



BRIDGEWATER SYSTEMS CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULT OF OPERATIONS**

DATED: May 1, 2009

The following discussion and analysis provides management's discussion and analysis ("MD&A") of Bridgewater Systems Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated financial statements for the three month period ended March 31, 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principals (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of May 1, 2009 and is current to that date, unless otherwise stated. Additional information relating to the Company may also be found on SEDAR at www.sedar.com.

The Company's fiscal year commences January 1 of each year and ends on December 31.

FORWARD-LOOKING STATEMENTS

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "continue", "believe", "plan", "intend", "would", "could", "should", "anticipate" and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this document are based upon what we believe are reasonable assumptions, we cannot assure investors that our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Operation Information

	Three months ended March 31,	
	2009	2008
	(unaudited)	
	<i>(in thousands of dollars, except per share amounts and number of shares)</i>	
Revenue		
Product revenue.....	\$ 10,737	\$ 6,548
Service and support revenue.....	3,306	2,018
	<u>14,043</u>	<u>8,566</u>
Cost of sales.....	<u>3,323</u>	<u>1,776</u>
Gross margin.....	<u>10,720</u>	<u>6,790</u>
Expenses		
Sales and marketing.....	2,932	3,289
Research and development.....	3,428	4,344
General and administration.....	1,501	959
Bad debt expense.....	224	38
Stock-based compensation.....	76	41
	<u>8,161</u>	<u>8,671</u>
Earnings (loss) before undernoted items.....	<u>2,559</u>	<u>(1,881)</u>
Foreign exchange (loss) gain.....	(4)	808
Interest and other income.....	230	390
Earnings (loss) before income taxes.....	<u>2,785</u>	<u>(683)</u>
Future income tax recovery	100	-
Net earnings (loss) for the period.....	<u>\$ 2,885</u>	<u>\$ (683)</u>
Earnings (loss) per share - basic.....	\$ 0.12	\$ (0.03)
Earnings (loss) per share - diluted.....	\$ 0.12	\$ (0.03)
Weighted average number of		
shares outstanding - basic.....	23,107,823	22,303,427
Weighted average number of		
shares outstanding - diluted.....	24,401,989	22,303,427

Consolidated Balance Sheet Information

	As at March 31, <u>2009</u>	As at December 31, <u>2008</u>
	(unaudited)	
	<i>(in thousands of dollars)</i>	
Cash and cash equivalents.....	\$ 53,938	\$ 50,364
Accounts receivable.....	19,819	13,424
Working capital ⁽¹⁾	46,539	41,247
Total assets.....	101,663	87,207
Deferred revenue.....	36,763	24,013
Shareholders' equity.....	60,377	55,888

(1) Working capital is calculated as current assets less current liabilities

Overview

Bridgewater Systems Corporation (“Bridgewater” or the “Company”) is a market leading provider of mobile personalization products and services that enable global service providers to manage and profit from mobile data services, content and commerce. More than 120 service providers in 30 countries use our products and services to manage billions of mobile transactions per month and over 150 million data subscribers. We have 12 years of experience helping our customers meet growing consumer and enterprise demand for mobile data and broadband wireline services.

At the core of Bridgewater’s mobile personalization portfolio is a real-time, high performance subscriber data management product that unifies critical subscriber data, including profile, usage and real-time state information. Based on this unified subscriber data, our service and policy control products broker subscriber access to wireless data services, applications and network capabilities and enable flexible service and billing models.

Our products and services enable service providers to:

- Deliver personalized services by using subscriber data and network and application policies to customize offerings;
- Maintain secure access to wireless data services and network resources (e.g. bandwidth, location, presence);
- Open their networks and devices to third-party applications such as mobile advertising and social networking to generate new revenue streams;
- Adopt innovative service models including sharing revenues with application service providers; and
- Reduce operating costs by more efficiently managing mobile data growth, network resources, and subscriber information.

The Market

Bridgewater markets its products and services globally to service providers with a primary focus on wireless data networks as well as service providers pursuing fixed mobile convergence strategies such as femtocells.

There are a number of trends driving demand for Bridgewater’s products and services including:

Mobile data traffic growth. Growth in mobile data traffic is being driven by the increase in mobile subscribers, the popularity of smart phones, the proliferation of mobile data applications such as social networking and mobile videos, unlimited flat rate plans, and laptop data cards. The Company benefits directly from this growth as service providers need to manage subscriber access to applications and network resources (e.g. bandwidth, location, presence) to attract and retain subscribers.

Migration to 3G and 4G broadband wireless networks. Evolving broadband wireless technologies such as EVDO, HSPA, WiMAX and LTE significantly increase network bandwidth and allow service providers to deliver more sophisticated multimedia services to their subscribers. Service providers that have invested in

building a 3G infrastructure are now focusing on investment to drive revenue and ensure efficient utilization of this infrastructure. This is creating demand for Bridgewater's proven, carrier-grade, subscriber data management, service and policy control products that help service providers transition services to 3G and 4G networks.

Open access and applications. As the mobile internet becomes a reality, service providers are opening their networks to third-party devices and applications, creating new service opportunities. For example, service providers can enhance internet-based social networking applications with real-time context such as the subscriber's location. At the same time, open access creates new business model options such as revenue-sharing and advertising. Bridgewater's products enable service providers to generate new revenue streams from third-party devices and applications by leveraging real-time subscriber information, making it easy to provision new services 'over the air', and implementing policies that control application usage and protect the network.

Service personalization. Bridgewater's products help service providers deliver personalized services by capturing subscriber data that is dispersed throughout the network or different applications, creating a unified view of subscriber information and brokering that information to applications. This allows subscribers to personalize their services by choosing the services they receive and determining how, when and where they receive them.

Service model innovation. As the market becomes more competitive, service providers are attracting and retaining subscribers by expanding their traditional prepaid, postpaid and flat rate service plans to new innovative service models such as casual and flexible usage, on-demand access to applications, and tiered services. Service providers are also delivering new services that are paid for by mobile advertising and revenue sharing with third-party application providers. Bridgewater's products incorporate flexible policy controls, real-time subscriber information, and dynamic metering capabilities that allow service providers to develop and support a variety of service models.

Our Products and Services

Bridgewater's market leading, high performance products and services are being used by over 120 service providers in 30 countries and are managing more than 150 million subscribers and billions of mobile transactions per month. Our products are network agnostic and support all major 2G (CDMA-EVDO, GSM), 3G (EVDO, HSPA, UMTS) and 4G (LTE, WiMAX) access technologies as well as fixed mobile convergence technologies such as femtocells.

The portfolio is anchored by Bridgewater's **Subscriber Data Broker™**, a sophisticated, carrier-grade, subscriber data management product. It creates a real-time, unified view of the subscriber based on profile (identity, demographics, service plan), usage (behaviors, application patterns, billing) and dynamic state (location, context, presence) data, and provides the sophisticated tools to broker this data to systems and applications to deliver personalized mobile services.

Bridgewater's Subscriber Data Broker features a comprehensive toolset including:

- A flexible, dynamic business rules engine that determines how subscribers can access services;
- Governance rules for brokering subscriber data to third-party applications while protecting subscriber identity and privacy;
- Policy control to provide subscriber access to and authorization for new applications; and
- Standards-based interfaces to federate subscriber data from multiple legacy systems and to integrate with third-party applications.

In addition to Subscriber Data Broker, the Company offers its **Bridgewater® Service Controller**, **Bridgewater® Policy Controller** and **Bridgewater® Home Subscriber Server** products.

The **Bridgewater Service Controller** provides security and access capabilities by providing authentication, authorization and accounting (AAA); real-time session management to enable mobility, roaming, security, and usage tracking; and prepaid and postpaid charging functions.

The **Bridgewater Policy Controller** has the unique ability to adapt to subscriber behavior and changing network conditions, and take real-time policy actions during individual subscriber sessions. It determines how and under which circumstances subscribers have access to applications at the appropriate quality of service. The Policy Controller is a standards-compliant, carrier-grade policy

control server that enables service providers to effectively manage and profit from mobile data applications.

The **Bridgewater Home Subscriber Server (HSS)** is a standards-compliant carrier-grade master repository that contains subscriber profiles and performs subscriber authentication, authorization, and mobility management for next generation networks.

Delivery of Bridgewater's products can be as a software solution, as a network system or as a WideSpan® system. Products delivered as a software solution are typically licensed based on subscribers. In these deployments, the service provider purchases hardware and some third-party services separately and takes responsibility for integration of the solution. Network system deployments provide a system-level solution, packaging Bridgewater software with third-party hardware and software. These deployments are licensed on a rated-transaction load growing as the capacity requirements grow. WideSpan is an integrated solution that enables service providers to bring new mobile services to market faster by using a single vendor solution, and better predict and manage subscriber growth. Anchored by Subscriber Data Broker, it integrates the Service Controller, Policy Controller and Home Subscriber Service products, plus third party hardware and software, in a highly-scalable, carrier-class blade server environment. The system is pre-packaged and pre-configured with certified transaction throughput to manage rapid mobile transaction growth.

Bridgewater offers professional services to provide comprehensive consulting, planning, implementation, integration and management services for every stage of network development. The Company's professional services help service providers optimize network investments, maximize revenue generation, contain costs, and shorten time to market for new services.

Sales and Marketing

We sell and distribute our products and services through direct and indirect sales channels. Whether sales are direct or indirect, an important part of our strategy involves dealing directly with service providers to understand and identify their market and service requirements. Our direct sales force addresses Tier 1 and selected Tier 2 service providers, and is established geographically in the Americas, Europe, Middle East and Africa ("EMEA"), and Asia Pacific ("APAC"). We have organized our sales teams for both large account management and relationships, with dedicated sales management and sales engineering teams, and for geographic/regional support of service providers. Our global channel partners (Alcatel-Lucent, Motorola, Alvarion, and Nortel) deliver our products to support turnkey networks or network subsystems in complete network solutions. We also have established regional resellers to provide geographic coverage of specific network technologies.

Growth Strategy/Business Model

Our business model is focused on expanding our products and services to our customers, growing our customer base and developing our channel model, while maintaining profitability. We have been successful with this strategy, and will continue to leverage our current investment in product development and sales and marketing to strive for incremental profitability. Our growth strategy is focused on four dimensions:

1. **Penetration of 3G/4G markets.** We are extending delivery of our products and services to 3G GSM and 4G service providers. We have five regional GSM installations and one combined CDMA/UMTS installation. We have focused strategies to extend our products to support the broadband expansion in the 3G GSM market. We are extending our products into new and adjacent technologies to deliver solutions that enable service providers to migrate from 3G to 4G technologies, such as WiMAX and LTE. Since Bridgewater's products support all major wireless access technologies, we bring strong value to interoperability and to support migration and interworking across mixed 3G/4G networks.
2. **Expansion of Product Portfolio.** Extension of our product portfolio is a key element of our growth strategy. In 2009 we expect our policy management and subscriber data management products to take on increasing importance to enable wireless service providers to personalize services.
3. **Enable New Delivery Models.** Providing flexible delivery models that allow service providers to purchase and deploy our products as standalone software solutions or system-level solutions provides for additional penetration of our products in direct and channel engagements. Service providers are looking for delivery models that can match capacity requirements and identify and clarify total cost of ownership for new service models. WideSpan provides a delivery system that will optimize performance, scalability and ease of management. We received our first order for WideSpan from Verizon Wireless in 2008, and have received a subsequent order from Cricket Communications for WideSpan that was delivered in the first quarter of 2009.

4. **Geographic Expansion.** We are also continuing to expand our business outside North America by leveraging channel partners and system integrators, with a focus on expansion in key markets in Europe, Middle East, Africa, Asia and South America.

OVERALL PERFORMANCE

Revenue and Expenses

We generate revenue from licensing our software products and providing related hardware and services, including maintenance, support and professional services. Licensed products are sold primarily under a perpetual license model or subscription model. Additional revenue is realized through (i) incremental license sales due to growth in the customer environment, (ii) development of new features and applications on core product, (iii) other professional services such as capacity planning, interface and network planning which can be part of the initial engagement or as a follow-on sale and (iv) annual maintenance and support contracts which provide the customer with 24/7 support, product updates and release upgrades.

We sell our products and services through direct sales teams and through indirect global sales channels. Direct sales are typically with Tier 1 and Tier 2 service providers. Our indirect sales are through global reseller arrangements as well as regional resellers to support specific sales engagements.

The majority of our revenue is denominated in US dollars, whereas our expenses are predominately in Canadian dollars. As a result, our revenue and net earnings are impacted by the fluctuation in the exchange rate. We enter into foreign exchange contracts to minimize the impact of foreign exchange fluctuations.

Cost of sales consists of the cost of third party hardware and embedded licensed software and internal expenses attributed to installation, support and professional services to our customers. Costs for product and feature development are included in research and development expense.

Sales and marketing expenses include all personnel and related compensation expenses for direct and channel sales teams and marketing personnel, advertising, trade shows, communications expenses and costs for regional offices. Research and development expenses include personnel and related costs for product management and development programs, product documentation and technology infrastructure. Periodically we will engage external contractors to support specific research and development programs. General and administrative expenses include personnel and related compensation, professional fees, legal, accounting, and insurance costs. Bad debt expense includes any provisions for accounts receivables for which collectability is not reasonably assured.

Critical Accounting Policies and Estimates

Revenue Recognition

Our revenue is derived from the sale of software licenses, hardware integrated with licensed software, professional services and maintenance and support. Product revenue includes licensed software, hardware integrated with licensed software and feature development on standard products. Services and support revenue includes installation, training and integration, maintenance, software support, updates and the right to receive product upgrades on a when and if available basis. Software is sold through a perpetual license or, in limited cases, a subscription with a customer support and maintenance contract and may be integrated with hardware or include feature development and professional services.

We recognize revenue when there is a legally binding arrangement with a customer, delivery has occurred such that title and risk of loss have been transferred to the customer or services have been rendered, the fee is fixed or determinable and collectability is reasonably assured.

Customer acceptance provisions included in an arrangement are based on our product specifications. Revenue is recognized when we have demonstrated compliance with the specifications or have had a history of customer acceptance that provides no uncertainty of acceptance upon delivery of the product that would defer revenue recognition.

Arrangements may be comprised of multiple product and service elements. The majority of our software license arrangements include customer support and maintenance services. Customer support and maintenance services

consist of tiered 24/7 help desk support to service providers and indirect channel partners, technical support and updates to our products only on a when and if available basis. Substantially all of our customers purchase product support and maintenance services when they acquire new software licenses. In addition, substantially all of our customers renew their product support and maintenance contracts annually. We also offer professional services consisting of network design and optimization, installation, training, deployment planning, interoperability testing for customers and partners, and customer and partner training for network planners, engineers, system operators and solution sales engineers.

Revenue for customer support and maintenance services, feature development and professional services included in a multiple element arrangement are unbundled from the total fee for the arrangement based on reliable objective evidence of their fair value and the residual amount is allocated to the initial products delivered. We annually review our renewal pricing realized for customer support and maintenance services and our professional service rates achieved by customer group, to ensure that the appropriate amount of revenue, based on reliable objective evidence of fair value, is unbundled and deferred. Where reliable objective evidence of fair value for an element does not exist, revenue is deferred until such evidence exists for the remaining deliverables or only one element remains to be delivered. Where software is sold as a perpetual license, revenue is recognized on each element of the arrangement when all revenue recognition criteria have been met. Customer support and maintenance services, which include upgrades only on a when and if available basis, are recognized ratably over the service period. Professional services revenue is generally recognized on a proportional performance basis taking into consideration the hours completed to date in relation to the total expected hours to complete the deliverable. Where software is sold on a subscription basis, revenue for the entire arrangement is recognized on a ratable basis over the term of the subscription. Where an arrangement is comprised of multiple deliverables of the same or similar products and related services over time, revenue is allocated proportionately to each product deliverable and recognized for the delivered product and related services when all revenue recognition criteria have been met.

Our solutions are highly scalable, with each solution interconnecting with other solutions in our portfolio allowing service providers the ability to add features on an incremental, as-needed basis. As a result, many of our software arrangements include feature development either sold on a stand-alone basis or as a part of a multiple element arrangement. Revenue from feature development is classified as product revenue as we retain the intellectual property rights and typically offer the feature in our product portfolio. Development comprised of feature and functionality enhancements requested by a customer are treated as a separate element in a multiple element arrangement as they are not considered critical to the functionality of the software products and the total price would vary where these features are excluded or included. If the development is considered critical to the functionality of the delivered product, the product revenue is included with the feature development revenue. Revenue for feature development is recognized as effort is incurred. If there is a significant uncertainty about the project completion or receipt of payment, revenue is deferred until the uncertainty is sufficiently resolved. We estimate the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. A number of internal and external factors can affect our estimates, including labour rates, utilization and changes in estimates of hours required to complete the project. When total cost estimates exceed revenues, we will accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened rate applicable to the individuals performing the feature development.

Our reseller arrangements do not provide for return rights with the exception of one reseller. We have had no returns from this reseller. We recognize revenue upon delivery to our resellers, provided that all other revenue recognition criteria have been met, and we estimate a return provision based on our historical experience.

We assess whether fees are fixed or determinable and collectability is reasonably assured at the time of sale and recognize revenue if all other revenue recognition criteria are met. Our standard payment terms are generally net 30-45 days; however, terms may vary based on the country in which the agreement is executed. Where fees are considered not to be fixed or determinable or collectability is not reasonably assured, revenue is recognized as payments become due and when all other revenue recognition criteria have been met.

Under certain arrangements, we may be required to provide compensation to a customer if and when specified product performance or customer support levels are not met. Based on historical experience, we estimate the expected performance compensation to be incurred under these arrangements and defer the equivalent amount of revenue until the performance period has lapsed or sufficient evidence exists to support a change in the estimate.

Unbilled receivables arise when services are performed or products and features are delivered prior to our ability to invoice in accordance with contract terms.

Deferred revenue arises when payments are received from customers in advance of revenue recognition criteria being met.

Deferred Cost of Sales

Our WideSpan integrated solution includes third party hardware and software costs recorded as deferred cost of sales until the related revenues are recognized. Deferred cost of sales is carried at the lower of cost and net realizable value.

Stock-Based Compensation

We have stock option plans for employees, officers and directors. As a result, we report a compensation expense based on CICA Handbook Section 3870 – “*Stock-Based Compensation and Other Stock-Based Payments*”. The fair value of the stock options is determined using the Black-Scholes option pricing model and judgments to estimate the term of the stock options, the volatility of our stock and future dividends. In addition, judgment is required in estimating the amount of the stock option awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock based compensation expense and our operating results could be materially impacted.

Valuation of Future Income Tax Assets and Income Tax Expense

As of March 31, 2009, we have a future tax asset of \$8.4 million, representing an increase of \$0.1 million from December 31, 2008. The increase is due to a decrease in the valuation allowance reflecting our current view of our anticipated tax position in future periods. We will continue to reassess our estimates as to our anticipated income tax position in future periods and make a determination related to the recognition of any potential future income tax asset. This determination will require judgment and estimates and analysis of future events, which by their nature, may or may not occur.

As at March 31, 2009, we had accumulated \$27.0 million of unused R&D expenditures for income tax purposes, and \$7.7 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. We also had approximately US\$3.4 million of losses for US income tax purposes.

Judgment is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the net future income tax assets. In assessing the potential realization of future income tax assets, we have considered whether it is “more likely than not” that some portion or all of the future income tax assets will be realized. Management assesses the likelihood that future income tax assets will be recovered from future taxable income, and whether a valuation allowance is required to reflect any uncertainty. Based on this review, we determined that a future income tax recovery of \$100,000 was required for the first quarter of 2009. We will continue to evaluate our tax position quarterly and record any adjustment necessary in that period.

Impact of Changes in Accounting Policies

Effective January 1, 2009, we have adopted the new CICA standard, Section 3064, *Goodwill and Intangible Assets*, which replaced Handbook Section 3062, *Goodwill and Other Intangible Assets* and Handbook Section 3450, *Research and Development Costs*. This revision aligns Canadian GAAP with International Financial Reporting Standards and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard has not had a material effect on our consolidated financial statements.

Impact of Recently Issued Accounting Standards

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which will replace Handbook Section 1581, *Business Combinations*. The new standard is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The new standard is not expected to have a material effect on our consolidated financial statements.

In January 2009, the CICA issued Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which will replace Handbook Section 1600, *Consolidated Financial Statements*. These

new standards are effective for interim and annual consolidated statements for fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provide the Canadian equivalent to International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effect on our consolidated financial statements.

Transition to International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the “AcSB”) announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (“IFRS”) for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods.

We are currently implementing our IFRS changeover plan to achieve adoption of IFRS by January 1, 2011. Components of the plan include assessment of accounting policy choices and implementation decisions under IFRS, determining the impact of transition on information systems, internal control over financial reporting and disclosure controls, assessment of business activities including contracts, financing agreements and compensation arrangements and development of financial expertise in IFRS. We have completed our initial determination of differences in Canadian GAAP and IFRS and are currently assessing the impact on accounting policies and financial reporting.

RESULTS OF OPERATIONS

	Three months ended March 31,	
	2009	2008
	(unaudited)	
	<i>(in thousands of dollars, except percentages)</i>	
Revenue	\$ 14,043	\$ 8,566
Product revenue.....	76%	76%
Service and support revenue.....	24%	24%
Gross margin.....	10,720	6,790
% of Revenue.....	76%	79%
Sales and marketing.....	2,932	3,289
% of Revenue.....	21%	38%
Research and development.....	3,428	4,344
% of Revenue.....	24%	51%
General and administration.....	1,501	959
% of Revenue.....	11%	11%
Bad debt expense.....	224	38
% of Revenue.....	2%	0%
Stock-based compensation.....	76	41
% of Revenue.....	1%	0%
Total operating expenses.....	\$ 8,161	\$ 8,671
% of Revenue.....	58%	101%
Earnings (loss) before undernoted items.....	\$ 2,559	\$ (1,881)
% of Revenue.....	18%	-22%
Foreign exchange (loss) gain.....	(4)	808
% of Revenue.....	0%	9%
Interest and other income.....	230	390
% of Revenue.....	2%	5%
Earnings (loss) before income taxes.....	\$ 2,785	\$ (683)
% of Revenue.....	20%	-8%
Future income tax recovery.....	100	-
% of Revenue.....	1%	0%
Net earnings (loss) for the period.....	\$ 2,885	\$ (683)
% of Revenue.....	21%	-8%

Revenue

For the first quarter of 2009, our total revenue was \$14.0 million, compared to \$8.6 million for the same period last year. Our revenue is billed primarily in US dollars. Revenue growth when reported in US dollars for the first quarter fiscal 2009 was US\$2.6 million (30%) compared to the same period in 2008. The increase in revenue for the first quarter of 2009 is related to consistent growth in product revenue, service revenue and professional service engagements. During the first quarter of 2009 we added 6 new service provider customers. Our top five customers in the first quarter of 2009 represented 89% of revenue compared to 79% of revenue for the first quarter of 2008.

Product revenue for the first quarter of 2009 was \$10.7 million, or 76% of total revenue, compared to \$6.5 million, or 76% of total revenue, for same period in 2008. The increase is due to the delivery of the Policy Controller solution with a Tier 1 mobile service provider in addition to the ongoing delivery of the WideSpan integrated solutions with Verizon and Cricket Communications.

First quarter 2009 revenues from professional services and maintenance and support contracts was \$3.3 million, or 24% of total revenue, compared to \$2.0 million, or 24% of total revenue, for the same period in 2008. Growth in services revenue is attributed to growth in the number of customers, an increase in the number of maintenance and support contract renewals, as well as growth in requirements for value-added professional services. We expect to continue to develop our services offering, and may see additional growth in this component of revenue.

The development of our channel partner relationships provides opportunities for delivery of our products to a broader set of customers. For the first quarter of 2009, indirect revenue contributed 13% of total revenue compared to 16% for the first quarter of 2008. The decrease in the proportion of revenue for the three months ended March 31, 2009 from channel partners is due to the growth in direct revenue earned from the WideSpan integrated solution and Policy Controller solution. Bridgewater continues to have active channel engagements for CDMA-EVDO, WiMAX and 3G GSM networks through channel partners operating in various geographies.

	Three months ended March 31,			
	2009		2008	
	(unaudited)			
	<i>(in thousands of dollars, except percentages)</i>			
Direct	\$ 12,170	87%	\$ 7,219	84%
Indirect	1,873	13%	1,347	16%
Total	<u>\$ 14,043</u>	<u>100%</u>	<u>\$ 8,566</u>	<u>100%</u>

Historically, our customers have been predominantly CDMA-EVDO service providers; however, in fiscal 2007, we began providing products and services to 3G GSM customers and WiMAX customers in the Americas and several service providers in EMEA and APAC. These developments have contributed to both revenue and customer diversification in 2008 and the first quarter of 2009.

	Three months ended March 31,			
	2009		2008	
	(unaudited)			
	<i>(in thousands of dollars, except percentages)</i>			
CDMA-EVDO	\$ 8,916	63%	\$ 5,111	60%
3G to 4G	1,538	11%	742	8%
Wireline	3,589	26%	2,713	32%
Total	<u>\$ 14,043</u>	<u>100%</u>	<u>\$ 8,566</u>	<u>100%</u>

Although revenue from CDMA-EVDO continues to represent the majority of our revenue, revenue derived from the migration of 3G to 4G (e.g. 3G GSM, WiMAX, femtocell, LTE) networks contributed 11% of revenue in the first quarter of 2009, as a result of sales of products to support WiMAX and GSM policy deployments. Wireline revenue of \$3.6 million, or 26% of revenue in the first quarter of 2009, was primarily derived from revenue

recognized from the Alcatel-Lucent Source Code License Agreement (“Alcatel Agreement”) and resale of products and services through the Alcatel-Lucent reseller agreement.

Gross Margin

Gross margin for the first quarter of 2009 was 76% compared to 79% for the first quarter of 2008. Cost of goods sold consists of direct product costs, operations support expenses to support installed customer deployments and professional services engagements. The decrease in gross margin percentage for the first quarter is due to an increase in direct costs and support personnel to provide the products and services associated with the delivery of the WideSpan integrated solution and internal and subcontracting costs incurred to support the increase in professional services engagements. We expect our gross margin percentage in future periods will be impacted by the delivery of additional WideSpan integrated solutions and professional services.

Operating Expenses

Sales and Marketing

Sales and marketing expenses were \$2.9 million for the first quarter of 2009, a decrease of \$0.4 million or 11% over the first quarter of 2008. The decrease during the first quarter of 2009 is due to lower direct marketing costs and lower salaries and related staff costs resulting from a reduction in headcount which was partially offset by higher commission expenses on higher revenue.

Research and Development

For the first quarter of 2009, research and development (“R&D”) expenses decreased 21% or \$0.9 million to \$3.4 million from \$4.3 million. Expenses were lower in the first quarter of 2009 due to lower headcount and compensation costs and lower patent submission costs in comparison to the same period in 2008. Our R&D headcount was 97 at March 31, 2009 compared to 115 at March 31, 2008.

General and Administrative

For the first quarter of 2009, general and administrative expenses were \$1.5 million compared to \$1.0 million for same period for 2008. The increase in expenses is due to the incremental costs of advisors to the Board of Directors and related committees to respond to the requisition for a shareholder meeting received from Crescendo Partners.

Bad Debt Expense

For the first quarter of 2009, bad debt expense was \$0.2 million compared to a nominal amount for same period in 2008. The increase in the first quarter of 2009 is attributed to the recording of an additional allowance for doubtful accounts on outstanding receivables for which collection is not reasonably assured.

Stock-Based Compensation

Stock-based compensation expense for the first quarter of 2009 was \$0.1 million which is comparable to the same period in 2008.

Foreign Exchange

We conduct a significant portion of our business activities in US dollars. We translate our accounts for our US subsidiary into Canadian dollars using the temporal method of foreign exchange translation, which translates monetary assets and liabilities at the rate of exchange in effect at period end. Non-monetary items are translated at the rates in effect on the dates of the transactions. Revenue and expenses are translated at the average rate for the period. The resulting translation adjustments are included in the determination of net earnings.

We realized a nominal foreign exchange loss for the first quarter of 2009 compared to a \$0.8 million foreign exchange gain for the same period in 2008. The nominal foreign exchange loss for the three month period ended March 31, 2009 was due to maintaining a net balanced position in US dollar denominated working capital during the period. At March 31, 2009, we had no forward contracts to purchase or sell US dollars.

Interest and Other Income

In the first quarter of 2009, we earned interest income of \$0.2 million compared to \$0.4 million for same period in 2008. The decrease in interest income is due to lower interest rates on cash and cash equivalent balances.

Future Income Tax Recovery

As at March 31, 2009, we have accumulated \$27.0 million (December 31, 2008 - \$30.0 million) of unused R&D expenditures for income tax purposes, and \$7.7 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. We also have US\$3.4 million of losses available for carry forward for US income tax purposes.

Based on management's assessment of the likelihood that future income tax assets will be recovered, we determined that a future income tax recovery of \$100,000 was required for the first quarter of 2009. As of March 31, 2009, our future tax asset was \$8.4 million. We will continue to evaluate our tax position quarterly and record any adjustment necessary in that period.

Net Earnings (Loss)

Net earnings before income taxes for the first quarter of 2009 was \$2.8 million, or 20% of revenue, compared to a net loss before income taxes of \$0.7 million, or 8% of revenue, in the first quarter of 2008.

Net earnings for the first quarter of 2009 was \$2.9 million, or 21% of revenue, compared to a net loss of \$0.7 million, or 8% of revenue, in the first quarter of 2008.

Basic and diluted earnings per share was \$0.12 for the first quarter of 2009 in comparison to a basic and diluted loss per share of \$0.03 for the same period in 2008.

LIQUIDITY and CAPITAL RESOURCES

We have funded our operations from the placement of equity securities and profits from operations since our inception in 1997. While we expect to continue to execute the business profitably, we do expect from time to time to use cash to fund our operating working capital needs. Our future liquidity is primarily dependent on cash flows generated from our operations. Despite the current volatility in the economic environment, our liquidity and ability to meet our financial obligations have not been negatively impacted.

The table below outlines selected balance sheet accounts, key ratios and a summary of cash inflows and outflows by activity.

	Three months ended	
	March 31,	
	2009	2008
	(unaudited)	
	<i>(in thousands of dollars, except ratios)</i>	
Cash inflows and (outflows) by activity		
Operating activities.....	\$ 1,242	\$ 3,239
Investing activities, net of note receivable.....	367	(53)
Financing activities.....	1,528	208
Net cash inflows	\$ 3,574	\$ 13,654
Key balance sheet accounts and ratios		
Cash and cash equivalents	\$ 53,938	\$ 42,225
Non-cash working capital ⁽¹⁾	(7,399)	(722)
Long term assets.....	13,838	10,079
Long term liabilities.....	-	-
Non-cash working capital ratio ⁽²⁾	0.8	1.0
Current ratio ⁽³⁾	2.1	3.4

(1) Non-cash working capital is calculated as current assets less cash and cash equivalents less current liabilities

(2) Non-cash working capital ratio is calculated as the ratio of current assets less cash and cash equivalents to current liabilities

(3) Current ratio is calculated as the ratio of current assets to current liabilities

Cash and Cash Equivalents

Operating Activities

There was a net cash inflow from operations of \$1.2 million for the first quarter of 2009 primarily due to net earnings of \$2.9 million offset partially by an increase in non-cash working capital of \$1.7 million.

Our non-cash working capital balance increased \$1.7 million from fiscal year end 2008 to March 31, 2009. Accounts receivable increased by \$6.6 million net of provisions for bad debts due to an increase in billings for major contract awards in the first quarter and unbilled revenue increased by \$3.9 million due to the timing of billings driven by the terms in specific contracts. Deferred cost of sales increased \$0.2 million related to direct costs incurred for delivery of our WideSpan product. Prepaid expenses and other assets increased by \$0.9 million due to prepaid sales commissions and new support agreements entered into during the first quarter. Accounts payable and accrued liabilities decreased \$2.8 million due to a decrease in trade amounts outstanding and lower accrued liabilities for operating expenses at the end of the first quarter of 2009. These various increases in non-cash working capital were largely offset by an increase in deferred revenue of \$12.8 million.

	Three months ended	
	March 31,	
	2009	2008
	(unaudited)	
	<i>(in thousands of dollars)</i>	
Net change in non-cash working capital		
Accounts receivable.....	\$ (6,619)	\$ 3,379
Investment tax credits receivable.....	-	1,513
Unbilled receivables.....	(3,918)	190
Deferred cost of sales.....	(200)	-
Prepaid expenses and other assets.....	(918)	(797)
Accounts payable and accrued liabilities.....	(2,783)	509
Deferred revenue.....	12,750	(989)
Net (increase) decrease in non-cash working capital	\$ (1,688)	\$ 3,805

Deferred revenue increased \$12.8 million due to payments received in advance of the recognition of revenue on the WideSpan product deliveries.

	As at March 31,	As at December 31,
	2009	2008
	(unaudited)	
	<i>(in thousands of dollars)</i>	
Deferred revenue		
Product and services revenue.....	\$ 33,905	\$ 20,754
Maintenance and support revenue.....	2,858	3,259
	\$ 36,763	\$ 24,013

Investing Activities

Investing activities include additions to long term deferred cost of sales of \$0.7 million for direct costs incurred for delivery of WideSpan systems which will be expensed to cost of sales beyond the next fiscal year. During the first quarter in 2009 we purchased \$0.4 million of capital assets compared to \$0.1 million during the same period in 2008. Capital purchases are comprised of desktop equipment, IT infrastructure, R&D equipment, computer equipment and servers, and leasehold improvements.

During 2007, we loaned \$10.0 million of surplus cash to an unrelated third party secured by a chartered bank. The note receivable was due and received January 14, 2008 and accrued interest at an annualized rate of 4.485%.

Financing Activities

During the first three months of 2009, we received net proceeds of \$1.7 million from issuance of shares upon the exercise of stock options and incurred \$0.2 million to repurchase shares under the normal course issuer bid.

As at March 31, 2009, we have 24,402,145 common shares outstanding and 2,217,750 share options issued under our Stock Option Plan.

On March 12, 2009, the Toronto Stock Exchange (the "TSX") accepted the Company's notice of intention to repurchase up to 1,148,962 common shares (5 percent of the Company's issued and outstanding common shares) through a normal course issuer bid ("NCIB"). The NCIB was effective March 17, 2009 and will expire March 16, 2010. Daily purchases over the facilities of the TSX are limited to 9,545 shares, other than pursuant to block purchase exemptions. Except in the case of an exempt purchase, the prices that the Company will pay for the common shares purchased will be the market price of the shares at the time of acquisition.

During March 2009, the Company had acquired 53,235 common shares pursuant to the NCIB through an automatic share purchase plan. These shares were purchased for cancellation at an aggregate cost of \$0.2 million, of which 21,090 had not been cancelled at March 31, 2009. These shares were cancelled subsequent to March 31, 2009.

Lease Obligations

We rent premises in Canada, Singapore and Australia under operating leases which expire at varying dates up to February 2011. We also lease certain office equipment.

The following table sets forth our contractual obligations and commitments to make future payments under leases for office space and office equipment as at March 31, 2009.

Remainder of 2009.....	\$ 749,000
2010.....	1,003,000
2011.....	196,000

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements other than those disclosed under “Lease Obligations” and “Financial Instruments”.

Related Party Transactions and Material Contracts

We lease office premises from a company controlled by the Chairman of the Board of Directors under terms and conditions reflecting prevailing market conditions at the time of the lease. The lease expires in February 2011. For the first quarter of 2009 we incurred rent expenses of \$0.2 million versus \$0.2 million for the same period in 2008.

Bridgewater no longer considers Alcatel-Lucent, who owns 14% of our issued and outstanding shares at March 31, 2009 (March 31, 2008 - 15%) to be a related party.

Financial Instruments

On September 8, 2008, we issued a letter of credit to Verizon Wireless for US\$3.0 million to secure certain performance obligations made within the supply agreement for support services for our WideSpan system. The letter of credit is renewable on an annual basis for the term of the agreement.

Outlook

Bridgewater’s business growth is driven by key market trends which continue to be favorable. The proliferation of smart devices is leading to significant growth in mobile data usage. Growth in the number of mobile data and mobile internet applications is increasing rapidly due to the use of new devices in the network and the continued evolution towards higher bandwidth. In order to accommodate high transaction growth and to facilitate the deployment of new applications, service providers are expanding bandwidth with the roll-out of broadband 3G networks and the introduction of 4G networks. These factors translate into substantial growth in data services evidenced by the increase in data revenue from leading wireless service providers.

Our existing customers and new service providers in emerging markets may be facing financial challenges in the next 12 to 24 months and we acknowledge that this may have an impact on our business. However due to several key aspects of our business model, we believe we have a strong foundation to manage this uncertainty.

- Strong cash position;
- Long term contracts that provide a base of predictable and constant revenue streams for the next two years; and
- Large installed base of customers in existing and emerging markets addressing high growth markets for mobile data services.

Bridgewater expects revenue growth to be driven by the following:

- Future growth in our core market, CDMA-EVDO, due to the expansion of broadband services such as “open access” and 4G deployments;
- Delivery of software products through the WideSpan integrated solution to provide transaction capacity to meet increasing data growth;
- Delivery of policy management solutions to allow service providers to effectively manage and increase revenue from mobile data applications; and
- Revenue from the initial deployment of 4G technologies and the conversion from 3G to 4G as infrastructure networks such as broadband 3G-GSM, WiMAX and LTE are deployed.

Taking into account the uncertainty around the macroeconomic climate, Bridgewater is currently forecasting revenue of approximately \$54 to \$58 million for fiscal 2009, as a result of:

- significant long-term contracts with Tier 1 customers;
- sales of existing and new products in wireless, wireline and converged networks; and
- increased license and maintenance fees from existing deployments as our customers grow and continue to add new subscribers and devices to their networks.

With continued emphasis on cost management and leverage of our investment in R&D, we are forecasting net earnings of \$7 to \$9 million for 2009, or between 12% and 17% of revenue.

Risks

Risks and uncertainties affecting the Company are described in more detail in Bridgewater’s Annual Information Form dated March 31, 2009 which can be found at www.sedar.com. Additional risks and uncertainties not presently known to us or those we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

The Company’s business performance, achievements and results may be impacted by risks and uncertainties related to our business. These risks and uncertainties include, but are not limited to the following:

The Company is dependent upon the continued service and performance of the members of the Board of Directors and senior management team, who have significant experience in telecom software, financial markets and related industries. Significant changes to the Board and/or senior management team may adversely affect the Company's business prospects and ability to execute on its strategic growth plan.

Our quarterly revenues may fluctuate, which may harm our results of operations.

We depend on a limited number of customers for a substantial portion of our revenue in any fiscal period, and the loss of, or a significant shortfall in orders from, key customers could significantly reduce our revenue.

Access to capital for new operators to expand services and data services may be limited, which could result in reduced deployment plans or delays in the sale of our products to support expanded data services.

A slow down in consumer spending on new devices could reduce service provider’s revenue and as a result could impact decisions to implement new products and services.

A general global economic downturn may lead to the discontinuance of certain business lines and products of our customers and channel partners. Such events may decrease revenue and increase cost and may increase credit risk with our customers and impact our ability to collect accounts receivable.

Our current and future sales depend on our success in generating indirect sales through a limited number of channel partners, and any failure to do so would have a significant detrimental effect on our business.

We derive a large portion of our revenue from a single market, specifically the CDMA-EVDO market.

We derive a large portion of our revenue from our service control products and related products and services. Our future revenue growth will in part depend on the introduction of new products and services which have not

yet been proven.

The introduction of our WideSpan products may have an impact on our business model and may require additional investment impacting operating margins in future periods due to the complexity of deployments and implementation timeframes.

We have a lengthy and variable sales cycle.

The loss of key personnel or an inability to attract and retain additional personnel may impair our ability to grow our business.

Our products are highly technical and may contain undetected software or hardware errors, which could cause harm to our reputation and adversely affect our business.

Product liability claims could negatively impact sales and have a material adverse effect on our business, results of operations and financial condition.

Our ability to compete and the success of our business could be jeopardized if we are unable to protect our intellectual property adequately.

Claims by other parties that we infringe their proprietary technology could force us to redesign our products or to incur significant costs.

We use open source software in connection with our products which exposes us to uncertainty and potential liability.

We depend on sole sources for certain third party intellectual property embedded or used in our products, and our business would be harmed if the supply from our sole sources were disrupted.

Foreign exchange fluctuations could adversely impact our revenue and net earnings.

Our international sales and operations subject us to additional risks that can adversely affect our operating results.

Our engagements with our customers involve complex arrangements which may require interpretation of GAAP and may result in deferral of revenue recognition.

Because our business depends on the continued strength of the telecommunications industry, our operating results will suffer if that industry experiences an economic downturn.

Our growth is dependent in part on the rate of adoption of new services.

Our growth may be impacted by new market uncertainty and timing of deployment in new services.

We will require networking and system integrator partners to drive growth plans for 3G GSM and 4G markets.

As we expand our product and service offerings we may encounter increased competition from large Network Equipment Providers and System Integrators.

Timing of deployment of LTE to existing and new customers could impact revenue in future periods.

Mergers or other strategic transactions by our existing and prospective customers could negatively impact sales and have a material adverse effect on our business, results of operations and financial condition.

Economic and geopolitical uncertainty may affect decisions by our customers to purchase our products resulting in an impact to our results of operations.

Compliance with industry standards applicable to our products may be time consuming, difficult and costly, and if we fail to comply, our product sales will decrease.

If our products do not interoperate with our customers' existing networks and applications, the demand for our

products will decrease and our operating results will be harmed.

We may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us and if it is available, may dilute your ownership of our shares.

Controls and Procedures

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining effective disclosure controls and procedures for the Company as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. The Company's Chief Executive Officer and the Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of March 31, 2009 and have determined that such disclosure controls and procedures are effective.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining effective internal control over financial reporting as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's Chief Executive Officer and the Chief Financial Officer have evaluated the Company's internal controls over financial reporting as of March 31, 2009 and have determined that such internal controls are effective.

There have not been any changes in the issuer's internal control over financial reporting that occurred during the period beginning on January 1, 2009 and ended on March 31, 2009 that has materially affected, or is reasonably likely to affect, the issuer's internal control over financial reporting.

Selected Consolidated Quarterly Financial Information.

The following table provides an analysis of our unaudited operating results for each of the quarters indicated:

	Quarters Ended							
	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007
	<i>(in thousands of dollars, except for percentages, per share amounts and number of shares)</i>							
	<i>(unaudited)</i>							
Revenue	\$ 14,043	\$ 13,523	\$ 10,294	\$ 11,796	\$ 8,565	\$ 11,794	\$ 8,998	\$ 9,859
Gross margin	\$ 10,720	\$ 9,906	\$ 7,738	\$ 9,517	\$ 6,790	\$ 9,754	\$ 7,702	\$ 8,453
Gross margin %	76%	73%	75%	81%	79%	83%	86%	86%
Expenses	\$ 8,161	\$ 9,126	\$ 7,527	\$ 8,321	\$ 8,671	\$ 8,481	\$ 7,178	\$ 7,720
Net earnings (loss)	\$ 2,885	\$ 1,704	\$ 483	\$ 1,260	\$ (683)	\$ 1,869	\$ 250	\$ 351
Earnings (loss) per share - basic	0.12	0.07	0.02	0.06	(0.03)	0.10	0.01	0.02
Earnings (loss) per share - diluted	0.12	0.07	0.02	0.05	(0.03)	0.09	0.01	0.02
Weighted average number of shares outstanding - basic	23,107,823	22,968,340	22,758,098	22,574,790	22,303,427	19,214,956	18,473,560	18,445,252
Weighted average number of shares outstanding - diluted	24,401,989	24,285,756	24,208,862	24,093,597	22,303,427	21,788,915	20,953,134	20,679,734

Volatility of Operating Results

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as demand for our products, the size and timing of orders, the number, timing and significance of new product announcements by us and our competitors, the ability to develop, introduce and market new and enhanced versions of products on a timely basis, the level of product and price competition, changes in operating expenses, changes in our sales incentive strategy, sales personnel changes, the mix of direct and indirect sales and general economic factors, among others.

A significant portion of our expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Expenses have generally increased on a quarterly basis reflecting the investment in sales and marketing capabilities and product development activities over this time period. Quarterly gross margin has decreased relative to growth in revenue in the most recent quarters reflecting the direct costs and support resources required in delivery of our WideSpan products. Timing of revenue is impacted by our customers' requirements for capacity or technical solutions as well as their internal budget cycles and spending patterns. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected. Operating results have been impacted by incremental costs of advisors to the Board of Directors and related committees to respond to the requisition for a shareholder meeting received from Crescendo Partners. In addition, the Company incurred \$0.2 million of bad debt expense in the quarter ended March 31, 2009 and \$1.1 million of bad debt expense in the quarter ended December 31, 2008. We caution that period-to-period comparison of results of operations is not necessarily meaningful and should not be relied upon as any indication of future performance.