GLENAYRE TECHNOLOGIES INC
Form 10-Q
November 05, 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 **September 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 October 27, 2003 was 66,042,617 shares.

Glenayre Technologies, Inc. and Subsidiaries

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Independent Accountants 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 September 30, 2003, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2003 and 2002, the condensed consolidated statement of stockholders equity for the nine-month period ended September 30, 2003 and the condensed consolidated statements of cash flows for the nine-month periods ended September 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
October 27, 2003

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 52,644	$ 64,116
Short-term investments	38,567	43,884
Restricted cash	3,148	217
Accounts receivable, net	10,983	5,584
Inventories, net	6,657	6,943
Assets, net, discontinued operations	10,431	11,709
Prepaid expenses and other current assets	2,608	6,698
Total Current Assets	125,038	139,151
Property, plant and equipment, net	8,339	5,858
Other assets	774	795
TOTAL ASSETS	$ 134,151	$ 145,804
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 3,451	$ 3,226
Accrued liabilities	24,990	22,497
Accrued liabilities, discontinued operations	10,492	10,574
Total Current Liabilities	38,933	36,297
Other liabilities	6,016	6,416
Accrued liabilities, discontinued operations - noncurrent	10,780	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 - 66,035,449 shares; 2002 - 65,448,353 shares	1,320	1,308
Contributed capital	362,002	361,485
Accumulated deficit	(285,488)	(275,001)
Cumulative translation adjustment	588	
Total Stockholders Equity	78,422	87,792
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 134,151	$ 145,804

Glenayre Technologies, Inc. and Subsidiaries

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

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
REVENUES:		
Product sales	$10,199	$ 9,466
Service revenues	4,508	4,989
Total Revenues	14,707	14,455
COST of REVENUES (exclusive of depreciation shown separately below)		
Cost of sales	4,684	4,720
Cost of services	2,370	2,348
Total Cost of Revenues	7,054	7,068
GROSS MARGIN (exclusive of depreciation shown separately below)	7,653	7,387
OPERATING EXPENSES:		
Selling, general and administrative expense	4,802	5,948
Provision for doubtful receivables, net of recoveries	(56)	(510)
Research and development expense	4,148	4,143
Restructuring expense	333	199
Depreciation expense	325	2,537
Total Operating Expenses	9,552	12,317
OPERATING LOSS	(1,899)	(4,930)
OTHER INCOME (EXPENSES):		
Interest income, net	273	709
Loss on disposal of assets, net		(20)
Other (loss), net	(36)	(115)
Total Other Income	237	574
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(1,662)	(4,356)
Provision (benefit) for income taxes	11	(190)
LOSS FROM CONTINUING OPERATIONS	(1,673)	(4,166)
INCOME FROM DISCONTINUED OPERATIONS	2,184	2,371
NET INCOME (LOSS)	$ 511	$ (1,795)
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE(1):		
Loss from continuing operations	$ (0.03)	$ (0.06)
Income from discontinued operations	0.03	0.04

Net income (loss) per weighted average common share	$ 0.01	$ (0.03)
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION(1):		
Loss from continuing operations	$ (0.03)	$ (0.06)
Income from discontinued operations	0.03	0.04
Net income (loss) per weighted average common share	$ 0.01	$ (0.03)

(1) Income (loss) per weighted average common share amounts are rounded to the nearest $.01; therefore, such rounding may impact individual amounts presented.

Glenayre Technologies, Inc. and Subsidiaries

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

	Nine Months Ended September 30,	
	2003	**2002**
REVENUES:		
Product sales	$ 30,026	$ 42,549
Service revenues	12,652	13,447
Total Revenues	42,678	55,996
COST of REVENUES (exclusive of depreciation shown separately below)		
Cost of sales	13,993	17,163
Cost of services	7,700	7,102
Total Cost of Revenues	21,693	24,265
GROSS MARGIN (exclusive of depreciation shown separately below)	20,985	31,731
OPERATING EXPENSES:		
Selling, general and administrative expense	18,321	21,242
Provision for doubtful receivables, net of recoveries	(271)	(851)
Research and development expense	14,131	12,585
Restructuring expense	2,137	566
Depreciation expense	733	7,047
Total Operating Expenses	35,051	40,589
OPERATING LOSS	(14,066)	(8,858)
OTHER INCOME (EXPENSES):		
Interest income, net	1,158	1,708
Gain on disposal of assets, net	14	13
Realized and unrealized loss on securities, net		(250)
Other gain (loss), net	60	(16)
Total Other Income	1,232	1,455
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(12,834)	(7,403)
Provision (benefit) for income taxes	39	(2,603)
LOSS FROM CONTINUING OPERATIONS	(12,873)	(4,800)
INCOME FROM DISCONTINUED OPERATIONS	2,386	18,229
NET INCOME (LOSS)	$ (10,487)	$ 13,429
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE(1):		
Loss from continuing operations	$ (0.20)	$ (0.07)
Income from discontinued operations	0.04	0.28

Net income (loss) per weighted average common share	$ (0.16)	$ 0.21
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION(1):		
Loss from continuing operations	$ (0.20)	$ (0.07)
Income from discontinued operations	0.04	0.28
Net income (loss) per weighted average common share	$ (0.16)	$ 0.21

(1) Income (loss) per weighted average common share amounts are rounded to the nearest $.01; therefore, such rounding may impact individual amounts presented.

Glenayre Technologies, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Contributed Capital	Accumulated Deficit	Cumulative Translation Adjustment	Total Stockholders Equity
Balances, January 1, 2003	65,448	$ 1,308	$ 361,485	$ (275,001)	$	$ 87,792
Net loss				(10,487)		(10,487)
Other Comprehensive Income:						
Cumulative Translation Adjustment					588	588
Comprehensive Loss						(9,899)
Shares issued for ESP Plan and option exercises	623	13	550			563
Repurchase of common stock	(36)	(1)	(33)			(34)
Balances, September 30, 2003	66,035	$ 1,320	$ 362,002	$ (285,488)	$ 588	$ 78,422

Glenayre Technologies, Inc. and Subsidiaries

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

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(14,102)	14,257
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,216)	(2,011)
Proceeds from sale of building and equipment		4,560
Maturities (investment) in short-term securities	5,317	(35,862)
Proceeds from sale of available-for-sale securities		406
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,101	(32,907)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	563	466
Purchase of treasury stock	(34)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	529	466
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,472)	(18,184)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	64,116	89,149
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 52,644	$ 70,965
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 52	$ 36
Income taxes	234	180

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 including 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 including 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 accounting principles generally accepted in the United States 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. Operating results for the nine months ended September 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 condensed consolidated 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.

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

Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
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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 $439,000 and $805,000 at September 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 quarterly 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 $710,000 and $1,346,000 for the nine month periods ended September 30, 2003 and 2002, respectively. At September 30, 2003 and December 31, 2002, inventories of $6.7 million and $6.9 million, respectively, were net of reserves of approximately $4.6 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.

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).

Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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. To the extent that the asset is not recoverable, the Company measures the impairment based on the projected discounted cash flows of the asset over the remaining useful life. 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 as a cumulative exchange adjustment in 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 embedded 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 allocates revenue on arrangements involving multiple elements to each element based on the relative fair value of each element. The Company s determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has sufficient VSOE to allocate revenue to each of the multiple-elements.

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 nine months ended September 30, 2003, Nextel Communications, Nortel Networks, United States Cellular, Alltel Communications, Verizon Wireless and Nextel Partners individually accounted for approximately 28%, 15%, 10%, 8%, 6% and 6%, respectively, of the Company s total revenue from continuing operations. During the nine months ended September 30, 2002, Nextel, Nortel, Verizon, United States

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(Unaudited)

Cellular, and Alltel individually accounted for approximately 20%, 20%, 14%, 9% and 7%, respectively, of the Company s total revenue from continuing operations. Nortel is an OEM distributor that sells the Company s products to several end user customers including T-Mobile whose purchases of Glenayre s products from Nortel represented approximately 13% and 16% of the Company s total revenue from continuing operations during the nine months ended September 30, 2003 and 2002 respectively.

Product Related 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 nine months ended September 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
Provision for warranty obligations	136
Payments of warranty obligations	(399)
Balance at September 30, 2003	$1,584

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 September 30, 2003 related to postcontract support services was approximately $2.6 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, 12

Glenayre Technologies, Inc. and Subsidiaries

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

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.

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 nine months ended September 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 nine month periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Loss from continuing operations as reported	$(1,673)	$(4,166)	$(12,873)	$(4,800)
Pro forma stock option expense (1)	(117)	(315)	(395)	(1,022)
Loss from continuing operations pro forma	$(1,790)	$(4,481)	$(13,268)	$(5,822)
Loss from continuing operations per common share as reported (2)	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.07)
Pro forma stock option expense (2)			(0.01)	(0.02)
Loss from continuing operations per common share pro forma (2)	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.09)
Loss from continuing operations, assuming dilution as reported (2)	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.07)
Pro forma stock option expense (2)			(0.01)	(0.02)
Loss from continuing operations, assuming dilution pro forma (2)	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.09)

(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 September 30, 2003 and 2002 pro forma stock option expense. The credit for the three months ended September 30, 2003 and 2002 was approximately $51,000, or $0.00 per share, and $13,000 or $0.00 per share, respectively. The credit for the nine months ended September 30, 2003 and 2002 was approximately $345,000, or $0.01 per share, and $436,000, or $0.01 per share, respectively. This credit related to the pro forma stock option expense previously recognized for these employees in prior years.
(2) Loss per share amounts are rounded to the nearest $.01; therefore, such rounding may impact individual amounts presented.

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.

Glenayre Technologies, Inc. and Subsidiaries

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

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, *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 have been 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. Subsequent to September 30, 2003, the Company closed on the sale of its Singapore facility and received net proceeds of $1.6 million. In addition, during the third quarter of 2003 the Company accepted an offer for the sale of its Vancouver facility. The Company estimates the net proceeds on this sale transaction, which is anticipated to close during the fourth quarter of 2003, will be approximately $8.8 million. As part of the sale transaction, to clear a lien filed against this facility in connection with certain litigation related to the development of the facility (see Item 1.Legal Proceedings), the Company anticipates that approximately $3.4 million of these proceeds will be held by the court as security until the conclusion of this litigation (see Item 1.Legal Proceedings). However, there can be no assurance that this sale transaction 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

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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 did not have a significant impact on the Company s financial position or results of operations.

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 was 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 is recognized as a cumulative effect of an accounting change. On October 8, 2003, the FASB deferred the effective date of FIN 46, such that the Company will be required to apply the

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provisions beginning in the fourth quarter of 2003. 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. On October 29, 2003, the FASB deferred the application of certain requirements of FAS 150. The Company does not believe the adoption of FAS 150 will have a material impact on its financial statements.

Reclassifications

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

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 third quarter of 2003, the Company recorded a restructuring charge of $222,000 for severance and relocation related to the October 31, 2003 termination of the Company s president and chief executive officer. In addition, the Company recorded a restructuring charge of $222,000 related to a reduction of the Company s workforce by approximately 12 positions impacting several functional areas within the Company. The Company also recorded a charge of $69,000 for other exit costs incurred in the third quarter of 2003. Additionally, the Company recorded net favorable adjustments to its original estimates associated with the Company s 2003 and 2001 restructuring activities of $180,000 related to severance and facility leases.

During the first quarter of 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

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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.

During the third quarter of 2002, the Company recorded a restructuring charge of $199,000 for severance and outplacement services related to the further reduction of the Company s workforce by approximately 18 positions.

The following is a summary of activity for the nine months ended September 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	(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	(673)	(150)	(823)
Balance at June 30, 2003	$ 1,047	$ 1,338	$ 2,385
Expense accrued	419	94	513
Credits and changes in estimates	(96)	(84)	(180)
Payments	(754)	(188)	(942)
Balance at September 30, 2003	$ 616	$ 1,160	$ 1,776

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 Messaging 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, 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 September 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

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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 September 30,		Nine Months Ended September 30,	
	2003	**2002 (1)**	**2003**	**2002 (1)**
Net sales	$	$ (1)	$	$ 7,962 (1)
Income from discontinued operations:				
Income from operations before income taxes		(1)		3,447 (1)
Provision for income taxes		(1)		(1)
Income from operations		(1)		3,447 (1)
Gain on disposal before income taxes	2,184	2,299	2,386	10,210
Benefit for income taxes		(72)		(4,572)
Income on disposal of discontinued operations	2,184	2,371	2,386	14,782
Net income from discontinued operations	$2,184	$2,371	$2,386	$18,229

(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 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.

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 third 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 $2.2 million was recorded. The adjustments to the original estimates made at May 23, 2001 related mainly to a reduction in the original estimate of headcount related and other operating costs, offset by additional recoveries related to the support of the on-going obligations.

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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:

	September 30, 2003	December 31, 2002
Trade receivables	$11,422	$ 6,389
Less: allowance for doubtful accounts	(439)	(805)
	$10,983	$ 5,584

6. Inventories

Inventories, net of reserves, related to continuing operations consist of:

	September 30, 2003	December 31, 2002
Raw materials	$3,916	$3,359
Work-in-process	1,097	1,544
Finished goods	1,644	2,040
	$6,657	$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 nine 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 nine months ended September 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

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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.

Comprehensive income (loss) was $429,000 and $(1.8) million, respectively, for the three months ended September 30, 2003 and 2002 and $(9.9) million and $12.8 million for the nine months ended September 30, 2003 and 2002, respectively. The comprehensive income (loss) for the three months ended September 30, 2003 includes an unrealized loss from foreign currency translation of $(82,000) and for the nine months ended September 30, 2003 includes an unrealized gain from foreign currency translation of $588,000.

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 September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Income tax benefit federal U.S. statutory rate	$(582)	$(1,525)	$(4,492)	$(2,591)
Increase in valuation allowance	571	1,488	4,463	2,601
State and foreign taxes, net of federal benefit and related valuation allowance	11		39	
Benefit from NOL carryback claims		(161)		(2,641)
Other non deductibles	11	8	29	28
Income tax provision (benefit)	$ 11	$ (190)	$ 39	$(2,603)

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 September 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

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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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Net loss from continuing operations	$ (1,673)	$ (4,166)	$ (12,873)	$ (4,800)
Denominator:				
Denominator for basic income from continuing operations per share weighted average shares	65,825	65,379	65,651	65,289
Effect of dilutive securities: Stock options				
Denominator for diluted loss from continuing operations per share	65,825	65,379	65,651	65,289
Loss from continuing operations per weighted average common share	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.07)
Loss from continuing operations per common share-assuming dilution	$ (0.03)	$ (0.06)	$ (0.20)	$ (0.07)

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:

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	September 30, 2003	September 30, 2002
Expected Life in Years	1 to 4	1 to 4
Risk Free Interest Rate	1.2% to 4.3%	1.7% to 3.9%
Volatility	0.85	1.07
Dividend Yield		

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Stock Repurchase Program

In December 2000, the Board of Directors rescinded its 1996 stock repurchase program and authorized the repurchase of up to 3.0 million shares of the Company s common stock. In September 2001, the stock repurchase program was amended to authorize management to repurchase up to 5% of the Company s outstanding common stock, or approximately 3.3 million shares based on shares outstanding as of December 31, 2002. For the nine months ended September 30, 2003, the Company repurchased 36,000 shares at a total cost of $34,000. The Company did not repurchase shares in 2002.

10. Contingencies and Commitments

In connection with the sale and licensing of the Company s product, the Company typically agrees to defend and indemnify its customers against claims that the Company s products infringe the intellectual property rights of third parties.

In late 2001, Phillip Jackson (Jackson) filed lawsuits against two of the Company s customers claiming that products sold by these customers infringed a patent held by Jackson seeking total damages of approximately $10 million. The alleged infringement related to certain features included in products sold by the Company to these customers. By December 2001, the Company agreed to indemnify each of these customers for the claims in these lawsuits and assumed primary responsibility for defending the claims with respect to the Company s products. In January 2002, the Company filed a lawsuit in the Federal District Court in the Northern District of Illinois (Chicago) seeking a declaratory judgment that none of the Company s products infringe the Jackson patent. On February 18, 2003, the trial court summarily dismissed three of the four infringement claims alleged by Jackson in this case. The remaining claim went to trial in late March 2003. On April 1, 2003, the jury found in favor of Jackson and awarded damages of $12 million. On July 8, 2003, in response to the Company s Motion for a Judgment as a Matter of Law regarding the finding of infringement and the damages, the trial judge ordered a reduction in damages that the Company owes to Jackson to $2.7 million plus pre and post judgment interest and certain court costs. Jackson agreed to the reduction in damages. On August 18, 2003 the Company filed a notice to appeal the judgment and moved for a stay of judgment. Included in the Company s restricted cash is $2.9 million related to a letter of credit the Company posted as a security during the third quarter of 2003 in connection with this judgment.

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In addition to the legal proceeding discussed above, the Company is from time to time, involved in various disputes and legal actions related to its business operations. Based on information currently available, it is the opinion of the Company, that the currently identified claims or actions, including the Jackson litigation, should not have a material adverse effect on the Company s financial position, future results of operations or cash flows.

On November 1, 1999, the Company sold 95% of the equity in its microwave radio business, Western Multiplex Corporation, which merged with Proxim Corporation in March 2002. The Company is contingently liable for Proxim s building lease payments through September 2006. The maximum contingent liability as of September 30, 2003 for this obligation is approximately $1.7 million.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company, from time to time, makes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the expectations of management of the Company at the time such statements are made. The reader can identify such forward-looking statements by the use of words such as may, will, should, expects, plans, anticipates, believes, estimates, pr intend(s), potential, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those set forth under Risk Factors That May Affect Future Results below. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to the Company on the date hereof. The Company assumes no obligation to update any forward-looking statements.

Overview

The Company is an established provider of network-based messaging and communications systems and software that enable applications including 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 enable CSPs to provide a variety of messaging services including voice mail, one-number services, voice-activated dialing and picture messaging to their customers.

The Company s market consists of CSPs around the world that provide basic telephone and cable services to individual subscribers and enterprise customers and want to increase Average Revenue Per User (ARPU) and reduce subscriber churn by delivering enhanced services using the Company s platforms and applications, generally through a monthly service fee or on a pay-per-usage basis.

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 *Discontinued Operations*). As a result of the discontinuance of the Wireless Messaging (Paging) segment, the Company currently operates in one business segment, its Continuing Operations.

Critical Accounting Policies and Estimates

General. The Company s discussion and analysis of its financial condition and results of operations are based on the Company s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer programs and incentives, bad debts, inventory reserves, income taxes, warranty obligations, restructuring and contractual obligations associated with its discontinued Wireless Messaging (Paging) business. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its condensed consolidated financial statements.

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. The Company allocates revenue on arrangements involving multiple-elements to each element based on the relative fair value of each element. The Company recognizes service revenue from installation and repair services when such services are provided to customers. Revenue derived from contractual post-contract support services are recognized ratably over the contract support period. The Company records estimated reductions to revenue for customer programs, including service level agreement related penalties, and incentive offerings including special pricing agreements and other volume-based incentives. If market conditions were to decline, the Company may take actions to increase customer incentive offerings possibly resulting in an incremental reduction of revenue at the time the incentive is offered.

The Company s revenue recognition policy is significant because its revenue is a key component of the Company s results of operations. In addition, the recognition of revenue determines the timing of certain expenses, such as commissions and royalties. Although the Company follows very specific and detailed guidelines in measuring revenue, certain judgments affect the application of its revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause the Company s operating results to vary significantly from quarter to quarter and could result in future operating losses.

Bad Debt. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. On a quarterly 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, and such allowances, if any, would be recorded in the period the impairment is identified.

Warranties. The Company provides for the estimated cost of product warranties as a component of its cost of product sales at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company s warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. At September 30, 2003, the Company s reserve for warranty obligations was $1.6 million. Should actual product failure rates, material usage or service delivery costs differ from the Company s estimates, revisions to the estimated warranty liability would be required.

Inventory. The Company is required to state its inventories at the lower of 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. These 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 $710,000 and $1.3 million during the nine months ended September 30, 2003 and 2002, respectively. At September 30, 2003 and December 31, 2002, inventories related to continuing operations of $6.7 million and $6.9 million, respectively, were net of reserves of approximately $4.6 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.

Wind-Down of Discontinued Operations. During 2001, the Company recorded a significant loss from discontinued operations related to the discontinuance of the Wireless Messaging (Paging) segment. At September 30, 2003, the Company had current liabilities and non-current liabilities of $10.5 million and $10.8 million, respectively, related to the discontinued Wireless Messaging (Paging) segment. Approximately $2.5 million of these liabilities relate to obligations recorded prior to the discontinuance of the segment. Approximately $18.8 million of these liabilities relate to one-time charges recorded in the second quarter of 2001 and consist of (i) employee terminations costs; (ii) lease commitment costs; and (iii) estimated operating costs during the wind-down period and other estimated business exit costs related to meeting customer contractual commitments. In addition to the obligations mentioned above, at September 30, 2003, the Company had assets with a net realizable value of approximately $10.4 million related to the discontinued operations that consisted primarily of facilities in Vancouver, British Columbia, Canada and Singapore. Subsequent to September 30, 2003, the Company closed on the sale of its Singapore facility and received net proceeds of $1.6 million. In addition, during the third quarter of 2003 the Company accepted an offer for the sale of its Vancouver facility. The Company estimates the net proceeds on this sale transaction, which is anticipated to close during the fourth quarter of 2003, will be approximately $8.8 million. As part of the sale transaction, to clear a lien filed against this facility in connection with certain litigation related to the development of the facility (see Item 1.Legal Proceedings), the Company anticipates that approximately $3.4 million of these proceeds will be held by the court as security until the conclusion of this litigation (see Item 1.Legal Proceedings). However, there can be no assurance that this sale transaction will be completed.

Numerous estimates and assumptions were made in determining the net realizable value related to the discontinued assets and various obligations noted above. These original estimates have been and are subject to further adjustment as a result of future changes in real estate market conditions or in estimates related to the Company s future obligations associated with its pre-existing contractual commitments. During the nine months ended September 30, 2003 and September 30, 2002, the Company recorded net reductions in the loss on the disposal of discontinued operations of $2.4 million and $18.2 million, respectively, primarily as a result of the Company s review of the estimated asset values and liabilities and future commitments related to the discontinued operations. These further adjustments to the original estimates made in May 2001 were primarily due to better than anticipated revenue during the transition period, collections of accounts and notes receivable previously reserved for, better than expected warranty experience, reduced estimates of ongoing wind-down liabilities and reduced income tax liabilities in 2002 partially offset by additional write-downs of the market values of the Vancouver and Singapore facilities. Management will continue to monitor its future obligations associated with its pre-existing contractual commitments as well as real estate market conditions, in order to assess the current carrying values of the assets and liabilities associated with the discontinued operations.

Taxes. SFAS 109, *Accounting for Income Taxes,* establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact the Company s financial position or its results of operations.

At December 31, 2002, the Company had net deferred tax assets of $132.1 million. The Company is required to record a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In 2001, the Company assessed the realizability of its net deferred tax assets and determined due to the significant net operating losses and management s then current inability to project future taxable income that the entire amount should be reserved. Due to its operating losses, the Company maintained a full valuation allowance as of September 30, 2003. Until the Company reaches an appropriate level of profitability no tax benefits associated with the net deferred tax assets will be recognized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future an adjustment to the deferred tax asset would increase income in the period such determination was made.

Commitments and Contingencies. During the ordinary course of business contingencies arise resulting from an existing condition, situation, or set of circumstances involving uncertainty as to possible gain, a gain contingency, or loss, a loss contingency, that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability. When loss contingencies exist, such as, but not limited to, pending or threatened litigation, actual or possible claims and assessments, collectability of receivables or obligations related to product warranties and product defects or statutory obligations, the likelihood of the future event or events occurring generally will confirm the loss or impairment of an asset or the incurrence of a liability. The Company accounts for such contingencies in accordance with the provisions of Statement of Financial Accounting Standards (FAS) No. 5, *Accounting for Contingencies*. The Company records a provision for estimated legal costs associated with the defense of pending or threatened litigation at the time pending or threatened litigation is identified by the Company and such legal costs can be reasonably estimated.

Discontinued Operations

In May 2001, as a result of the rapid decline in both the paging infrastructure and device market and certain paging carriers financial health, the Company adopted a plan to exit the Wireless Messaging (Paging) business. As a result, the Wireless Messaging (Paging) segment was reported as a disposal of a segment of business in the second quarter 2001. Accordingly, the operating results of the Wireless Messaging (Paging) segment have been classified as a discontinued operation for all periods presented in the Company s consolidated statements of operations. Additionally, the Company has reported all of the Wireless Messaging (Paging) segment assets at their estimated net realizable value in the Company s condensed consolidated balance sheets as of September 30, 2003 and December 31, 2002 in accordance with APB No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occuring Events and Transactions*. See Note 3 to the Company s Condensed Consolidated Financial Statements.

During 2001, the Company recorded a loss from discontinued operations of approximately $232.5 million related to the discontinuance of the Wireless Messaging (Paging) segment. This loss consists of (i) operating losses of approximately $46.8 million incurred in the Wireless Messaging (Paging) segment and (ii) an estimated loss on disposal of the segment of approximately $185.7 million which included charges for the following: (i) the write-off of goodwill and other intangibles, (ii) impairment 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 the twelve-month transition period, (vii) facility exit and lease termination costs, (viii) expenses to be incurred to fulfill existing contractual obligations and (ix) a valuation allowance for related deferred tax assets.

The Company believes all business transactions related to the Wireless Messaging (Paging) segment, with the exception of existing contractual obligations, were completed by May 2002. As of September 30, 2003, the Company reported assets with a net realizable value of approximately $10.4 million related to the discontinued operations that consisted primarily of facilities in Vancouver, British Columbia, Canada and Singapore that are currently being marketed for sale. The Company has classified these assets as Assets, net, discontinued operations in the current assets section of its Condensed Consolidated Balance Sheet. Subsequent to September 30, 2003, the Company closed on the sale of its Singapore facility and received net proceeds of $1.6 million. In addition, during the third quarter of 2003 the Company accepted an offer for the sale of its Vancouver facility. The Company estimates the net proceeds on this sale transaction, which is anticipated to close during the fourth quarter of 2003, will be approximately $8.8 million. As part of the sale transaction, to clear a lien filed against this facility in connection with certain litigation related to the development of the facility (see Item 1.Legal Proceedings), the Company anticipates that approximately $3.4 million of these proceeds will be held by the court as security until the conclusion of this litigation (see Item 1.Legal Proceedings). However, there can be no assurance that this sale transaction will be completed. The Company has adopted FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which may impact the accounting for these long-lived assets held for sale and require such assets to be reclassified as held for use in its continuing operations if certain requirements cannot be met and may require adjustments and reclassification to its results of continuing operations.

The Company reported current liabilities and non-current liabilities of $10.5 million and $10.8 million, respectively, at September 30, 2003, related to the discontinued Wireless Messaging (Paging) segment. Approximately $2.5 million of these liabilities relate to warranty obligations and other obligations recorded prior to the discontinuance of the segment. Approximately $18.8 million of these liabilities relate to one-time charges recorded in the second quarter of 2001 and consist of (i) employee termination costs; (ii) lease commitment costs; (iii) estimated operating costs during the wind-down period; and (iv) other estimated business exit costs related to meeting customer contractual commitments.

During the nine months ended September 30, 2003 and the year ended December 31, 2002, the Company recorded net reductions in the loss on the disposal of discontinued operations of $2.4 and $25.8 million, respectively, primarily as a result of the Company s review of the estimated asset values and liabilities and future commitments related to the discontinued operations. These further adjustments to the original estimates made in May 2001 were primarily due to better than anticipated revenue during the transition period, collections of accounts and notes receivable previously reserved for, better than expected warranty experience, reduced estimates of ongoing wind-down liabilities and reduced income tax liabilities in 2002 partially offset by additional write-downs of the market values of the Vancouver and Singapore facilities.

The Company estimates that approximately $2 million of the remaining $21.3 million liabilities associated with the discontinued Wireless Messaging (Paging) segment will be disbursed in the fourth quarter of 2003, $7 million to $10 million in 2004, and the remainder in 2005 and beyond. A management team focused solely on the wind down of the Wireless Messaging (Paging) segment was put in place in 2001. A portion of this team remains in place and is currently focused on managing the Company s contractual obligations and commitments that existed prior to the formal disposal.

Numerous estimates and assumptions were made in determining the net realizable value of the Company s discontinued assets and various obligations noted above. Management will continue to monitor the Company s future obligations associated with its pre-existing contractual commitments as well as real estate market conditions, in order to assess the current carrying values of the assets and liabilities associated with the discontinued operations. These original estimates have been and are subject to further adjustment as a result of future changes in real estate market conditions or in estimates related to the Company s future obligations associated with its pre-existing contractual commitments. See Note 3 to the Company s Condensed Consolidated Financial Statements.

Results of Continuing Operations

The following table sets forth for the periods indicated the percentage of total revenue represented by certain line items from Glenayre s condensed consolidated statements of operations from continuing operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
REVENUES:				
Product sales	69%	65%	70%	76%
Service revenues	31	35	30	24
Total Revenues	100	100	100	100
COST of REVENUES (exclusive of depreciation shown separately below):				
Cost of sales	32	33	33	30
Cost of services	16	16	18	13
Total Cost of Revenues	48	49	51	43
GROSS MARGIN (exclusive of depreciation shown separately below):	52	51	49	57
OPERATING EXPENSES:				
Selling, general and administrative expense	33	41	43	38
Provision for doubtful receivables, net of recoveries	*	(3)	(1)	(1)
Research and development expense	28	29	33	22
Restructuring expense	2	1	5	1
Depreciation expense	2	17	2	13
Total Operating Expenses	65	85	82	73
OPERATING LOSS	(13)	(34)	(33)	(16)
OTHER INCOME (EXPENSES):				
Interest income, net	2	5	3	3
Gain (loss) on disposal of assets, net		*	*	*
Realized and unrealized loss on available-for-sale securities, net		*		*
Other gain (loss), net	*	(1)	*	*
Total Other Income	2	4	3	3
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(11)	(30)	(30)	(13)
Provision (benefit) for income taxes	*	(1)	*	(4)
LOSS FROM CONTINUING OPERATIONS	(11)%	(29)%	(30)%	(9)%

* less than 0.5%

Three Months Ended September 30, 2003 and 2002

Revenue. Total revenue from continuing operations for the three months ended September 30, 2003 increased approximately 2% to $14.7 million as compared to $14.5 million for the three months ended September 30, 2002. Product sales for the three months ended September 30, 2003 increased approximately 8% to $10.2 million as compared to $9.5 million for the three months ended September 30, 2002. Service revenue for the three months ended September 30, 2003 decreased 10% to $4.5 million as compared to $5.0 million for the three months ended September 30, 2002. International sales decreased to $1.2 million for the three months ended September 30, 2003 as compared to $2.7 million for the three months ended September

30, 2002 and accounted for 8% and 19% of total net sales for the three months ended September 30, 2003 and 2002, respectively.

The increase in product sales for the three months ended September 30, 2003 was due primarily to increased demand for the Company s messaging products. The decrease in service revenue was primarily due to reduced product installations in the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002.

The Company s total revenue for the three months ended September 30, 2003 of $14.7 million represented a 1% increase over the $14.6 million in total revenue for the three months ended June 30, 2003. During the three months ended September 30, 2003, four customers individually accounted for approximately 39%, 13%, 11% and 9%, respectively, of the Company s total revenue from continuing operations. During the three months ended September 30, 2002, three customers individually accounted for 26%, 17%, and 11%, respectively, of the Company s total revenue from continuing operations. There can be no assurance that these significant customers will continue to purchase systems and services from the Company at current levels in the future, and the loss of these significant customers could have a materially adverse affect on the Company s business, financial condition or results of operations.

Profit Margins on Product Sales and Services (exclusive of depreciation). Gross profit margins from continuing operations were 52% for the three months ended September 30, 2003 compared to 51% for the three months ended September 30, 2002. Profit margin on products sold, exclusive of depreciation, (product margin), was 54% during the three months ended September 30, 2003 compared to 50% during the three months ended September 30, 2002. The increase in the product margin is partly attributable to lower inventory obsolescence experience in the third quarter of 2003 as compared to the third quarter of 2002 . Profit margin on services, exclusive of depreciation, (service margin), was 47% during the three months ended September 30, 2003 compared to 54% during the three months ended September 30, 2002. Service margins decreased during the three months ended September 30, 2003 primarily as a result of the increased cost of the Company s post contract support group in 2003.

Increased competition in its industry has adversely affected the Company s gross profit margins. Glenayre s gross profit margins may be affected by several factors including, but not limited to: (i) the mix of products sold and services provided, (ii) the price of products sold and services provided and (iii) changes in material costs and other components of cost of sales. During 2003, the Company expects to continue its on-going product cost reduction programs, however increased pricing competition may continue to adversely affect its product margins in the future. The Company anticipates total gross profit margins in the low-fifty percent range for the remainder of 2003. However, there can be no assurance that the Company s gross profit margins will meet these anticipated levels.

Selling, General and Administrative Expense. Selling, general and administrative expenses were $4.8 million and $5.9 million for the three months ended September 30, 2003 and September 30, 2002, respectively. The selling, general and administrative expenses were reduced in the three months ended September 30, 2003 by lower headcount and other selling and administrative costs resulting from corporate restructuring activities and ongoing cost reduction initiatives. The Company anticipates reduced selling, general and administrative expense levels for the remainder of the year.

Provision for Doubtful Receivables. The provision for doubtful receivables was a credit of $56,000 during the three months ended September 30, 2003 and a credit of $510,000 during the three months ended September 30, 2002. These credits are primarily due to the collection of older receivables previously reserved as part of the Company s reserve calculation and adjustments to bad debt expense reflecting the Company s assessment of its current credit risk.

Research and Development Expense. Research and development expenses were $4.1 million during the three months ended both September 30, 2003 and September 30, 2002. Research and development costs are expensed as incurred. Primarily as a result of the increase in total revenue for the three months ended

September 30, 2003 as compared to the three months ended 2002, research and development expenses, as a percentage of net revenue, decreased to 28% during the three months ended September 30, 2003 from 29% during the three months ended September 30, 2002. Research and development spending on the development of the Company s next generation product was accelerated during the first half of 2003 and declined from the first half levels in the third quarter of 2003 as certain outsourced phases of the development were completed. Glenayre expects research and development expenses to remain at this decreased level for the remainder of 2003. The Company relies on its research and development programs for new products and the improvement of existing products for the continued growth in revenue. The Company s ability to continue to develop and effectively bring to market new competitive products is critical to its future success.

Restructuring Expense. During the third quarter of 2003, the Company recorded a restructuring charge of $222,000 for severance and relocation related to the termination of the Company s president and chief executive officer. In addition the Company recorded a restructuring charge of $222,000 for severance and outplacement costs related to a reduction of the Company s workforce by approximately 12 positions impacting several functional areas within the Company. The Company also recorded a charge of $69,000 for other exit costs incurred in the third quarter of 2003. Additionally, a net favorable adjustment of $180,000 was recorded related primarily to a change in the original estimates associated with the Company s 2003 and 2001 restructuring charges for severance and leased facilities. During the third quarter of 2002, the Company recorded a restructuring charge of $199,000 for severance and outplacement services related to a reduction of the Company s workforce by approximately 18 positions.

Depreciation Expense. Depreciation was $325,000 during the three months ended September 30, 2003 compared to $2.5 million during the three months ended September 30, 2002. The decrease in depreciation expense was due to a decrease in property, plant and equipment resulting from the $21.3 million charge associated with the impairment of long-lived assets recorded in the fourth quarter of 2002.

Interest Income, Net. Interest income, net was $273,000 and $709,000 for the three months ended September 30, 2003 and 2002, respectively. Interest earned in the third quarter of 2003 was lower primarily due to lower yields on investment instruments and lower cash and cash equivalent and short-term investment balances. In addition, the Company received approximately $190,000 in interest during the third quarter of 2002 on a federal tax refund. The Company s current weighted average yield on its cash and investments was 1.18% at September 30, 2003.

Provision for Income Taxes. Notwithstanding the Company s operating loss during the third quarter of 2003, due to the significant net operating loss carryforwards available to the Company, no tax benefit was recognized and a provision of approximately $11,000 was recorded related to foreign tax on earned income from foreign operations. The effective tax rate for the three months ended September 30, 2003 differed from the combined US federal and state statutory tax rate due primarily to the increase in valuation allowance. The Company recorded a $2.5 million one-time tax benefit during the first quarter of 2002 for taxes refundable under the Job Creation and Worker Assistance Act of 2002 . The effective tax rate for the three months ended September 30, 2002 differed from the combined U.S. federal and state statutory tax rate of approximately 40% due primarily to the increase in valuation allowance.

Nine Months Ended September 30, 2003 and 2002

Revenue. Total revenue for the nine months ended September 30, 2003 decreased 24% to $42.7 million as compared to $56.0 million for the nine months ended September 30, 2002. Product sales for the nine months ended September 30, 2003 decreased 29% to $30.0 million as compared to $42.5 million for the nine months ended September 30, 2002. Service revenue for the nine months ended September 30, 2003 decreased approximately 6% to $12.7 million as compared to $13.4 million for the nine months ended September 30, 2002. International revenue was $4.4 million for the nine months ended September 30, 2003 as compared to $10.1 million for the nine months ended September 30, 2002 and accounted for 10% and 18% of total revenue for the nine months ended September 30, 2003 and 2002, respectively.

The decrease in product sales for the nine months ended September 30, 2003 was due primarily to the overall slowing of communications service provider capital spending. The decrease in service revenue was primarily due to reduced product installations resulting from the decline in product sales.

During the nine months ended September 30, 2003, three customers individually accounted for approximately 28%, 15% and 10%, respectively, of the Company s total revenue from continuing operations. For the nine months ended September 30, 2002, three customers individually accounted for 20%, 20% and 14%, respectively, of the Company s total revenue from continuing operations. There can be no assurance that these significant customers will continue to purchase systems and services from the Company at current levels in the future, and the loss of one or more of these significant customers could have a material adverse affect on the Company s business, financial condition or results of operations.

Profit Margins on Product Sales and Services (exclusive of depreciation). Gross profit margin from continuing operations, exclusive of depreciation, was 49% for the nine months ended September 30, 2003 compared to 57% for the nine months ended September 30, 2002. Profit margin on products sold, exclusive of depreciation, (product margin), was 53% for the nine months ended September 30, 2003 compared to 60% for the nine months ended September 30, 2002. Profit margin on services, exclusive of depreciation, (service margin), was 39% for the nine months ended September 30, 2003 compared to 47% for the nine months ended September 30, 2002. The decrease in the product margin is due to lower volume of product revenue, increased royalty expense relating to a cross-licensing agreement as well as competitive pricing. Product margins were negatively impacted in the second and third quarter of 2003 as a result of the Company entering into a competitively priced, four-year strategic supply agreement with an existing OEM customer. Service margins decreased during the nine months ended September 30, 2003 primarily as a result of the increased cost of the Company s postcontract support group in 2003. Glenayre s gross profit margins may be affected by several factors including (i) the mix of products sold and services provided, (ii) the price of products sold and provided and (iii) changes in material costs and other components of cost of sales.

Selling, General and Administrative Expense. Selling, general and administrative expenses were $18.3 million and $21.2 million for the nine months ended September 30, 2003 and 2002, respectively. The decrease is primarily due to the reduced cost structure resulting from 2002 and 2003 restructuring activities and reduced expenditures for trade show and other selling and marketing activities during the first nine months of 2003.

Provision for Doubtful Receivables. The provision for doubtful receivables was a credit of $271,000 for the nine months ended September 30, 2003 as compared to a credit of $851,000 for the nine months ended September 30, 2002. These credits are a result of collections of older receivables previously reserved as part of the Company s reserve calculation and adjustments to bad debt expense reflecting the Company s assessment of its current credit risk.

Research and Development Expense. Research and development expenses were $14.1 million and $12.6 million for the nine months ended September 30, 2003 and 2002, respectively. The increase is primarily attributable to increased subcontract and outsourcing spending for the development of the Company s next generation product.

Restructuring Expense. Restructuring expense was $2.1 million and $566,000 for the nine months ended September 30, 2003 and 2002 respectively. During the first nine months of 2003, the Company recorded a restructuring charge of $222,000 for severance and relocation related to the termination of the Company s president and chief executive officer. The Company also recorded a restructuring charge of $1.9 million related to a reduction of the Company s workforce by approximately 96 positions impacting several functional areas within the Company. Additionally, the Company recorded a restructuring charge of $252,000 for lease cancellation and other exit costs incurred by the Company. In addition to the restructuring charges, a net favorable adjustment of $233,000 was recorded related primarily to a change in the original sublease recovery estimates associated with the Company s 2001 restructuring charge for leased facilities. During the first nine months of 2002 the Company recorded restructuring charges of $958,000 related to the reduction of the Company s workforce by approximately 48 positions. Additionally, during the first nine months of 2002, the Company recorded net reductions to its original estimates associated with the Company s 2001 restructuring activities of $392,000 primarily related to the collection of accounts receivable previously reserved for in the 2001 restructuring charge, reduced accrued severance benefits related to the reduction of the Company s workforce and the reduction in the prepaid product-line warranty obligation, partially offset by a decrease in the estimated recoveries related to subleasing vacated leased space.

Depreciation. Depreciation expense was $733,000 and $7.0 million for the nine months ended September 30, 2003 and 2002, respectively. The decrease in depreciation expense was due to a decrease in property, plant and equipment resulting from the $21.3 million charge associated with the impairment of long-lived assets recorded in the fourth quarter of 2002.

Interest Income, Net. Interest income, net was $1.2 million and $1.7 million for the nine months ended September 30, 2003 and 2002, respectively. Interest earned for the nine months ended September 30, 2003 is lower primarily due to lower yields on investment instruments than during the 2002 comparable period partially offset by increased cash and cash equivalent and short-term investment average balances in 2003.

Realized and Unrealized Gain (Loss) on Securities, Net. On November 1, 1999 the Company sold 95% of the equity interest in its microwave radio business, Western Multiplex Corporation (MUX) and received cash of approximately $37 million. In August 2000, MUX completed its initial public offering. In November 2000, the Company began selling its shares of MUX. In March 2002, MUX merged with Proxim Corporation and is referred to hereafter as Proxim . During the nine months ended September 30, 2002, the Company sold approximately 137,000 shares of Proxim and realized pre-tax gains of approximately $301,000. The realized gain on the sales of Proxim securities during the first nine months of 2002 was offset by permanent impairment charges of approximately $77,000 related to the Company s investment in Multi-Link Telecommunications, Inc. In addition, during the first quarter of 2002, 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 company s technology, operating performance and financial condition. See Note 7 to the Company s Condensed Consolidated Financial Statements.

Provision for Income Taxes. Notwithstanding the Company s operating loss during the first nine months of 2003, due to the significant net operating loss carryforwards available to the Company, no tax benefit was recognized and a provision of approximately $39,000 was recorded related to foreign tax on earned income from foreign operations. The effective tax rate for the nine months ended September 30, 2003 differed from the combined U.S. federal and state statutory tax rate due primarily to the increase in the valuation allowance recorded to reflect no tax benefit from the operating losses incurred during the first nine months of 2003. The Company recorded a $2.5 million one-time tax benefit during the first quarter of 2002 for refundable alternative minimum taxes under the Job Creation and Worker Assistance Act of 2002 . In addition to the one time tax benefit noted above, the Company recorded a tax benefit of approximately $123,000 for the nine months ended 2002 primarily related to the carry back of foreign net operating losses arising in 2001 associated with its international operations. The effective tax rate for the nine months ended September 30, 2002 differed from the combined U.S. federal and state statutory tax rate due primarily to this one-time tax benefit and the increase in the valuation allowance recorded to reflect no tax benefit from the operating losses incurred during the first nine months of 2002.

Financial Condition and Liquidity

Overview. At September 30, 2003, the Company had cash and cash equivalents, short-term investments and restricted cash totaling $94.4 million. The restricted cash of approximately $3.1 million at September 30, 2003 consisted of time deposits pledged as collateral to secure letters of credit. At September 30, 2003, Glenayre s principal source of liquidity was its $52.6 million of cash and cash equivalents and $38.6 million in short-term investments. The Company s cash generally consists of money market demand deposits and the Company s cash equivalents generally consists 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 with original maturities of three months or less. Short-term investments at September 30, 2003 consisted primarily of high-grade commercial paper, bank certificates of deposit, treasury bills, notes or agency securities guaranteed by the U.S. government with original maturities of greater than three months. The Company expects to use its cash and cash equivalents and short-term investments for working capital and other general corporate purposes, including the expansion and development of its existing products and markets, liabilities related to discontinued operations, and potential complementary acquisitions. The Company has no off-balance sheet arrangements including special purpose entities.

Included in the Company s loss on disposal of discontinued operations (*see Discontinued Operations*) for the year ended December 31, 2001 were charges totaling approximately $49 million for employee termination benefits, equipment and facility lease termination costs, inventory and non-inventory purchase commitments, anticipated losses from operations during the transition period and expenses to be incurred to fulfill contractual obligations existing prior to the formal disposal date. At September 30, 2003 approximately $21.3 million in discontinued operations liabilities remain outstanding of which the Company anticipates approximately $2 million will be disbursed during the fourth quarter of 2003, $7 million to $10 million in 2004, and the remainder in 2005 and beyond.

Operating Activities. Cash provided by (used in) operating activities, including both continuing and discontinued operations, was $(14.1) million for the nine months ended September 30, 2003 and $14.3 million for the nine months ended September 30, 2002.

Accounts receivable from continuing operations increased $5.4 million to $11.0 million at September 30, 2003 from $5.6 million at December 31, 2002. Average days sales outstanding, calculated based on three months rolling average, increased 12 days to 59 days at September 30, 2003 from 47 days at December 31, 2002. The increase in accounts receivable from continuing operations was due to the increased sales for the third quarter of 2003 as compared to the fourth quarter of 2002 of approximately $3.4 million and the timing of product shipments in the third quarter of 2003. A significant portion of the Company s product shipments occurred in the last month of the third quarter of 2003 due to the timing of orders.

Inventories related to continuing operations decreased $286,000 to $6.7 million at September 30, 2003 from $6.9 million at December 31, 2002. The decrease in inventories was primarily due to decreased finished goods on-hand at September 30, 2003.

Accounts payable increased $225,000 to $3.5 million at September 30, 2003 from $3.2 million at December 31, 2002 primarily as a result of increased inventory purchases partially offset by reduced operating cost levels during 2003. Accrued liabilities related to continuing operations increased $2.5 million to $25.0 million at September 30, 2003 from $22.5 million at December 31, 2002. The increase in accrued liabilities primarily related to the increased accrued legal cost associated with the defense of the Jackson patent infringement case, an increase in deferred revenue related to undelivered elements of multi-element contracts and to Glenayre Care extended warranty contracts, an increase in accrued restructuring costs associated with the second and third quarter restructuring activities and increased research and development subcontracting costs associated with the development of the Company s next-generation products. At September 30, 2003, the Company s remaining restructuring obligations were approximately $1.7 million related to employee termination benefits and lease termination costs. The Company anticipates all of the cash payments for its restructuring activities will be made within the next nine months with the exception of lease termination costs, which could require cash payments through 2005 to the extent sub-leases are not obtained.

Investing Activities. In 1999, the Company consolidated its manufacturing activities in Quincy, Illinois and ceased manufacturing activities in its Vancouver, British Columbia facility but continued to utilize the

Vancouver facility for engineering, product management and customer service functions. Further, the Company continued its expansion of an office tower in Vancouver with the intention of a subsequent sale of all of its Vancouver facilities and partial lease-back of the new office tower to meet its ongoing operational needs. However, as a result of the Company s decision to exit its Wireless Messaging (Paging) segment in the second quarter of 2001, it no longer has significant operational requirements for its Vancouver facilities and no longer plans to lease back a portion of these facilities. During the nine months ended September 30, 2003 and 2002, the Company spent approximately $772,000 and $1.6 million, respectively, on the new Vancouver office tower development.

In January 2002, the Company sold its manufacturing facility in Quincy, Illinois for cash proceeds of approximately $4.4 million. In addition to the Vancouver facility, the Company owns its facilities in Singapore and Atlanta, Georgia. Subsequent to September 30, 2003 the Company closed on the sale of its Singapore facility and received net proceeds of approximately $1.6 million. In addition, during the third quarter of 2003 the Company accepted an offer for the sale of its Vancouver facility. The Company estimates the net proceeds on this sale transaction, which is anticipated to close during the fourth quarter of 2003, will be approximately $8.8 million. As part of the sale transaction, to clear a lien filed against this facility in connection with certain litigation related to the development of the facility (see Item 1.Legal Proceedings), the Company anticipates that approximately $3.4 million of these proceeds will be held by the court as security until the conclusion of this litigation (see Item 1.Legal Proceedings). However there can be no assurance that this sale transaction will be completed. The Company is not currently marketing its headquarters facility that it owns in Atlanta, Georgia. At September 30, 2003, the Vancouver and Singapore facilities are recorded on the balance sheet as assets held for sale at their estimated fair values net of selling costs.

The Company spent $3.2 million and $2.0 million during the nine months ended September 30, 2003 and 2002, respectively, on equipment needed in its operations. The $3.2 million and $2.0 million invested in 2003 and 2002, respectively, related entirely to the Company s continuing operations. The Company anticipates that property, plant and equipment purchases related to its continuing operations for the remainder of 2003 will approximate $100,000.

On November 1, 1999, the Company sold 95% of the equity interest in its microwave radio business, Western Multiplex Corporation (MUX) and received cash of approximately $37 million. MUX marketed products for use in point-to-point microwave communication systems and was acquired by the Company in April 1995. Additionally, the Company is contingently liable for MUX s building lease payments. The maximum contingent liability as of September 30, 2003 for these obligations is approximately $1.7 million. In August 2000, MUX completed an initial public offering. In November 2000, the Company became eligible to sell its shares of MUX and immediately began selling such shares. In March 2002, MUX merged with and into Proxim Corporation (Proxim). During the nine months ended September 30, 2002, the Company sold its remaining 136,800 shares of Proxim for cash proceeds of approximately $406,000.

Financing Activities. During the nine months ended September 30, 2003, and 2002, the Company received proceeds from the sale of Company common stock of $563,000 and $466,000, respectively, upon the exercise of stock options and sales of common stock to employees in the Employee Stock Purchase Plan.

In December 2000, the Board of Directors rescinded its 1996 stock repurchase program and authorized the repurchase of up to 3.0 million shares of the Company s common stock. In September 2001, the stock repurchase program was amended to authorize the repurchase up to 5% of the Company s outstanding common stock, or approximately 3.3 million shares based on shares outstanding as of December 31, 2001. For the nine months ended September 30, 2003, the Company repurchased 36,000 shares at a total cost of approximately $34,000. The Company made no purchases during 2002. The Company may commence or suspend purchasing under this program from time to time without notice.

Income Tax Matters. Glenayre s recent cash outlays for income taxes have been limited primarily to foreign income taxes. In April 2003, the Company received approximately $2.8 million related to Canadian tax refunds.

Inflation. For the nine months ended September 30, 2003 and 2002, the Company does not believe inflation has had a material effect on its results of operations.

Summary. The Company believes that funds generated from continuing operations, together with its current cash reserves, will be sufficient to (i) support the short-term and long-term liquidity requirements for current operations (including annual capital expenditures) and its discontinued operations and (ii) repurchase common stock as discussed above and (iii) fund potential complementary acquisitions. Company management believes that, if needed, it can establish borrowing arrangements with lending institutions.

OUTLOOK

Growth drivers for the communications software and advanced messaging markets include:

- Continued wireless subscriber growth worldwide;
- Increased penetration and acceptance of enhanced services;
- Release of next-generation products;
- New market build-outs as CSPs consolidate or increase coverage;
- Deployment of new services across existing network base; and
- The necessity for CSPs to deploy new revenue generating services that reduce customer churn.

CSPs will continue to seek to differentiate themselves in increasingly competitive markets by offering high-demand solutions. Glenayre is investing in applications and services including voice services, multimedia messaging, multimodal messaging and presence and availability solutions to help wireless, wireline and cable and broadband operators enhance their competitive positions. These products and solutions, currently under development, are expected to expand the uses and applications in this market.

The Company also expects that reducing the total cost of ownership of next-generation investments will remain a primary concern for CSPs. By providing open, standards-based platforms based on Intel/Linux architecture, Glenayre believes it is well-positioned to help CSPs offer competitive services at one of the lowest total costs of ownership.

However, macroeconomic conditions including price competition amongst CSPs, potential consolidation of CSPs, and CSPs continued lack of access to capital markets may negatively impact the growth of the communications software and advanced messaging markets.

Eric L. Doggett, the previous President and Chief Executive Officer, left the Company on October 31, 2003. Clarke H. Bailey, Chairman of the Board of the Company and a former Chief Executive Officer of the Company, assumed the duties of Chief Executive Officer upon the departure of Mr. Doggett.

This Outlook section contains forward-looking statements that are subject to the risks described under the Risk Factors That May Affect Future Results immediately below.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company s prospects are subject to certain risks and uncertainties as follows:

Competition

The majority of the Company s competitors are seasoned communications providers. These companies include Comverse Technologies, Inc., SS8 s Centigram, Unisys Corporation, the Octel Messaging division of

Lucent Technologies, Inc., OpenWave and Tecnomen. Additional competitors from the voice portal and voice services market include BeVocal, TellMe, HeyAnita and InterVoice. Many of these competitors have the financial stability, aggressive research and development programs and long-term customer relationships required to compete in the current environment. The competition among these remaining firms continues to be quite intense and is primarily based on a combination of price, product architecture, features, system capacity, reliability and services and support.

Several of the Company s competitors have substantially greater financial, technical, marketing and distribution resources than Glenayre and Glenayre may be unable to successfully compete with these companies. In addition, competitive pricing pressures exist which may continue to have an adverse effect on the Company s profit margins in the future.

Variability of Quarterly Results and Dependence on Key Customers

The Company s financial results in any single quarter are highly dependent upon 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. During the nine months ended September 30, 2003, Nextel Communications, Nortel Networks, U.S. Cellular, Alltel Communications, Verizon, and Nextel Partners individually accounted for approximately 28%, 15%, 10%, 8%, 6% and 6%, respectively, of the Company s total revenue from continuing operations. During the year ended December 31, 2002, Nortel, , Nextel, Verizon, U.S. Cellular and Alltel individually accounted for approximately 20%, 19%, 14%, 10% and 8%, respectively, of the Company s total revenue from continuing operations. Nortel is an OEM distributor that sells the Company s products to several end user customers including T-Mobile whose purchases of Glenayre s products from Nortel represented approximately 13% and 15% of the Company s total revenue during the nine months ended September 30, 2003 and year ended December 31, 2002, respectively. There can be no assurance that these significant customers will continue to purchase systems and services from the Company at current levels in the future, and the loss of one or more of these significant customers could have a material adverse effect on the Company s business, financial condition or results of operations. In the future, the customers with whom the Company does the largest amount of business are expected to vary from quarter to quarter and year to year as a result of the timing for development and expansion of customers communications networks and systems, the continued expansion into international markets and changes in the proportion of revenue generated by the Company s newly developed products and services. Furthermore, if a customer delays or accelerates its delivery requirements or a product s completion is delayed or accelerated, revenues expected in a given quarter may be deferred or accelerated into subsequent or earlier quarters. The Company has also historically experienced reduced revenue in its fourth quarter resulting from reduced system expansions as many CSPs halt system upgrades and expansions during their busiest retail season. Therefore, annual financial results are more indicative of the Company s performance than quarterly results, and results of operations in any quarterly period may not be indicative of results likely to be realized in the subsequent quarterly periods.

The Company has restructured its business to respond to industry and market conditions and may have to restructure its business again in the future.

The Company continues to restructure its business to realign resources and achieve desired cost savings. Restructuring efforts have been based on certain assumptions regarding the cost structure of the Company s business and the nature, severity and duration of the industry downturn which may or may not be correct. These restructuring efforts may not be sufficient for the Company to achieve profitability and meet the changes in industry and market conditions. The Company will continue to make judgments as to whether further reductions in its workforce may be required. These workforce reductions may impair the Company s ability to achieve its current or future business objectives. Costs incurred in connection with restructuring efforts may be higher than estimated. Any decision by the Company to further limit investment or exit, or dispose of, businesses may result in the recording of additional charges. As a result, the costs actually incurred in connection with the restructuring efforts may be higher than originally planned and may not lead to the anticipated cost savings and a return to profitability.

As part of the Company s review of its restructured business, it must also review long-lived assets for recoverability under FAS 144. Future market conditions may trigger further write-downs of these assets due to uncertainties in the estimates and assumptions used in asset valuations, which are based on the Company s forecasts of future business performance and accounting estimates relating to the useful life and recoverability of the net book value of these assets.

The Adverse Resolution of Litigation Against the Company Could Negatively Impact its Business.

The Company is currently a defendant in several lawsuits some of which seek damages of material amounts. The Company is, and may in the future be, subject to other litigation arising in the normal course of business. Litigation may be time consuming, expensive and distracting from the conduct of the Company s business and the outcome of litigation is difficult to predict. The adverse resolution of any specific lawsuit could have a material adverse effect on the Company s business, financial condition, results of operations and cash flows.

Effective Convergence of Technologies

The market for the Company s products has contracted as a result of reduced worldwide CSP spending. The Company is dependent on the continued growth of its markets as well as the effective and successful convergence of technologies for its systems and related applications and solutions such as voice, fax and data messaging, short message services, one touch call return, continuous calling, voice activated dialing, unified messaging and its CONSTANT TOUCH call feature. The markets for these technologies are still emerging and market acceptance of these converging services is uncertain. If the commercial market for these services and related bundled or converged technologies is lower than Glenayre anticipates or grows more slowly than Glenayre anticipates, it could have a material adverse effect on the Company s business. There can be no assurance that these technologies will be successfully integrated or that a significant commercial market for the integrated services will develop.

Potential Market Changes Resulting from Rapid Technological Advances

Glenayre s business is primarily focused on offering advanced messaging solutions to wireless and fixed network carriers, as well as broadband and cable operators worldwide. These industries are characterized by rapid technological change and are likely to experience consolidation in the future. Glenayre has been focused on building next-generation messaging platforms such as its Versera Large Solution and High Density platforms and communications solutions that leverage speech-driven, multimedia, multimodal and presence and availability technologies. Demand for these products and services may be affected by changes in technology and the development of substitute products and services by competitors. If changing technology negatively affects demand for Glenayre s Versera Solutions, it could have a material adverse effect on Glenayre s business.

Proprietary Technology

The Company owns or licenses numerous patents used in its operations. Glenayre believes that while these patents are useful to the Company, they are not critical or valuable on an individual basis. The collective value of the intellectual property of Glenayre is comprised of its patents, blueprints, specifications, technical processes and cumulative employee knowledge. Although Glenayre attempts to protect its proprietary technology through a combination of trade secrets, patent, trademark and copyright law, nondisclosure agreements and technical measures, such protection may not preclude competitors from developing products with features similar to Glenayre s products. The laws of certain foreign countries in which Glenayre sells or may sell its products, including The Republic of Korea, The People s Republic of China, Saudi Arabia, Thailand, Dubai, India and Brazil, do not protect Glenayre s proprietary rights in the products to the same extent as do the laws of the United States.

Potential Intellectual Property Infringement Claims from Third Parties

Substantial litigation regarding intellectual property rights continues in the technology industry, and the Company expects that its products may continue to be subject to third-party infringement claims.

Because patent applications in the United States may not be publicly disclosed prior to the patent being issued, patent applications may have been filed which relate to the Company s products. If the Company were to discover that its products violated a third party s proprietary rights and was unable to obtain licenses on terms acceptable to the Company, the Company might not continue offering those products without substantial reengineering. Reengineering efforts might result in substantial costs and product delays, and might not be successful.

Furthermore, any intellectual property infringement claims asserted by a third party against the Company could be time-consuming and costly to defend, divert management s attention and resources, cause product and service delays, or require the Company to enter into licensing agreements. An adverse decision in an infringement claim asserted against the Company could result in the Company being prohibited from using such technology, as licensing arrangements may not be available on commercially reasonable terms. If the Company were unable to license the infringed or similar technology on commercially reasonable terms, this could have a material adverse effect on its business, financial condition and results of operations.

Although the Company believes its technology does not infringe any third party rights, the Company is currently subject to certain infringement claims. See Note 10 to the Condensed Consolidated Financial Statements and Part II, Item 1 Legal Proceedings.

Potential Changes in Government Regulation

Many of Glenayre s products connect to public telecommunications networks. While many of Glenayre s current products are not directly subject to regulation, national, regional and local governments regulate public telecommunications networks, as well as the operations of telecommunication service providers in most domestic and international markets. When introducing products to a market, there is no assurance that the Company s customers will obtain regulatory approval. In addition, it is always possible that a new regulation, changing political climates, or a change in the interpretation of existing regulations could adversely affect the Company s ability to sell products in that market. Regulatory approvals must be obtained by Glenayre in connection with the manufacture and sale of certain of its products, and by Glenayre s telecommunications service provider customers to operate the systems that utilize certain Glenayre products. The enactment by federal, state, local or international governments of new laws or regulations or a change in the interpretation of existing regulations could affect the market for Glenayre s products.

International Business Risks

Approximately 10% and 17% of total revenue from continuing operations for the nine months ended September 30, 2003 and 2002, respectively, was generated in markets outside of the United States. International sales are subject to the customary risks associated with international transactions, including political risks, local laws and taxes, the potential imposition of trade or currency exchange restrictions, tariff increases, transportation delays, difficulties or delays in collecting accounts receivable, exchange rate fluctuations and the effects of prolonged currency destabilization in major international markets. Although a substantial portion of the international sales of Glenayre s products and services for the nine months ended September 30, 2003 and 2002 were negotiated in United States dollars, Glenayre may not be able to maintain such a high percentage of United States dollar denominated international sales. Should the amount of sales denominated in local currencies of foreign countries increase, the Company may seek to mitigate its currency exchange fluctuation risk by entering into currency hedging transactions. The Company also acts to mitigate certain risks associated with international transactions through the use of letters of credit. However, there can be no assurance that these efforts will successfully limit the risks associated with these international transactions.

Continued Terrorist Attacks, War or Other Civil Disturbances Could Lead to Further Economic Instability and Depress the Company s Stock Price or Adversely Affect the Company s Business

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks as well as the U.S. military involvement in overseas operations, including the war with Iraq, have caused instability in the global financial markets and contributed to the volatility of the stock prices of many U.S. publicly traded companies. In the future, there may be armed hostilities, further acts of terrorism and civil disturbances in the U.S. or elsewhere, which may further contribute to economic instability in the U.S. and in the foreign markets served by the Company. Additionally, such disturbances could have a material adverse effect on the Company s business, results of operations or financial condition.

Potential Strategic Investments and Acquisitions

The Company intends to continue to make significant investments in its business, and to examine opportunities for growth through acquisitions, strategic investments and potential business combinations. These activities may involve significant expenditures and obligations that cannot readily be curtailed or reduced if anticipated demand for the associated products does not materialize or is delayed. The impact of these decisions on future financial results cannot be predicted with assurance, and the Company s commitment to growth may increase its vulnerability to downturns in its markets, technology changes and shifts in competitive conditions.

The Company has made, and in the future, plans to make strategic investments in or acquisitions of complementary companies. These investments and acquisitions have been made in, and future investments and acquisitions might continue to be made in, immature businesses with unproven track records and technologies. Such investments and acquisitions have a high degree of risk, with the possibility that the Company may lose its entire investment. The Company may not be able to identify suitable investment or acquisition candidates, and the Company may not be able to make these investments or acquisitions on acceptable terms. In addition, if the Company makes such investments or acquisitions, it may not gain strategic benefits from these investments.

Continuation and Expansion of Third Party Agreements

Glenayre has entered into initiatives with third parties that provide development services, products and channels to market that are used to enhance the Company s business and is continuing to explore additional third party arrangements. Additionally, Glenayre has entered into several Original Equipment Manufacturer agreements with companies that market and distribute Glenayre s products and Glenayre intends to enter into service reseller arrangements. Glenayre is dependent upon these third parties to augment its research and development efforts as well as to distribute its products and services and increase its product offerings. If these third parties are not successful or the agreements are terminated, a material adverse effect on Glenayre s business could result. Glenayre intends to continue entering into agreements and initiatives with third parties; however, there can be no assurance that additional arrangements with suitable vendors and distributors on acceptable terms will be available. The inability of Glenayre to enter into agreements with third parties on acceptable terms could have a material adverse effect on Glenayre s business.

Volatility of Stock Price

The market price of the Company s common stock is volatile. The market price of its common stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors such as announcements of technological developments or new products by the Company, developments in relationships with its customers, strategic alliances and partnerships, technological advances by existing and new competitors, general market conditions in the industry and changes in government regulations. In addition, in recent years, conditions in the stock market in general and shares of technology companies in particular have experienced significant price and volume fluctuations that have often been unrelated to the operating performance of these specific companies.

The Company s Common Stock May be Subject to Delisting from the Nasdaq National Market

The Company s common stock currently trades on the Nasdaq National Market (Nasdaq). The continued listing requirements of Nasdaq require, among other things, that the closing bid price of the Company s Common Sock not remain below $1.00 for more than 30 consecutive trading days. After notice from Nasdaq that the Company s common stock has failed to satisfy this test, Nasdaq may commence suspension and delisting procedures unless within 180 days following receipt of such notice, the closing bid price of the Company s common stock is $1.00 or greater for at least 10 consecutive trading days. This grace period would be extended by an additional 180 days if the Company elects to transfer its listing to the Nasdaq SmallCap Market, and upon the expiration of the initial grace period, the Company has at least $5 million in stockholders equity, $50 million in market value of listed securities or $750,000 in net income from continuing operations for the current fiscal year or two of the previous three fiscal years.

On April 17, 2003 the Company received notice that its common stock s closing bid price was below $1.00 for 30 consecutive trading days and that its common stock was subject to potential delisting. The Company regained compliance with this requirement in the second quarter of 2003. In the event the Company is subject to delisting under this requirement in the future, the Company will consider all options available to enable it to regain compliance with Nasdaq s continued listing requirements and avoid the delisting of the Common Stock. These options include implementing open market purchases of the Common Stock under the Company s stock repurchase program. Under this program, subject to Glenayre s Insider Trading policy and applicable SEC rules including Rule 10b-18 which restrict the daily volume of repurchases the Company can effect to 25% of the average daily volume during the four calendar weeks preceding the week in which purchases are made, management is authorized to purchase up to 5% of the outstanding Common Stock, or approximately 3.3 million shares based on outstanding shares as of September 30, 2003. In addition, at the Company s Annual Meeting of Stockholders held on May 20, 2003 the Company s stockholders approved a proposal to authorize the Board of Directors to amend the Company s Certificate of Incorporation to effect a reverse stock split of the outstanding Common Stock at a ratio, to be selected by the Board of Directors in its sole discretion, of one-for-three or one-for-five. As a result, the Company s Board of Directors has the discretion to implement the reverse stock split if it determines such action is necessary to regain compliance with the Nasdaq s minimum bid price requirement at any time through May 15, 2004 or to effect no reverse stock split at all. There can be no assurance that the trading price of the Company s common stock will meet the minimum bid price requirement and, in the future, the Company s common stock could be subject to delisting. If the Company s common stock were to be delisted from trading on Nasdaq the trading market for the common stock could be materially adversely affected.

Ability to Attract and Retain Key Personnel

The Company s continued growth and success depends to a significant extent on the continued service of senior management and other key employees, the development of additional management personnel and the hiring of new qualified employees. There can be no assurance that the Company will be successful in continuously recruiting new personnel or in retaining existing personnel. The loss of one or more key or other employees or Glenayre s inability to attract additional qualified employees or retain other employees could have a material adverse effect on Glenayre s business, results of operations or financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk arising from adverse changes in interest rates, foreign exchange and stock market volatility. The Company does not enter into financial investments for speculation or trading purposes and is not a party to any financial or commodity derivatives.

Interest Rate Risk

The Company s exposure to market rate risk for a change in interest rates relates primarily to its investment portfolio. The Company s investment policy requires investment of surplus cash in high-grade commercial paper, bank certificates of deposits, Treasury bills, Notes or agency securities guaranteed by the U.S. Government and repurchase agreements backed by U.S. Government securities. The Company typically invests its surplus cash in these types of securities for periods of relatively short duration. Although the Company is exposed to market risk related to changes in short-term interest rates on these investments, the Company manages these risks by closely monitoring market interest rates and the duration of its investments. Due to the short-term duration and the limited dollar amounts exposed to market interest rates, management believes that fluctuations in short-term interest rates will not have a material adverse effect on the Company s results of operations.

Foreign Currency Exchange

The Company operates internationally and is exposed to movements in foreign currency exchange rates primarily as a result of its holding demand deposits denominated in non-functional currencies. At September 30, 2003, approximately U.S. $2 million or 2% of the Company s cash and cash equivalent and short-term investments balances were denominated in foreign currencies of which $1.2 million was denominated in Canadian dollars. In the aggregate, if the value of the dollar against the foreign denominated currency strengthens by 10%, the Company would record an exchange loss of approximately $200,000. Conversely, if the value of the dollar declines by 10%, the Company would record an exchange gain of approximately $200,000. During the nine months ended September 30, 2003, the value of the U.S. dollar against Canadian dollar declined by approximately 17%. The Company seeks to mitigate the risk associated with foreign currency deposits by monitoring and limiting the total cash deposits held at each of its subsidiaries abroad. Additionally, the Company may seek to mitigate the risk by entering into currency hedging transactions. The Company was not a party to any hedge transactions as of September 30, 2003. In addition, the Company reported assets with a net realizable value of approximately U.S. $10.4 million related to the discontinued operations that consisted primarily of facilities in Vancouver, British Columbia, Canada and Singapore that are denominated in their respective currencies. Subsequent to September 30, 2003, the Company closed on the sale of its Singapore facility and received net proceeds of U.S. $1.6 million. In addition, during the third quarter of 2003 the Company accepted an offer for the sale of its Vancouver facility. The Company estimates the net proceeds on this sale transaction, which is anticipated to close during the fourth quarter of 2003, will be approximately U.S. $8.8 million. However, there can be no assurance that this sale transaction will be completed.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. The Company s principal executive and financial officers have evaluated these disclosure controls and procedures within 90 days prior to the filing of this Quarterly Report on Form 10-Q and have determined that such disclosure controls and procedures are effective.

Subsequent to their evaluation, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II OTHER INFORMATION

ITEMS 2, 3, 4 and 5 are inapplicable and have been omitted.

ITEM 1. LEGAL PROCEEDINGS

In August 2001, the Company s wholly-owned subsidiary, Glenayre Manufacturing Ltd. (GML), filed two lawsuits against Pilot Pacific Properties, Inc., (Pilot Pacific), in Vancouver, British Columbia, Canada. These lawsuits, which were consolidated in February 2002, seek a total of over $12 million (Canadian), including the return of a $5.3 million (Canadian) deposit, breach of contract, breach of fiduciary duties and improper charges to, and paid by, GML in connection with the development and construction of an office building in Vancouver. In October 2001, Pilot Pacific filed counterclaims against GML and the Company for $4.3 million (Canadian) for unpaid invoices (a lien on the building has been filed for such amount) and lost profits of $60 million to $65 million (Canadian). During the second quarter of 2002, Pilot Pacific and its chief executive officer issued news releases with unsubstantiated allegations and claims relating to this project. On April 30, 2003, GML was successful in amending its statement of claim to, among other things, include claims of breach of trust and fraud and to join Pilot Pacific s chief executive officer and former corporate controller as additional defendants. The defendants efforts to appeal this ruling were dismissed. On May 26, 2003, the defendants filed an amended counterclaim alleging fraudulent misrepresentations by GML, the Company and the Company s then serving chief executive officer and increasing the claim for unpaid invoices from $4.3 million (Canadian) to approximately $6 million (Canadian). Additionally the amended counterclaim seeks Pilot Pacific s retention of the approximately $5.3 million (Canadian) deposit. This case is scheduled for trial in April 2004. Based on the investigations conducted in the lawsuits to date, the Company believes it should prevail.

In late 2001, Phillip Jackson (Jackson) filed lawsuits against two of the Company s customers claiming that products sold by these customers infringed a patent held by Jackson seeking total damages of approximately $10 million. The alleged infringement related to certain features included in products sold by the Company to these customers. By December 2001 the Company agreed to indemnify each of these customers for the claims in these lawsuits and assumed primary responsibility for defending the claims with respect to the Company s products. In January 2002 the Company filed a lawsuit in the Federal District court in the Northern District of Illinois (Chicago) seeking a declaratory judgment that none of the Company s products infringe the Jackson patent. On February 18, 2003, the trial court summarily dismissed three of the four infringement claims alleged by Jackson in this case. The remaining claim went to trial in late March 2003. On April 1, 2003 the jury found in favor of Jackson and awarded damages of $12 million. On July 8, 2003, in response to the Company s Motion for a Judgment as a Matter of Law regarding the finding of infringement and the damages, the trial judge ordered a reduction in damages that the Company owes to Jackson to $2.7 million plus pre and post judgment interest and certain court costs. Jackson agreed to the reduction in damages. On August 18, 2003 the Company filed a notice to appeal the judgment and moved for a stay of judgment. Included in the Company s restricted cash is $2.9 million for a letter of credit the Company posted as a security during the third quarter of 2003 in connection with this judgment.

In January 2003, BellSouth Intellectual Property Corp. (BellSouth) filed a lawsuit against the Company claiming that products sold by the Company infringed a patent held by BellSouth, seeking unspecified damages and an injunction prohibiting the Company from utilizing the allegedly infringing technology in its products. In October 2003 the Company entered into a license and a settlement agreement with BellSouth. The terms of the settlement did not have any material financial impact during the third quarter of 2003. While the license agreement provides for ongoing royalty obligations in certain circumstances, the Company does not anticipate that the settlement and license agreement will have any material adverse impact on its future results.

On July 23, 2003, the Company received a letter and supporting materials from the Intellectual Property Asset Corporation (IPAC), representing AudioFAX IP LLC asserting certain patent rights and proposing that the Company consider entering into a license agreement regarding some or all of four identified patents. The Company is reviewing the patents to determine if any are applicable to the Company s business.

In June, 2001, Alberta Environment, a department of the Government of Alberta, issued an Environmental Protection Order requiring Imperial Oil Limited to remediate significant petroleum-based contamination discovered on a Calgary, Canada residential development, Lynnview Ridge. The Company understands that the land on which some of this residential development was located at one time contained a petroleum storage tank farm and is adjacent to land on which Imperial Oil operated a refinery for many years. In July 2002, following an appeal to the Environmental Appeal Board, the Alberta Minister of the Environment issued a Ministerial Order confirming this Environmental Protection Order. Imperial Oil initiated a judicial proceeding to quash this Ministerial Order, which was unsuccessful. The Company is not a party to these proceedings. The Company understands that Imperial Oil has purchased from the homeowners 137 of the 160 homes located in the Lynnview Ridge development.

In November 2002 and April 2003, a total of twenty lawsuits seeking approximately $22.3 million (Canadian) in damages were filed in the Court of Queen s Bench, Judicial Centre of Calgary, in Alberta, Canada, against the Company and several other defendants, including Imperial Oil. All of these claims relate to the Lynnview Ridge development, that was jointly developed in the early 1980s by a corporate predecessor of the Company and a wholly-owned subsidiary of Imperial Oil.

These lawsuits assert that the defendants, including the Company, are liable for negligence, nuisance, and negligent misrepresentation arising out of the development and sale of homes located in the Lynnview Ridge development. To date, the Company has conducted preliminary investigations regarding these lawsuits but discovery has not yet been conducted.

On May 16, 2003, a further action was commenced against the same defendants, including the Company, seeking $6.0 million (Canadian) on behalf of twenty plaintiffs alleging personal injury as a result of the contamination. As of the date of this Report, this action has not been served on the Company or, to the Company s knowledge, on any of the other defendants.

While no assurance can be given regarding the outcome of the litigation discussed above, the Company believes that, based on information currently available, the resolution of these matters will not have a material adverse effect on the financial position or results of future operations of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, the Company s business, financial condition, results of operations and cash flows could be materially adversely affected.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 3.1	Composite Certificate of Incorporation of Glenayre reflecting the Certificate of Amendment filed December 8, 1995 was filed as Exhibit 3.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference.
Exhibit 3.2	Restated by-laws of Glenayre effective June 7, 1990, as amended September 21, 1994 was filed as Exhibit 3.5 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1994 and is incorporated herein by reference.
Exhibit 15.1	Letter regarding unaudited financial information
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On August 4, 2003, the Company filed a Current Report on Form 8-K to report that the Company had issued a press release providing financial results for the second quarter of 2003.

SIGNATURES

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

Glenayre Technologies, Inc.

(Registrant)

/s/ Debra Ziola

Debra Ziola
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 5, 2003

Exhibits

Exhibit Number	Description
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