

UNITY WIRELESS CORP  
Form 10QSB  
May 17, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

[X]  
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2004**

[ ]

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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **0-30620**

**UNITY WIRELESS CORPORATION**  
(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**91-1940650**

(I.R.S. Employer Identification  
Number)

**7438 Fraser Park Drive, Burnaby, British Columbia, Canada, V5J 5B9**  
(Address of principal executive offices)

**(800) 337-6642**

(Issuer's Telephone Number)

**not applicable**

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

Number of shares of common stock outstanding at May 14, 2004: 76,652,664

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

**1**

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

76,652,664 common shares outstanding as at May 14, 2004

Transitional Small Business Disclosure Format (Check one): Yes  No

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Financial Statements

(Expressed in United States dollars)

**UNITY WIRELESS CORPORATION**

(Prepared in accordance with United States  
generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

**DRAFT May 14, 2004**

**UNITY WIRELESS CORPORATION**

## Consolidated Balance Sheets

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

	March 31, 2004 (unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,588	\$ 58,057
Restricted cash (note 4)	96,997	95,210
Accounts receivable (less allowance for doubtful accounts of \$11,367 in 2003 and \$11,503 in 2003)	601,905	194,657
Inventory (note 3)	719,252	359,448
Prepaid expenses and deposits	47,094	50,134
	1,472,836	757,506
Equipment, net	162,170	155,364
Patents	3,545	4,254
Goodwill	741,596	741,596
	\$ 2,380,147	\$ 1,658,720
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	\$ 96,717	\$ 112,561
Accounts payable and accrued liabilities (note 5)	1,130,662	957,221
Loans payable (note 6)	164,990	25,119
Product warranty (note 10(c))	37,640	38,084
	1,430,009	1,132,985
Stockholders' equity:		
Common stock, \$0.001 par value 100,000,000 authorized, 70,815,613 (2002 - 63,578,953) issued and outstanding	70,815	63,579
Additional paid-in capital	19,902,564	18,831,807
Accumulated deficit	(19,165,982)	(18,503,080)

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Accumulated other comprehensive income:

Cumulative translation adjustments	142,741	133,429
	950,138	525,735
	\$ 2,380,147	\$ 1,658,720

Commitments (note 9)

Contingent liabilities (note 10)

Subsequent event (note 12)

See accompanying notes to consolidated financial statements.



**UNITY WIRELESS CORPORATION**

## Consolidated Statements of Operations and Comprehensive Loss

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003

	2004 (unaudited)	2003 (unaudited)
Net sales	\$ 760,382	\$ 346,867
Cost of goods sold (includes stock-based compensation of \$919 in 2004 and nil in 2003 and excludes depreciation shown separately below)	519,748	381,319
	240,634	(34,452)
Expenses:		
Research and development (includes stock-based compensation of \$6,804 in 2004 and (\$17,237) in 2003)	237,373	199,924
Government grant (note 10(b)(ii))	-	(73,373)
	237,373	126,551
Sales and marketing (includes stock-based compensation of \$25,584 in 2004 and (\$19,806) in 2003)	134,407	91,419
Depreciation and amortization	12,346	18,139
Exchange gain (loss)	14,333	(10,931)
Interest expense	14,097	15,020
General and administrative (includes stock-based compensation of \$260,716 in 2004 and (\$29,040) in 2003)	470,639	151,699
	883,195	391,897
Operating loss for the period	(642,561)	(426,348)
Interest income	2,919	-
Accretion of interest and debt settlement	(37,393)	(29,061)
Other income	14,133	34,056

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Loss for the period	\$ (662,902)	\$ (421,354)
Deficit, beginning of period	(18,503,080)	(15,495,130)
Deficit, end of period	\$ (19,165,982)	\$ (15,916,484)
Basic and diluted loss per common share (note 7(b)):	\$ (0.01)	\$ (0.01)

See accompanying notes to consolidated financial statements.

**UNITY WIRELESS CORPORATION**

## Consolidated Statements of Cash Flows

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003

	2004 (unaudited)	2003 (unaudited)
Operations:		
Loss for the year	\$ (662,902)	\$ (421,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of interest and debt settlement	37,393	29,061
Depreciation and amortization	12,346	18,139
Stock-based compensation	294,023	(66,083)
Changes in non-cash working capital relating to operations:		
Accounts receivable	(412,806)	131,032
Government grant receivable	-	19,137
Inventory	(368,041)	(143,814)
Prepaid expenses	2,476	(2,278)
Accounts payable and accrued liabilities	213,208	41,531
	(884,303)	(394,629)
Investments:		
Acquisition of equipment	(18,443)	-
Disposition of equipment	-	2,582
Restricted cash (note 4)	(2,919)	5,073
	(21,362)	7,655
Financing:		
Increase (decrease) in bank indebtedness	(14,650)	15,501
Loans payable	141,290	(62,642)
Cash proceeds on issuance of common shares	767,573	-
Share issue costs	(48,258)	(1,864)

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	845,955	(49,005)
Effect of foreign exchange rate changes on cash and cash equivalents	9,241	100,600
Decrease in cash and cash equivalents	(50,469)	(335,379)
Cash and cash equivalents, beginning of period	58,057	335,818
Cash and cash equivalents, end of period	\$ 7,588	\$ 439

Supplementary information (note 11)

See accompanying notes to consolidated financial statements.

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

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**1.**

**Basis of presentation:**

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for a complete set of annual consolidated financial statements. In the opinion of management, all adjustments (consisting solely of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ending March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004 or for any other period.

For further information, refer to the consolidated financial statements and footnotes thereto included in Unity Wireless Corporation's (the Corporation) annual report on Form 10-KSB for the year ended December 31, 2003. Except as indicated in note 2(a), the accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those applied in the consolidated financial statements filed with the Corporation's annual report.

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been significantly financed by short-term debt and equity transactions. At March 31, 2004, the Corporation requires additional financing to continue to operate at current levels throughout the next year. Accordingly, the Corporation's future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that the Corporation will be successful. If it is not, the Corporation will be required to reduce operations or liquidate assets. The Corporation will continue to evaluate its projected expenditures relative to its available cash and to seek additional means of financing in order to satisfy its working capital and other cash requirements. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern.

**2.**

**Significant accounting policies:**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the same accounting policies and methods of application as those disclosed in the Corporation's financial statements for the year ended December 31, 2003, except for note 2(a):

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

**2.****Significant accounting policies (continued):**

(a)

Stock-based compensation:

On January 1, 2004, the Corporation adopted FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, using the modified prospective method. Under the modified prospective method of adoption selected by the Corporation, the employee stock-based compensation expense recognized in the three month period ended March 31, 2004 is the same as that which would have been recognized for the current three month period had the recognition provision of SFAS No. 123, *Accounting for Stock-based Compensation*, been applied from its original effective date. Results for prior periods have not been restated.

Had compensation cost been retroactively determined based on the fair value at the grant dates for those options issued to employees and consultants, consistent with the method described in SFAS No. 123, the Corporation's loss and loss per common share would have been increased to the pro forma amounts indicated below.

	Three months ended March 31, 2003 (unaudited)
Loss for the period, as reported	\$ (421,354)
Add: Total stock-based employee compensation expense included in reported net loss	-
Deduct: Total stock-based employee	(39,124)

compensation expense determined under

fair value based method for all awards

Proforma loss	\$	(460,478)
Basic and diluted loss per common share,		
As reported	\$	(0.01)
Pro forma		(0.01)

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## **UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

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**2.**

### **Significant accounting policies (continued):**

(a)

Stock-based compensation (continued):



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The fair value of each option granted in 2004 and 2003 was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 159% (2003 - 144%); risk-free interest rate of 3.25% (2003 3.25%) and an expected life of four years.

Stock option transactions for the respective periods and the number of stock options outstanding are summarized as follows:

	Shares available under options	Outstanding options	
		Number of common shares issuable	Weighted average exercise price
Balance, December 31, 2003	7,589,707	5,126,083	0.19
Options granted	(1,415,000)	1,415,000	0.52
Options expired	7,500	(7,500)	0.11
Options exercised	-	(75,000)	0.16
Increase in reserved for issuance	1,522,333	-	-
Balance, March 31, 2004	7,704,540	6,458,583	\$ 0.26

(b)

Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

**3.**

**Inventory:**

	March 31, 2004 (Unaudited)	December 31, 2003
Raw materials	\$ 594,289	\$ 345,172
Finished goods	124,963	14,276
	\$ 719,252	\$ 359,448

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

**4.**

**Bank indebtedness:**

The Corporation has a \$96,717 (CDN\$125,000) operating line bearing interest at prime and secured by a \$96,997 (CDN\$125,000) guaranteed investment certificate and a general security interest in all the Corporation's assets.

**5.**

**Accounts payable and accrued liabilities:**

	March 31, 2004 (Unaudited)	December 31, 2003
Trade accounts payable	\$ 925,068	\$ 788,298
Accrued liabilities	205,594	168,923
	\$ 1,130,662	\$ 957,221

**6.**

**Loans payable:**

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	March 31, 2004 (Unaudited)	December 31, 2003
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Promissory notes	\$ 164,990	\$ 25,119
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As at March 31, 2004, the Corporation was indebted to three parties for an aggregate of \$164,990 cash by way of promissory notes at interest rates ranging from 0% to 12% per annum. The promissory notes are repayable on demand.

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

**7.**

**Common stock:**

(a)

Issued and outstanding

During the three month period ended March 31, 2004, the Corporation issued 113,405 common shares in settlement of \$27,262 of accounts payable, 6,032,150 common shares upon exercise of warrants for cash proceeds of \$603,215, 75,000 common shares upon exercise of options for cash proceeds of \$11,942, 1,016,105 common shares upon private placement for cash proceeds of \$152,416.

(b)

Loss per share:

The following table sets forth the computation of basic and diluted loss per share:

	2004	2003
Numerator:		
Loss for the period	\$ (662,902)	\$ (421,354)
Denominator:		
Weighted average number of:		
Common shares outstanding	67,881,909	35,383,632
Basic and diluted loss per common share	\$ (0,01)	\$ (0,01)

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For the three month period ended March 31, 2004 and 2003, all of the Corporation's common shares issuable upon the exercise of outstanding stock options and warrants were excluded from the determination of dilutive loss per share as their effect would be anti-dilutive.

(c)

Warrants:

The following non-transferable share purchase warrants were outstanding at March 31, 2004:

Expiry date	Exercise price	Number
	per share	of shares
May 14, 2004	\$CDN 0.35	505,384
July 15, 2005	\$US 0.10	2,500,000
August 7, 2005	\$US 0.26	416,667
October 1, 2007	\$US 0.20	100,000
October 1, 2008	\$US 0.25	150,000
January 15, 2006	\$US 0.15	6,032,150
December 31, 2005	\$US 0.30	508,053

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

**8.**

**Segmented information:**

(a)

Segment information:

During the three month periods ended March 31, 2004 and 2003, the Corporation was operating only in the RF power amplifier segment.

(b)

Geographic information:

Substantially all assets and operations are in Canada. A summary of sales by region of customer location is as follows (\$000):

	2004	2003
Korea	\$ -	\$ 93
China	199	(2)
Sweden	-	31
United States	528	206
Canada	30	4
Other	3	15
Total sales	\$ 760	\$ 347

(c)

Major customers:

Sales to customers representing greater than 10% of total sales are as follows (\$000):

		2004		2003
Customer A	\$	Nil	\$	93
Customer B		Nil		123
Customer C		215		58
Customer D		290		Nil
Customer E		199		Nil

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Three months ended March 31, 2004 and 2003 (unaudited)

Year ended December 31, 2003

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**9.**

**Commitments:**

The Corporation has the following future minimum lease commitments for premises and equipment:

2004	\$	55,000
2005		78,000
2006		80,000
2007		80,000
2008		80,000
Thereafter		40,000
	\$	413,000

**10.**

**Contingent liabilities:**

(a)

The Corporation is currently a party to an action in the Supreme Court of British Columbia, Vancouver Registry, brought by an option holder seeking a declaration that 500,000 options to purchase shares in the common stock of the Corporation held by it have a term of unlimited duration.

The Corporation provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. It is the opinion of management, based in part on advice of legal counsel, that the ultimate resolution of this contingency, to the extent not previously provided for, will not have a material adverse effect on the financial condition of the Corporation.