



**BRIDGEWATER SYSTEMS CORPORATION**

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

**DATED: February 26, 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 year ended December 31, 2008. 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 February 26, 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](http://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 December 31,		Fiscal year ended December 31,		
	2008	2007	2008	2007	2006
	(unaudited)				
	<i>(in thousands of dollars, except per share amounts and number of shares)</i>				
Revenue					
Product revenue.....	\$ 8,919	\$ 8,742	\$ 28,587	\$ 29,842	\$ 23,916
Service and support revenue.....	4,604	3,052	15,591	9,375	7,046
	<u>13,523</u>	<u>11,794</u>	<u>44,178</u>	<u>39,217</u>	<u>30,962</u>
Cost of sales.....	3,617	2,041	10,227	6,077	5,500
Gross margin.....	<u>9,906</u>	<u>9,753</u>	<u>33,951</u>	<u>33,140</u>	<u>25,462</u>
Expenses					
Sales and marketing.....	3,547	3,377	13,372	13,502	11,598
Research and development.....	3,335	4,016	14,935	13,808	9,029
General and administration.....	1,053	1,035	3,920	2,861	2,414
Bad debt expense.....	1,125	-	1,183	-	-
Stock-based compensation expense.....	66	52	235	202	193
	<u>9,126</u>	<u>8,480</u>	<u>33,645</u>	<u>30,373</u>	<u>23,234</u>
Earnings before undernoted items.....	780	1,273	306	2,767	2,228
Foreign exchange gain (loss).....	868	(79)	1,496	(1,161)	612
Loss on disposal of capital assets.....	(118)	-	(118)	-	(33)
Interest and other income.....	274	205	1,261	666	494
Earnings before income taxes.....	1,804	1,399	2,945	2,272	3,301
Future income tax (expense) recovery....	(100)	470	(180)	470	7,500
Net earnings for the period.....	<u>\$ 1,704</u>	<u>\$ 1,869</u>	<u>\$ 2,765</u>	<u>\$ 2,742</u>	<u>\$ 10,801</u>
Earnings per share - basic.....	\$ 0.07	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.59
Earnings per share - diluted.....	\$ 0.07	\$ 0.09	\$ 0.11	\$ 0.13	\$ 0.55
Weighted average number of shares outstanding - basic.....	22,968,340	19,214,956	22,653,503	18,644,430	18,363,980
Weighted average number of shares outstanding - diluted.....	24,285,756	21,788,915	24,183,094	21,024,278	19,748,737

### Consolidated Balance Sheet Information

	Fiscal year ended December 31,		
	2008	2007	2006
	<i>(in thousands of dollars)</i>		
Cash and cash equivalents.....	\$ 50,364	\$ 38,571 <sup>(1)</sup>	\$ 21,194
Accounts receivable.....	13,424	10,929	4,263
Working capital <sup>(2)</sup> .....	41,247	41,694	21,292
Total assets.....	87,207	69,486	42,587
Deferred revenue.....	24,013	14,244	7,773
Shareholders' equity.....	55,888	52,018	30,995

(1) Cash and cash equivalents as at December 31, 2007 includes a note receivable of \$10,000,000

(2) 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 a second customer for WideSpan that was delivered in Q1 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 U.S. 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*”, which establishes the standards for recognition, measurement and disclosure of stock-based compensation for all awards granted on or after January 1, 2003. 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 December 31, 2008, we have a future tax asset of \$8.3 million, representing a decrease of \$0.2 million from December 31, 2007. The decrease is due to an increase 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 December 31, 2008, we had accumulated \$30.0 million of unused R&D expenditures for income tax purposes, and \$7.1 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. We also had approximately US\$3.5 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 expense of \$100,000 was required for the fourth quarter of 2008. We will continue to evaluate our tax position quarterly and record any adjustment necessary in that period.

#### *Impact of Recently Issued Accounting Standards*

Effective January 1, 2008, we have adopted two new CICA standards, Sections 3862, *Financial Instruments Disclosures* and Section 3863, *Financial Instruments Presentation*, which replaced Handbook Section 3861, *Financial Instruments Disclosure and Presentation*. The new presentation standard carries forward the former presentation requirements and increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

During the year ended December 31, 2008, the Company incurred costs for hardware and third party software delivered as part of an arrangement in advance of recognizing revenue. Correspondingly, the Company has adopted the CICA standard, Handbook Section 3031, *Inventory*. This section establishes standards for the accounting treatment of inventories and deferred cost of sales including the amount of cost to be recognized as an asset and carried forward until the revenues are recognized, at which time it is expensed.

Effective January 1, 2008, we have adopted the new CICA standard, Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about a company’s capital and how it is managed in order that a user of the financial statements may evaluate the company’s objectives, policies and processes for managing capital.

#### *Impact of Future Accounting Standards*

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets* which will replace Handbook Section 3062, *Goodwill and Other Intangible Assets* and Handbook Section 3450, *Research and Development Costs*, effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. This revision aligns Canadian GAAP with International Financial Reporting Standards and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. We will implement this standard in fiscal 2009 and is not expected to have a material effect on our consolidated financial statements.

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 December 31,		Fiscal year ended December 31,		
	2008	2007	2008	2007	2006
	(unaudited)				
	<i>(in thousands of dollars, except percentages)</i>				
Revenue	\$ 13,523	\$ 11,794	\$ 44,178	\$ 39,217	\$ 30,962
Product revenue.....	66%	74%	65%	76%	77%
Service and support revenue.....	34%	26%	35%	24%	23%
Gross margin.....	9,906	9,753	33,951	33,140	25,462
% of Revenue.....	73%	83%	77%	85%	82%
Sales and marketing.....	3,547	3,377	13,372	13,502	11,598
% of Revenue.....	26%	29%	30%	34%	37%
Research and development.....	3,335	4,016	14,935	13,808	9,029
% of Revenue.....	25%	34%	34%	35%	29%
General and administration.....	1,053	1,035	3,920	2,861	2,414
% of Revenue.....	8%	9%	9%	7%	8%
Bad debt expense.....	1,125	-	1,183	-	-
% of Revenue.....	8%	0%	3%	0%	0%
Stock-based compensation expense.....	66	52	235	202	193
% of Revenue.....	0%	0%	1%	1%	1%
Total operating expenses.....	\$ 9,126	\$ 8,480	\$ 33,645	\$ 30,373	\$ 23,234
% of Revenue.....	67%	72%	76%	77%	75%
Earnings before undernoted items.....	\$ 780	\$ 1,273	\$ 306	\$ 2,767	\$ 2,228
% of Revenue.....	6%	11%	1%	7%	7%
Foreign exchange gain (loss).....	868	(79)	1,496	(1,161)	612
% of Revenue.....	6%	-1%	3%	-3%	2%
Loss on disposal of capital assets.....	(118)	-	(118)	-	(33)
% of Revenue.....	-1%	0%	0%	0%	0%
Interest and other income.....	274	205	1,261	666	494
% of Revenue.....	2%	2%	3%	2%	2%
Earnings before income taxes.....	\$ 1,804	\$ 1,399	\$ 2,945	\$ 2,272	\$ 3,301
% of Revenue.....	13%	12%	7%	6%	11%
Future income tax (expense) recovery....	(100)	470	(180)	470	7,500
% of Revenue.....	-1%	4%	0%	1%	24%
Net earnings for the period.....	\$ 1,704	\$ 1,869	\$ 2,765	\$ 2,742	\$ 10,801
% of Revenue.....	13%	16%	6%	7%	35%

### Revenue

For the fourth quarter and fiscal year ended December 31, 2008, our total revenue was \$13.5 million and \$44.2 million respectively, compared to \$11.8 million and \$39.2 million for the same periods last year. Our revenue is billed primarily in US dollars, and on a constant currency basis, revenue growth for the fiscal year ended December 31, 2008 was US\$5.1 million (18%) compared to 2007. The increase in revenue for fiscal year 2008 is related to an increase in service revenue and professional service engagements. During 2008 we added 30 new service provider customers. Our top five customers in the fourth quarter of 2008 represented 86% of revenue compared to 85% of revenue for the fourth quarter of 2007. Our top five customers during the fiscal year ending December 31, 2008 represented 82% of revenue compared to 76% of revenue for the same period in 2007.

Product revenue for the fourth quarter of 2008 was \$8.9 million, or 66% of total revenue, compared to \$8.7 million, or 74% of total revenue, for same period in 2007. The increase is due to the initial deployment of the WideSpan integrated solution.

For the fiscal year ended December 31, 2008, product revenue was \$28.6 million, or 65% of total revenue, compared to \$29.8 million, or 76% of total revenue, for same period in 2007. The decrease is due to timing of new product deployments and capacity expansion of existing customers.

Fourth quarter 2008 revenues from professional services and maintenance and support contracts was \$4.6 million, or 34% of total revenue, compared to \$3.1 million, or 26% of total revenue, for the same period in 2007. For the fiscal year ended December 31, 2008, revenue from professional services and maintenance and support contracts totaled \$15.6 million, or 35%, compared to \$9.4 million, or 24% of total revenue, for the same period in 2007. 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 deployment of our products to a broader set of customers. For the fourth quarter of 2008, indirect revenue contributed 18% of total revenue compared to 50% for the fourth quarter of 2007 and 15% of revenue for the fiscal year ended December 31, 2008 compared to 30% for the same period in 2007. The decrease in the proportion of revenue for the three months and fiscal year ended December 31, 2008 from channel partners is due to the transition of the Alcatel-Lucent relationship from an indirect/OEM relationship in 2007 to a direct relationship in 2008. 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 December 31,				Fiscal year ended December 31,			
	2008		2007		2008		2007	
	<i>(in thousands of dollars, except percentages)</i>							
Direct	\$ 11,134	82%	\$ 5,902	50%	\$ 37,768	85%	\$ 27,334	70%
Indirect	2,389	18%	5,892	50%	6,410	15%	11,883	30%
Total	<u>\$ 13,523</u>	<u>100%</u>	<u>\$ 11,794</u>	<u>100%</u>	<u>\$ 44,178</u>	<u>100%</u>	<u>\$ 39,217</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 providers in EMEA and APAC. These developments have contributed to both revenue and customer diversification in 2008.

	Three months ended December 31,				Fiscal year ended December 31,			
	2008		2007		2008		2007	
	<i>(in thousands of dollars, except percentages)</i>							
CDMA-EVDO	\$ 7,820	58%	\$ 5,867	50%	\$ 23,900	54%	\$ 28,864	74%
3G to 4G	2,701	20%	870	7%	8,778	20%	1,407	3%
Wireline	3,002	22%	5,056	43%	11,500	26%	8,946	23%
Total	<u>\$ 13,523</u>	<u>100%</u>	<u>\$ 11,794</u>	<u>100%</u>	<u>\$ 44,178</u>	<u>100%</u>	<u>\$ 39,217</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 20% of revenue in the fourth quarter of 2008, and 20% of revenue in the fiscal year 2008, as a result of sales of products to support WiMAX and GSM policy deployments in the Americas and through channel partners in the rest of the world. Wireline revenue of \$3.0 million, or 22% of revenue in the fourth quarter of 2008, 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. Total wireline revenue for the year totaled \$11.5 million or 26% of revenue.

### Gross Margin

Gross margin for the fourth quarter of 2008 was 73% compared to 83% for the fourth quarter of 2007. For fiscal 2008, gross margin decreased to 77% compared to 85% in fiscal 2007. 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 fourth quarter and fiscal year 2008 is due to an increase in direct costs and support personnel to provide the products and services associated with the deployment 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 approximate those experienced in fiscal 2008 due to the impact of WideSpan integrated solution deployments and professional service engagements on our revenue mix.

### **Operating Expenses**

#### **Sales and Marketing**

Sales and marketing expenses were \$3.5 million for the fourth quarter of 2008, an increase of \$0.2 million or 5% over the fourth quarter of 2007. The increase during the fourth quarter of 2008 is due to higher commission expenses on higher order flow and severance costs of \$0.3 million. For fiscal 2008, our sales and marketing expenses were \$13.4 million, a decrease of \$0.1 million or 1% over fiscal 2007. The decrease during the fiscal year is due to lower direct marketing costs and lower salaries and related staff costs resulting from headcount reassignment from sales engineering to professional services.

#### **Research and Development**

For the fourth quarter of 2008, research and development (“R&D”) expenses, excluding the refundable R&D investment tax credits (“ITCs”) decreased 18% or \$0.7 million to \$3.3 million from \$4.1 million. Expenses were lower in the fourth quarter of 2008 due to lower headcount and compensation costs. For the fiscal year ended December 31, 2008, R&D expenses, excluding ITCs, increased 4% or \$0.6 million to \$14.9 million from \$14.3 million for the same period in 2007. The rise in R&D expense for the year was driven by the increase in compensation expenses and higher contract costs, primarily incurred in the first quarter, to accelerate new product introduction, and incremental patent submissions. Our R&D headcount was 91 in the fourth quarter of 2008 compared to 115 at December 31, 2007.

In fiscal 2008 we recorded no refundable ITCs and in fiscal 2007 we recorded refundable ITCs of \$0.5 million.

#### **General and Administrative**

For the fourth quarter of 2008, general and administrative expenses were \$1.1 million compared to \$1.0 million for same period for 2007. For fiscal 2008, general and administrative expenses were \$3.9 million compared to \$2.9 million for fiscal 2007. The increase in expenses is due to the rise in professional fees associated with the increase in the number of commercial contracts, public company compliance costs, and an increase in audit fees.

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

Stock-based compensation expense for the fourth quarter and fiscal 2008 was \$0.1 million and \$0.2 million, respectively, which is consistent with the same periods in 2007.

#### **Bad Debt Expense**

For the fourth quarter of 2008, bad debt expenses were \$1.1 million compared to \$NIL for same period for 2007. For fiscal 2008, bad debt expenses were \$1.2 million compared to \$NIL for fiscal 2007. The increase in the fourth quarter and fiscal year is attributed to the recording of an allowance for doubtful accounts of \$1.1 million related to our outstanding receivables with a reseller who filed for creditor protection January 14, 2009.

#### **Foreign Exchange**

We conduct a significant portion of our business activities in U.S. dollars. We translate our accounts for our U.S. 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 \$0.9 million foreign exchange gain for the fourth quarter of 2008 compared to a \$0.1 million foreign exchange loss for the same period in 2007. For fiscal 2008 we have recorded a foreign exchange gain of

\$1.5 million compared to a foreign exchange loss of \$1.2 million for fiscal 2007. The foreign exchange gain for the three month period and fiscal year ended December 31, 2008 was due to the impact of a decline in the Canadian dollar relative to the U.S. dollar on our working capital balances. At December 31, 2008, we had forward contracts to sell US dollars of US\$5.0 million expiring in the first quarter of 2009.

### Interest and Other Income

In the fourth quarter of 2008, we earned interest income of \$0.3 million compared to \$0.2 million for same period in 2007. In fiscal 2008, we earned \$1.3 million of interest income versus \$0.7 million in fiscal 2007. The increase in interest income is due to higher cash and cash equivalent balances.

### Future Income Tax (Expense) Recovery

As at December 31, 2008, we have accumulated \$30.0 million (\$26.3 million for fiscal 2007) of unused R&D expenditures for income tax purposes, and \$7.1 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. We also have US\$3.5 million of losses available for carry forward for U.S. 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 expense of \$100,000 was required for the fourth quarter of 2008. Total future income tax expense for the fiscal year ended December 31, 2008 was \$180,000. As of December 31, 2008, our future tax asset was \$8.3 million. We will continue to evaluate our tax position quarterly and record any adjustment necessary in that period.

### Net Earnings

	Three months ended December 31,				Fiscal year ended December 31,			
	2008		2007		2008		2007	
	<i>(in thousands of dollars, except percentages and per share amounts)</i>							
Net earnings before income taxes	\$ 1,804	13%	\$ 1,399	12%	\$ 2,945	7%	\$ 2,272	6%
Net earnings	1,704	13%	1,869	16%	2,765	6%	2,742	7%
Basic earnings per share	\$ 0.07		\$ 0.10		\$ 0.12		\$ 0.15	
Diluted earnings per share	0.07		0.09		0.11		0.13	

### Excluding bad debt expense of \$1.1 million related to a reseller who filed for creditor protection <sup>(1)</sup>

Net earnings before income taxes	\$ 2,906	21%	\$ 1,399	12%	\$ 4,047	9%	\$ 2,272	6%
Net earnings	2,806	21%	1,869	16%	3,867	9%	2,742	7%
Basic earnings per share	\$ 0.12		\$ 0.10		\$ 0.17		\$ 0.15	
Diluted earnings per share	0.12		0.09		0.16		0.13	

(1) These are non-GAAP financial measures that do not have any prescribed meaning by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these non-GAAP financial measures, when taken together with the corresponding consolidated GAAP measures, increase the transparency of the Company's current results and enable investors to more fully understand trends in its current and future performance.

Net earnings before income taxes for the fourth quarter of 2008 was \$1.8 million, or 13% of revenue, compared to \$1.4 million, or 12% of revenue, in the fourth quarter of 2007. Net earnings before income taxes for fiscal 2008 was \$2.9 million, or 7% of revenue, compared to \$2.3 million or 6% of revenue in fiscal 2007. For fiscal 2008, net earnings before income taxes excluding the debt expense related to our outstanding receivables with a reseller who filed for creditor protection was \$4.0 million or 9% of revenue.

Net earnings for the fourth quarter of 2008 was \$1.7 million, or 13% of revenue, compared to \$1.9 million, or 16% of revenue, in the fourth quarter of 2007. Net earnings for fiscal 2008 was \$2.8 million or 6% of revenue, and \$2.7 million or 7% of revenue for the same period in 2007. For fiscal 2008, net earnings excluding the bad debt expense related to our outstanding receivables with a reseller who filed for creditor protection was \$3.9 million or 9% of revenue.

Basic earnings per share was \$0.07 for the fourth quarter of 2008 and \$0.12 for the fiscal year ended December 31, 2008. Basic earnings per share was \$0.10 for the fourth quarter of 2007 and \$0.15 for the fiscal year ended

December 31, 2007. Basic earnings per share for fiscal 2008 excluding the bad debt expense related to our outstanding receivables with a reseller who filed for creditor protection was \$0.17.

Diluted earnings per share was \$0.07 for the fourth quarter of 2008 and \$0.11 for the fiscal year ended December 31, 2008. Diluted earnings per share was \$0.09 for the fourth quarter of 2007 and \$0.13 for the fiscal year ended September 30, 2007. Diluted earnings per share for fiscal 2008 excluding the bad debt expense related to our outstanding receivables with a reseller who filed for creditor protection was \$0.16.

## 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		Fiscal year ended	
	December 31,		December 31,	
	2008	2007	2008	2007
<i>(in thousands of dollars, except ratios)</i>				
Cash inflows and (outflows) by activity				
Operating activities.....	\$ 15,529	\$ 4,791	\$ 15,675	\$ 2,216
Investing activities, net of note receivable.....	(5,583)	(274)	(6,578)	(1,489)
Financing activities.....	3	17,451	869	17,549
Net cash inflows (outflows) .....	\$ 11,454	\$ 11,750	\$ 21,793	\$ 7,377
Key balance sheet accounts and ratios				
Cash and cash equivalents <sup>(4)</sup> .....			\$ 50,364	\$ 38,571
Working capital <sup>(1)</sup> .....			(9,116)	3,123
Long term assets.....			14,640	10,324
Long term liabilities.....			-	-
Working capital ratio <sup>(2)</sup> .....			0.7	1.2
Current ratio <sup>(3)</sup> .....			2.3	3.4

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

(2) 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

(4) Cash and cash equivalents as at December 31, 2007 includes a note receivable of \$10,000,000.

## Cash and Cash Equivalents

### *Operating Activities*

There was a net cash inflow from operations of \$15.7 million for the fiscal year ended December 31, 2008 primarily due to net earnings of \$2.8 million and a decrease in working capital of \$11.6 million.

Our working capital balance decreased \$11.6 million from fiscal 2007 to fiscal 2008. Accounts receivable increased by \$3.7 million net of provisions for bad debts due to an increase in billings for major contract awards in the fourth quarter and unbilled revenue decreased by \$4.4 million due to the timing of billings driven by the terms in specific contracts. Investment tax credits receivable decreased by \$1.7 million on collection of remaining refundable ITCs. Deferred cost of sales increased \$3.5 million related to direct costs incurred for deployments of our WideSpan product. Prepaid expenses and other assets increased by \$1.1 million due to

prepaid sales commissions. Accounts payable increased \$4.1 million due to an increase in trade amounts outstanding and higher accrued liabilities for operating expenses at the end of fiscal 2008.

	Fiscal year ended December 31,	
	2008	2007
	<i>(in thousands of dollars)</i>	
Net change in non-cash operating working capital		
Accounts receivable.....	\$ (3,678)	\$ 6,667
Investment tax credits receivable.....	1,668	268
Unbilled receivables.....	4,353	1,425
Deferred cost of sales.....	(3,518)	-
Prepaid expenses and other assets.....	(1,057)	(17)
Accounts payable and accrued liabilities.....	4,082	595
Deferred revenue.....	9,769	(6,471)
Net decrease in working capital	<u>\$ 11,620</u>	<u>\$ 2,467</u>

Deferred revenue increased \$9.8 million due to payments received in advance of the recognition of revenue on the WideSpan product deployments and timing of maintenance and support contract renewals.

	Fiscal year ended December 31,	
	2008	2007
	(unaudited)	
	<i>(in thousands of dollars)</i>	
Deferred revenue		
Product and Services revenue.....	\$ 20,754	\$ 11,939
Maintenance and Support revenue.....	3,259	2,305
	<u>\$ 24,013</u>	<u>\$ 14,244</u>

#### *Investing Activities*

Investing activities include additions to long term deferred cost of sales of \$5.5 million for direct costs incurred for deployments of WideSpan systems which will be expensed to cost of sales beyond the next fiscal year. In fiscal 2008 we purchased \$1.1 million of capital assets compared to \$1.5 million in fiscal 2007. 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*

For the fiscal year ended December 31, 2008, we received net proceeds of \$0.9 million from issuance of shares upon the exercise of stock options and incurred \$0.1 million in share issuance costs.

As at December 31, 2008, we have 22,969,701 common shares outstanding and 3,411,700 share options issued under our Stock Option Plan.

#### *Repurchase of Equity*

Subsequent to year end, our Board of Directors approved the repurchase of up to 5% or 1,148,962 of its issued and outstanding shares under a normal course issuer bid ("NCIB") subject to submission and approval of a notice of intent to conduct an NCIB with the Toronto Stock Exchange ("TSX").

### *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 December 31, 2008.

2009.....	\$ 931,000
2010.....	931,000
2011.....	164,000

### **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 fourth quarter of 2008 we incurred rent expenses of \$0.2 million versus \$0.1 million for fourth quarter of 2007 and \$0.9 million for fiscal 2008 compared to \$0.7 million in fiscal 2007. In addition, we purchased leasehold improvements from a company controlled by the Chairman of the Board of Directors of \$NIL in fiscal 2008 and \$0.1 million in fiscal 2007.

For the year ended December 31, 2008, we purchased consulting services from a company controlled by the Chairman of the Board of \$NIL (2007 - \$35,000).

In October, 2007, we entered into the Alcatel-Lucent Source Code License Agreement (“Alcatel Agreement”) for total consideration of approximately US\$30.0 million with Alcatel-Lucent who owns 15% (2007 – 16%) of our issued and outstanding shares at December 31, 2008. Pursuant to the Alcatel Agreement, Alcatel-Lucent was granted a perpetual, royalty-free license to use, copy, modify, and create derivative works based on version 3.1 (and earlier versions) of the Subscriber Service Controller (SSC), and to distribute and grant sublicenses for such versions and derivative works in object code format. Alcatel-Lucent was also granted a three-year, royalty-free license to reproduce, distribute and grant sublicenses to use copies of version 1.0 of our Radius Engine software, a policy and profile engine based on our Service Controller® product, in object code format only. At December 31, 2008, we had recognized US\$8.3 million of revenue from all elements of this agreement on amounts invoiced to date of US\$11.7 million.

### **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;
- Deployment 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 \$52 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 \$6 to \$9 million for 2009, or between 10% and 17% of revenue.

## **Risks**

Risks and uncertainties affecting the Company are described in more detail in Bridgewater’s Annual Information Form dated March 28, 2008 which can be found at [www.sedar.com](http://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 Board of Directors has received a requisition for a shareholder meeting from a shareholder, Crescendo Partners (“Crescendo”). The requisition states that Crescendo will seek to replace 5 of 8 directors of the Company with Crescendo’s nominees. Crescendo’s endeavor to obtain control of the Board of Directors may prevent closure of significant business transactions or strategic partnerships due to uncertainty in the strategic direction of the Company. In addition, a contested shareholder meeting may cause the Company to incur significant costs, which would affect our earnings, and divert management attention and time from activities associated with growth of the business.*

*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 December 31, 2008 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 December 31, 2008 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, 2008 and ended on December 31, 2008 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:

	Dec 31, 2008	Sept 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	March 31, 2007
<i>(in thousands of dollars, except for percentages, per share amounts and number of shares)</i>								
<i>(unaudited)</i>								
Revenue	\$ 13,523	\$ 10,294	\$ 11,796	\$ 8,565	\$ 11,794	\$ 8,998	\$ 9,859	\$ 8,565
Gross margin	\$ 9,906	\$ 7,738	\$ 9,517	\$ 6,790	\$ 9,754	\$ 7,702	\$ 8,453	\$ 7,232
Gross margin %	73%	75%	81%	79%	83%	86%	86%	84%
Expenses	\$ 9,126	\$ 7,527	\$ 8,321	\$ 8,671	\$ 8,481	\$ 7,178	\$ 7,720	\$ 6,995
Net earnings (loss)	\$ 1,704	\$ 483	\$ 1,260	\$ (683)	\$ 1,869	\$ 250	\$ 351	\$ 273
Earnings (loss) per share - basic	0.07	0.02	0.06	(0.03)	0.10	0.01	0.02	0.01
Earnings (loss) per share - diluted	0.07	0.02	0.05	(0.03)	0.09	0.01	0.02	0.01
Weighted average number of shares outstanding - basic	22,968,340	22,758,098	22,574,790	22,303,427	19,214,956	18,473,560	18,445,252	18,429,132
Weighted average number of shares outstanding - diluted	24,285,756	24,208,862	24,093,597	22,303,427	21,788,915	20,953,134	20,679,734	20,687,196

***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 deployment 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 also been impacted by the bad debt expense of \$1.1 million recorded during the quarter ended December 31, 2008, the recognition of income tax expense of \$0.1 million and \$0.1 million during the quarter ended December 31, 2008 and September 30, 2008 respectively and an income tax recovery of \$0.5 million recorded during the quarter ended December 31, 2007. 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.