating results of the Wireless Messaging (Paging) segment have been classified as a discontinued operation for all periods presented in the Company s condensed consolidated statements of operations. Additionally, the Company has reported all of the Wireless Messaging (Paging) segment assets at their estimated net realizable values in the Company s condensed consolidated balance sheet as of June 30, 2003. All business transactions related to the Wireless Messaging (Paging) segment, with the exception of contractual obligations, ceased in May 2002, the end of the transition period.

The net income (loss) from discontinued operations consists of (a) operating losses incurred in the Wireless Messaging (Paging) segment adjusted for cash received from Wireless Messaging (Paging) trade receivables previously reserved and (b) an estimated loss on disposal of the segment which includes charges for the following: (i) the write-off of goodwill and other intangibles, (ii) reserves on property, plant and equipment, (iii) customer accounts and notes receivable settlement costs, (iv) employee termination costs, (v) inventory and non-inventory purchase commitments, (vi) anticipated losses from operations during a no more than twelve month transition period, (vii) facility exit and lease termination costs, (viii) expenses to be incurred to fulfill contractual obligations existing prior to the formal disposal date and (ix) related net tax expense, primarily related to a valuation allowance for related deferred tax assets. Numerous estimates and assumptions were made in determining the net realizable value related to the discontinued assets, operating results and various obligations noted above. These estimates are subject to adjustment resulting from, but not limited to, future changes in real estate market conditions or changes in estimates related to on-going contractual obligations and commitments.

Results of discontinued operations consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002 (1)**	**2003**	**2002 (1)**
Net sales	$	$ 5,803(1)	$	$ 7,962(1)
Income (loss) from discontinued operations:				
Income from operations before income taxes		3,371(1)		3,447(1)
Provision for income taxes		(1)		(1)
Income from operations		3,371(1)		3,447(1)
Gain (loss) on disposal before income taxes	(1,104)	7,911	202	7,911
Benefit for income taxes		(4,500)		(4,500)
Income (loss) on disposal of discontinued operations	(1,104)	12,411	202	12,411
Net income (loss) from discontinued operations	$(1,104)	$15,782	$202	$15,858

(1) Includes the results of discontinued operations from the beginning of the period to May 23, 2002, the end of the transition period.

In the second quarter of 2003, as a result of the Company s review of the estimated asset values and liabilities and future commitments related to the discontinued operations, a net increase in the loss on disposal of $1.1 million was recorded. The adjustments to the original estimates made at May 23, 2001 related mainly to additional write-down of the market value of the Company s Vancouver, British Columbia facility partially offset by collections of accounts receivable previously reserved for and better than expected warranty experience.

In the first quarter of 2003, as a result of the Company s review of the estimated asset values and liabilities and future commitments related to the discontinued operations, a net reduction in the loss on disposal of $1.3 million was recorded. The adjustments to the original estimates made at May 23, 2001 related mainly to collections of accounts receivable previously reserved for, reduction in the original estimate of anticipated headcount related costs to support the on-going obligations and commitments partially offset by additional write-down of the market value of the

Singapore facility.

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4. Sale of Facility
In January 2002, the Company sold its building held for sale located in Quincy, Illinois for cash proceeds of approximately $4.4 million. The Company entered into a five-year lease with the purchaser whereby 131,334 square feet of the total 154,256 square feet was leased from January 2002 to May 2002 and 66,656 square feet is being leased for the remainder of the term.

5. Accounts Receivable
Accounts receivable related to continuing operations consist of:

	June 30, 2003	December 31, 2002
Trade receivables	$ 11,251	$ 6,389
Less: allowance for doubtful accounts	(588)	(805)
	$ 10,663	$ 5,584

6. Inventories
Inventories related to continuing operations consist of:

	June 30, 2003	December 31, 2002
Raw materials	$ 3,331	$ 3,359
Work-in-process	1,591	1,544
Finished goods	1,787	2,040
	$ 6,709	$ 6,943

In connection with the introduction of new products and services as well as in an effort to demonstrate its products to new and existing customers, the Company, from time to time, delivers new product test systems for demonstration and testing to customer third-party locations. The Company expenses the cost associated with new product test equipment upon the shipment from the Company s facilities.

7. Comprehensive Income (Loss)
During the first six months of 2002 the Company sold its remaining investment in Proxim Corporation (Proxim) which merged in March 2002 with Western Multiplex Corporation, a former subsidiary, of which the Company sold 95% of the equity in November 1999. During the six months ended June 30, 2002, the Company sold 136,800 shares of Proxim stock at a pre-tax gain of $301,200. As of May 2002, the Company had fully liquidated its shares of Proxim and accordingly, the Company realized all previously unrealized holding gains related to this available-for-sale security.

During the first quarter of 2002, the Company recorded a pre-tax impairment charge of approximately $76,000 related to the decline in value deemed to be other than temporary on an additional available-for-sale security held by the Company. In addition, the Company recorded a pre-tax impairment charge of approximately $475,000 related to its investment in a privately held company. This impairment charge was determined based upon management s review of the valuations of publicly traded companies in similar sectors and other factors such as the status of the investees technology, operating performance and financial condition.

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Comprehensive income (loss) was $(10.3) million and $14.6 million for the six months ended June 30, 2003 and 2002, respectively. The comprehensive loss for the six months ended June 30, 2003 includes gain from foreign currency translation of $670,000.

8. Income Taxes

The Company s consolidated income tax provision (benefit) was different from the amount computed using the U.S. federal statutory income tax rate for the following reasons:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Income tax benefit federal U.S statutory rate	$(1,771)	$(1,272)	$(3,735)	$(1,067)
Increase in valuation allowance	1,762	1,263	3,717	1,062
State and foreign taxes, net of federal benefit and related valuation allowance			28	51
Benefit from NOL carryback claims				(2,480)
Other non deductibles	9	9	18	21
Income tax provision (benefit)	$	$	28	$(2,413)

In the first quarter of 2002, the Company recorded a one-time benefit for refundable alternative minimum income taxes under the Job Creation and Worker Assistance Act of 2002 (the Act) of $2.5 million. The Act became effective on March 9, 2002 and among other things extended the carryback period for net operating losses from two to five years for taxpayers with net operating losses for any tax year ending during 2001 or 2002. The new provision also temporarily suspended the 90% limitation found in Internal Revenue Code Section 56(d)(1) on the use of net operating loss carrybacks arising in tax years ending in 2001 and 2002 for alternative minimum tax purposes. Therefore, taxpayers that had paid alternative minimum tax because of the 90% limitation on the use of net operating losses to offset alternative minimum taxable income, can utilize this provision to obtain a refund.

In July 2002, the Company amended its U.S. Federal income returns for tax years 1996, 1997 and 1998 to obtain refunds of alternative minimum tax paid of $853,000, $1,444,000 and $183,000, respectively. The total carryback claim amounted to $2,480,000 and the refund was received in August 2002.

The Company accounts for income taxes under the liability method in accordance with FAS 109, Accounting for Income Taxes. At June 30, 2003, the Company s net deferred tax asset was fully reserved by a valuation allowance. Pursuant to FAS 109, a valuation allowance should be recognized to reduce the deferred tax asset to the amount that is more likely than not to be realized as offsets to the Company s future taxable income. As a result of the Company s discontinuance of its Wireless Messaging (Paging) business and other restructuring activities, a valuation allowance has been recognized by the Company to fully reserve the deferred tax asset due to the inability to project future income of the restructured business.

9. Stockholders Equity

Income (Loss) from Continuing Operations per Common Share

The following table sets forth the computation of loss from continuing operations per share:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Numerator:				
Net loss from continuing operations	$ (5,367)	$ (3,635)	$(11,200)	$ (634)
Denominator:				
Denominator for basic income from continuing operations per share - weighted average shares	65,574	65,281	65,555	65,245
Effect of dilutive securities: Stock options				
Denominator for diluted loss from continuing operations per share	65,574	65,281	65,555	65,245
Loss from continuing operations per weighted average common share	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.01)
Loss from continuing operations per common share-assuming dilution	$ (0.08)	$ (0.06)	$ (0.17)	$ (0.01)

Stock Based Compensation for Option Plans

The Company maintains two stock option plans (the 1996 Plan and the 1991 Plan) which were approved by the stockholders, are administered by a committee of the Board of Directors and are utilized to promote the long-term financial interests and growth of the Company. The 1996 and 1991 Plans as amended, authorize the grant of up to 9,650,000 and 11,475,000 shares, respectively, of the Company s common stock to directors, officers and key employees. Options granted have an option price equal to the fair market value of the Company s common stock on the date of grant. Options under the plan expire no later than ten years from the grant date.

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, (FAS 123) requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: