FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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GLENAYRE TECHNOLOGIES INC

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Business Address
5935 CARNEGIE BOULEVARD
CHARLOTTE NC 28209
7045530038

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1998

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

For the transition period from_____ to_____

Commission File Number 0-15761

GLENAYRE TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	98-0085742
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5935 CARNEGIE BOULEVARD, CHARLOTTE, NORTH CAROLINA	28209
(Address of principal executive offices)	Zip Code

(704) 553-0038
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
COMMON STOCK, $.02 PAR VALUE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant on March 5, 1999 was approximately $220 million. The number of shares of the Registrant's common stock outstanding on March 5, 1999 was 62,125,452.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Location in Form 10-K
Proxy Statement for 1999 Annual Meeting of Stockholders	Part III

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Glenayre Technologies, Inc. ("Glenayre" or the "Company") was incorporated pursuant to the laws of the State of Delaware on September 21, 1987, and is the successor to a corporation organized on April 7, 1945. The principal executive offices of the Company are located at 5935 Carnegie Boulevard, Charlotte, NC 28209. The Company's telephone number is (704) 553-0038. The term "Glenayre" or the "Company" as used hereinafter means Glenayre Technologies, Inc. or Glenayre Technologies, Inc. and its subsidiaries.

Glenayre is a worldwide provider of telecommunications equipment and related software used in the wireless personal communications service markets including wireless messaging, voice processing, mobile data systems and point-to-point wireless interconnection products. The Company designs, manufactures, markets and services its products principally under the Glenayre name. These products include switches, transmitters, receivers, controllers, software, paging devices and other equipment used in personal communications systems (including paging, voice messaging, cellular, and message management and mobile data systems), microwave communication systems and radio telephone systems.

In December 1998, Glenayre sold its network management business which it had been operating since the acquisition of CNET, Inc. ("CNET") in January 1997. Under the terms of the sale agreement, the Company will receive proceeds from the sale only if certain future revenue milestones are met by the acquirer. These contingent amounts, which cannot exceed $1.0 million, will be recorded by the Company when they are received. At the time of sale, the network management business had net assets of approximately $5.2 million. A loss on disposal of $7.9 million was reported in income from operations before income taxes in connection with the sale for the year ended December 31, 1998. The loss on sale consists of the write-offs of assets, facility closing costs, severance payments to employees, certain transition costs associated with training employees of the buyer and other charges related to the sale.

In October 1997, the Company acquired Open Development Corporation ("ODC"), located in Norwood, Massachusetts. ODC is a developer of database management platforms providing applications for calling cards and prepaid wireless markets. In the fourth quarter 1998, the Company announced plans to close the ODC Norwood facility and to integrate operating functions at other Glenayre facilities by March 1999. This decision was made in response to significantly lower than anticipated 1998 ODC product revenues than were projected at the date of acquisition. Manufacturing of the ODC products will be performed by Glenayre's Vancouver facility. Research and development functions along with administrative functions will be relocated to the Company's Atlanta facility.

In September 1997, the Company announced plans to consider divesting Western Multiplex Corporation ("MUX"), which constitutes the Company's Western Multiplex Group, allowing Glenayre to focus on its core markets of paging and enhanced messaging. MUX markets products for use in point-to-point microwave communication systems and was acquired by Glenayre in April 1995. As of March 1999, an acceptable purchase agreement has not been negotiated. However, the Company expects to pursue divesting this business over time.

NARRATIVE DESCRIPTION OF BUSINESS

The Company's operating activities are currently focused in three marketing areas: paging products, mobile and fixed network products and microwave communication.

PAGING PRODUCTS

Glenayre's Paging Products operations accounted for approximately 75%, 77% and 87% of net sales for 1998, 1997, and 1996, respectively and are sold into the one-way and two-way paging marketplace. Paging products include switches, transmitters, receivers, controllers and related software provided by the Company's Wireless Messaging Group ("WMG") and two-way paging devices since the acquisition of Wireless Access, Inc. ("WAI") in November 1997. Additionally, the Company's major service and support groups are included in WMG. Glenayre believes it has the leading market share in the United States and that it is a leading participant internationally in the paging switch, controller and transmitter market.

Paging is a method of wireless telecommunication which uses an assigned radio frequency to contact a paging subscriber anywhere within a service area. A paging system is generally operated by a service provider which incurs the cost of building and operating the system. Each service provider in the United States licenses spectrum from the Federal Communications Commission ("FCC") and elsewhere from the authorized government body to operate a paging frequency within either a local, regional or national geographical area. Each paging subscriber is assigned a distinct telephone number which a caller dials (either directly or via the internet) to activate the subscriber's pager (a pocket-sized radio receiver carried by the subscriber).

A paging system is comprised of four general elements: (i) the "Control Point", (ii) the "Link Medium", (iii) the Paging Radio Frequency ("RF") Network, and (iv) the End User Devices. Telephone calls for a subscriber are received (typically via the public service telephone network) by a paging switch located at the Control Point. The message (numeric or alphanumeric) is then forwarded to the Link Medium via a data network. The information is then forwarded to the Paging RF Network via means determined by the type of Link Medium deployed by the paging operator (examples include satellite distribution, RF terrestrial, wireline, microwave, etc.). This RF Network consists of a network of transmitter base stations and controllers. The message is reformatted and converted to a radio signal, which is then sent by the transmitters via antennae to the subscriber's pager ("End User Devices"). The transmitters manufactured by Glenayre are specifically designed to simulcast, which is the transmission of the same signal by two or more transmitters on the same channel frequency at the same time in an overlap area (a geographical region accessible by more than one transmitter). The Company's equipment exhibits exceptional accuracy in simulcasting performance, resulting in superior voice and data quality and coverage area, and in superior reliability and exactitude of message reception. The radio signal is received by the End User Device which causes the pager or personal messaging device to emit a beep, vibrate, or otherwise notify the subscriber that a message has been received and stored in the device. The device then provides the subscriber with information from the caller in the form of a voice, tone, numeric or alphanumeric message. This is typically termed "one-way" paging since the initiator does not receive notification of message received or any response from the target subscriber.

The two-way paging system is similar to one-way paging systems. The inherent difference is that two-way paging systems close the loop from End User Device back into the infrastructure equipment and/or back to the initiator of the message. In order to effect this reverse path communications, (i) the End User Devices must have an internal transmitter, (ii) the paging provider must deploy a receiver network to obtain and transfer the data back into the system, and (iii) there must be a reconciliation device which handles the traffic flow. Glenayre provides (i) personal messaging devices which have both receiver and transmitter, (ii) the industry standard receiver network equipment, and (iii) a scalable, network flexible, reconciliation device. Once the End User Device receives the radio signal from the transmitters via antennae, the two-way End User Device then transmits information to the receiver RF Network via receiver antennae. The information is reformatted and sent back into the two-way system via means determined by the media deployed (typically high speed data networks).

This information path is unique to two-way paging (as opposed to one-way) and can be used to locate the end user, acknowledge receipt of message and initiate messaging from the user.

In addition, some two-way applications require a different type of transmitter base station. Glenayre introduced a new line of state-of-the-art, digital signal processing ("DSP") based linear transmitters in 1996. Since many of the two-way license holders are also one-way paging providers, the Company deemed it advisable to develop a field scalable RF product line which can be deployed in a low end (and lower price configuration) initially to support either one-way or two way applications, and grow (via field upgrade kits) as the provider's system migrates to two-way and adds subscribers. In addition, Glenayre has developed field kits which allow limited two-way operations with the Company's older RF base station equipment which allows limited entry into the two-way market for smaller service providers.

A pager has an advantage over a landline telephone in that the pager's reception is not restricted to a single location. Pagers (or personal messaging devices) also have advantages over a cellular portable telephone in that a pager is smaller, has a much longer battery life, has excellent coverage and roaming capability, is more robust and durable, more reliable (the device as well as the service) and is easier and less expensive to use.

Two-way systems provide such services as device location, two-way acknowledgment and custom response paging, remote mobile wireless e-mail, subscriber initiated messaging, subscriber to subscriber messaging, advanced voice paging, machine control and feedback, and other data services.

Glenayre's product offering to the two-way market includes a systems approach providing a migration path from its existing one-way paging product line. Glenayre offers its customers an end-to-end solution for two-way applications. The Company has developed new technology-based products with state-of-the-art architecture and technology which accommodates the advanced services expected to be available through two-way service offerings. This systems approach includes full product

lines of radio frequency linear transmitters, advanced network controllers, the fixed receiver network (to receive messaging from the end-user), switch equipment, and network management tools.

The design of a paging system is customer specific and depends on (i) the number of paging subscribers the service provider desires to accommodate, (ii) the operating radio frequency, (iii) the geography of the service area, (iv) the expected system growth and (v) specific features desired by the customer. Paging equipment hardware and software developed by the Company may be used with all types of paging services, including voice, tone, numeric (telephone number display) or alphanumeric messaging (words and numbers display).

PAGING INFRASTRUCTURE PRODUCTS AND SERVICES:

SWITCHES. The smallest Glenayre switch, the GL3000ES, can serve as few as 100 subscribers and can be expanded incrementally to a capacity of 75,000 subscribers. Glenayre's large paging switches, the GL3000L and the GL3000XL, support subscriber levels from 20,000 to over 1,000,000.

The GL3000 two-way switch is capable of being upgraded to support new two-way voice and data services, while retaining support for existing one-way services such as numeric and alphanumeric paging. Service providers can combine one-way and two-way paging service on one switch.

The Company is involved at an early stage in the development of industry wide technology standards and is familiar with developments in paging protocol standards throughout the world. The Company works closely with its customers in the design of large, complex paging networks. Glenayre believes that its customers' purchasing decisions are based, in large part, on the quality and

technological capabilities of such networks. Glenayre believes that its switches have the most advanced networking capability in the industry. This networking capability allows the interconnection of multiple switches to offer a number of wide-area capabilities (such as remote billing, roaming and database backup). Glenayre believes that the advanced hardware and software features of its switches ensure high reliability and high volume call processing.

Paging switches manufactured by the Company are constructed in modular fashion, which permits expansion to accommodate growth and the addition of technological enhancements. Paging switch enhancements and upgrades also require the purchase of the Company's components and software. This results from the unique and proprietary software incorporated in Glenayre switches, which the Company believes represents a significant technological competitive advantage.

RF EQUIPMENT - TRANSMITTERS AND RECEIVERS. Transmitters are available in frequency ranges of 137MHz to 960MHz and in power levels of 4 watts to 500 watts (not including any power gain from the antennae). Radio link receivers are available in frequency ranges of 66MHz to 960MHz. Satellite link receivers are available for integration directly with the transmitters at both Ku- and C-band frequencies.

Glenayre's GL-T8601(500 watts) and GL-T8501 (250 watts) transmitters are designed to allow paging carriers to easily migrate their networks to compete in the two-way paging market by providing a straightforward field upgrade to linear transmitters. For paging carriers, the transmitters' migration path reduces the risk of obsolescence and the costs of investing in new linear transmitter sites. The T8601 and T8501 transmitters complement the T8500/8600 900MHz one-way transmitters which have been the Company's core RF products since 1994.

Glenayre's GL-T9000 series of linear transmitters are designed to transmit both ReFLEX and InFLEXion two-way formats and are capable of transmitting other established protocols. The design of the GL-T9000 transmitter employs new and advanced techniques including DSP modulation and linearization. The GL-T9000 product line is scalable; with the T9000 a service provider can start at a low power level (supporting limited two-way applications and numbers of subscribers) and then later upgrade in the field to a higher power level as the provider enhances its services and increases its subscriber base. This minimizes initial investment while still allowing the service provider to grow as the subscriber base grows.

In addition to the two-way and 900MHz transmitter product lines, the Company also provides transmitter and receiver equipment in the VHF (137MHz to 175MHz), 280MHz to 330MHz, and UHF (395MHz to 512MHz) bands. Due to the large volume of transmitter base stations required in a large paging system, Glenayre's base stations are designed to minimize the customer's total cost of ownership. As such they are designed (i) to minimize costs associated with site rental and ancillary fees, (ii) to provide for scalability and flexibility, (iii) for reliability and facilitation of maintenance, (iv) for ease of programming and configuration, (v) to provide maximal operational efficiency, (vi) with flexible networking and communications capabilities, and (vii) to provide for custom configurations where appropriate.

The GL-R9000 series of receivers detects the responses returned from the two-way subscriber devices. The GL-R9000 series of receivers takes advantage of innovative DSP demodulation techniques that maximize receiver sensitivity. Available in a one-rack unit size, it can support spatial diversity (enabling sensitivity gains from two separate receive antennae at a fixed receiver site). Glenayre provides these receivers both as part of the two-way base station offering as well as in a stand alone configuration which is used for fill-in locations to enhance geographical coverage. Glenayre believes that its receiver network equipment is the industry standard in terms of performance, which translates into lower system costs for the Company's customers.

Depending upon frequency, antenna type and height, topography, and power, Glenayre transmitter base station systems are designed to cover broadcast cells

with a diameter from 3 to 100 miles. Typical simulcast systems have broadcast cells which vary from 3 to 15 miles in diameter. Glenayre transmitters are designed specifically for the high performance and reliability required for the high speed simulcast networks required by advanced one-way and two-way applications.

Current technology allows a transmitter that is manufactured by Glenayre or by its competitors to be used with the Company's paging switches. However, within a single geographic paging network (comprised of a switch, a control system and a number of transmitters installed in a specific geography) where transmitters simulcast on a single frequency, all transmitters must be of the same make in order to avoid substantial and expensive modifications that would be necessary to assure the integrity of the paging system. The Company believes its large installed base of transmitter equipment provides it with a significant competitive advantage in selling products for system expansions to existing customers.

CONTROLLERS. The Company currently offers or supports four products for transmitter control: (i) the GL5000 control system is a medium-feature transmitter control system used primarily in international markets; (ii) the QT1000 TXC is a full-feature system providing automatic early notification of system variances and automatic remote adjustment capabilities to ensure that all transmitters in the system remain synchronized; (iii) the GL-C2000 product line supports all existing digital paging formats and will support all currently proposed "high speed" paging and messaging formats (including some two-way applications) with data transmission rates from 200 to 6,400 bits per second when coupled with the appropriate Glenayre RF hardware; and (iv) the GL-C9000, in combination with the GL3100 RF Director, is designed to control two-way transmitter systems, with high-speed voice and advanced data capabilities. Additionally, the GL3100 RF Director provides reverse channel traffic handling for two-way systems. The latter two controllers have advanced data handling and flexible networking capabilities which lend themselves to advanced communications networks.

Glenayre has extended the technology of its GL-C2000 transmitter controller to control base stations used in two-way systems. The base station controller has high-speed data capabilities and flexible linking options. The newest control products of the GL-C2000 line were developed for field scalability to support the changing needs of service providers as their offerings and subscriber base grow. Additionally, Glenayre's RF Director is the central control point for a two-way RF network. The RF Director has been designed to manage a high volume of forward and reverse channel traffic and is available with optional full redundancy.

Glenayre also provides a state of the art operations and maintenance control (OMC) system which provides its customers a means by which to monitor, control, and upgrade their one-way and two-way systems.

MESSAGE MANAGEMENT SYSTEMS. Glenayre's message management systems and operator assisted paging systems combine its paging switch hardware with its proprietary software. Glenayre's GL3930 and GL3960 alphanumeric switches are fully compatible with the Company's paging switches and allow extensive data entry by as few as 2 to as many as 300 telephone operators. Glenayre's alphanumeric messaging products allow an operator at a telephone answering service or at a paging or cellular provider to input, store and transmit messages containing words and numbers by utilizing a paging switch encoder. Alphanumeric messages can be sent by telephone, facsimile or computer and can be received by pagers, portable computers, electronic organizers, facsimile equipment and similar personal communication devices. Due to the continuing demand for lengthier messages and the impact of such demand on available radio frequencies, most service providers are migrating to the more efficient, higher speed digital format. Consequently, Glenayre believes its sophisticated high speed switches and software are particularly well suited for alphanumeric applications.

SERVICE AND SUPPORT. Glenayre provides service to customers on a regular basis including installation, project management of turnkey systems, training, service or extended warranty contracts with the Company. The Company believes that it is essential to provide reliable service to customers in order to solidify customer

relationships and to be the vendor of choice when new

services or system expansions are sought by a customer. This relationship is further developed as customers come to depend upon the Company for installation, system optimization, warranty and post-warranty services.

The Company has a warranty and maintenance program for both its hardware and software products and maintains a large customer service network, known as the Glenayre Care Group, throughout the world. Glenayre's standard warranty provides its customers with repair or replacement of all defective Glenayre manufactured equipment. The warranty is valid in the case of the majority of its transmitters for two years, and in the case of all other products for one year from the later of date of shipment or date of installation by a Glenayre qualified technician. The major locations of the Glenayre Care Group are Vancouver, British Columbia; Quincy, Illinois; Atlanta, Georgia; Amsterdam, Netherlands; and Singapore. The Glenayre Care Group, the majority of the employees of which are technical specialists, maintains the Company's installed base of equipment and is equipped with an automated field service management system to provide more responsive customer service.

COMPETITION. The Company is a leading worldwide supplier of switches, transmitters, receivers, controllers and software, used in paging, voice messaging and message management systems. While the services from the foregoing products represent a significant portion of the wireless personal communications systems industry today, the industry is expanding to include new enhanced services and new markets. The wireless personal communications industry includes equipment manufacturers that serve many of the same personal communications services ("PCS") markets served by the Company. Certain of the Company's competitors have significantly greater resources than the Company, and there can be no assurance that Glenayre will be able to compete successfully in the future. In addition, manufacturers of wireless telecommunications equipment, including those in the cellular telephone and PCS industries, certain of which are larger and have significantly greater resources than the Company, could attempt to enter into the Company's markets and compete with Glenayre's products and systems.

Competition in Glenayre's infrastructure equipment markets is based upon quality, product features, technical performance capabilities, service and price. While infrastructure equipment and systems of the type sold by Glenayre typically represent less than one-quarter of a paging service provider's total capital investment, such equipment and systems are nevertheless critical for the operation of the pager devices and the paging network. Glenayre believes that it compares favorably with its competitors due to its reputation for high-quality and technically superior products and service, its willingness and ability to support customer requests, and its ability to offer complete turnkey systems customized to specifications provided by the customer.

The Company's determination of its competitive market position is based upon its knowledge of sales of products of the type sold by the Company in the segment of the wireless personal communications industry in which the Company competes, information derived from its close working relationship with large paging service providers and market information obtained from industry trade publications and sources.

- UNITED STATES. The Company believes that it has the leading market share (based on the number of units sold) of the United States market for sales of one-way and two-way switches and related equipment and software, and one-way and two-way transmitters and controllers. It is the Company's belief that its leadership position with respect to the sale of paging switches in the United States substantially exceeds that of its principal competitor in this market, which is Motorola, Inc. ("Motorola"). The Company believes that it captured the largest percentage of sales of paging switches serving more than 10,000 subscribers in each of the last three years.

The Company believes sales of its transmitter and controller products exceeded sales of such products by Motorola in each of the last three years. The Company believes, however, that Motorola remains a substantial competitor in the transmitter market. Other competitors in this market include smaller manufacturers that primarily serve small local paging service providers which represents a small segment of the total domestic infrastructure market.

- INTERNATIONAL. The Company believes that it is one of the leading participants in markets outside of the United States in the sale of paging switches, paging transmitters and controllers (based on the number of units sold). The Company believes that it sold the most paging switches outside of the United States during each of the last three years, exceeding sales by each of its two principal competitors in this market, Motorola and L M Ericsson Telephone Company ("Ericsson").

The Company believes that the Company and Motorola have the largest and approximately equivalent shares of the international paging transmitter and controller market. Ericsson also is a significant competitor in this market with what the Company believes to be a substantially smaller share of the market than either of Glenayre or Motorola.

PAGING MESSAGING DEVICES:

Since November 1997, the Company has provided two-way paging devices through its subsidiary, Wireless Access, Inc. ("WAI") based in Santa Clara, California. WAI designs, develops and markets innovative, low-power, two-way wireless data messaging devices. The Company's products are based on Motorola's family of FLEX two-way paging protocols which the Company believes will become the industry's standard two-way wireless data messaging protocols. The two-way wireless data messaging capability of the Company's devices will allow service providers to reuse their RF spectrum and thereby offer expanded two-way alphanumeric wireless data messaging services to significantly more users than would be possible with a traditional one-way alphanumeric paging network.

ACCESSMATE(TM). The AccessMate allows wireless data messaging service providers to offer customers expanded alphanumeric wireless data messaging services at prices competitive with today's one-way paging service subscription prices. The AccessMate is an entry-level two-way wireless data messaging device that has all the functionality of today's alphanumeric pagers together with the ability to allow service providers to efficiently manage their network capacity through spectrum reuse. The AccessMate is approximately the same size as today's one-way alphanumeric pagers with a four-line LCD display and more than 30 days of battery life. The AccessMate allows a service provider to offer guaranteed message receipt by storing and re-sending a message when the recipient's device is turned off or out of the service area. AccessMate is Glenayre's first device which utilizes the Company's proprietary integrated chipset. The Company believes its integrated circuit chipset technology will enable the Company to decrease the size of its devices while simultaneously reducing the cost and power consumption of the devices.

ACCESSLINK-II (TM). The AccessLink-II allows wireless data messaging service providers to offer customers full two-way paging service capabilities in a device to be approximately the same size as today's one-way alphanumeric pagers with a four-line LCD display and more than 30 days of battery life. As with the AccessMate, the AccessLink-II allows a service provider to ensure guaranteed message receipt by storing and re-sending a message when the recipient's device

is turned off or is out of the service area. In addition, the AccessLink-II provides users with the ability to create custom replies and to originate messages to another pager or to an e-mail address. The AccessLink-II also utilizes the Company's proprietary integrated chipset. The AccessMate and AccessLink-II are available for both the ReFlex-25 and the ReFlex-50 protocols and went into commercial production in 1998. Key AccessLink-II features include:

- MESSAGE ORIGINATION. The AccessLink-II allows a user to create and send custom messages from the device. A user is able to create a message by selecting letters displayed on the onscreen keyboard using an omni-directional keypad. In addition, a user can send a preprogrammed or user-created message to another AccessLink-II user, to an Internet e-mail user, to a one-way alphanumeric pager, to a dial-in system which uses synthesized voice technology to deliver a message or to a fax machine.

- INTERNET CONNECTIVITY. The AccessLink-II user can exchange messages with Internet e-mail users. AccessLink users can have an e-mail address defined by their service provider that allows them to receive e-mail messages across the Internet. In addition, AccessLink-II users can originate e-mail messages from the device and send them to any Internet e-mail user's address.

- EASE OF USE. The AccessLink-II's easy-to-manipulate omni-directional keypad and innovative user interface provide the user with an easy means of creating, storing and sending messages. All information is contained within folders, which can be opened and closed with the omni-directional keypad. The AccessLink-II's keypad can easily be operated one-handed and allows the user to scroll through the display and move the cursor to select options.

- COMPUTER CONNECTIVITY. The AccessLink-II provides a infra-red, IRDA compatible port for wireless connection to personal or palm top computers. Once connected to the computer with the appropriate applications software, a user can send and receive messages with the AccessLink-II acting as a wireless modem.

- HIGH-POWERED TRANSMITTER. The AccessLink-II transmits at power levels significantly above that of cellular phones. Achieving this high-power level is critical for creating and sending long, custom messages. The Company believes the AccessLink-II balances the need to generate a high level of transmit power with the need for extended battery life while utilizing a single AA battery.

INTEGRATED CIRCUIT ("IC") CHIPSETS. The Company has designed chipsets to contain substantially all of the two-way wireless data messaging circuitry, including circuitry which implements the appropriate two-way wireless data messaging protocol. The Company's design philosophy is that its devices improve as the Company increases the level of integration of the elements of its devices. The Company has invested in the design of a first in a series of IC chipsets whose goals are the continued reduction in size, cost and power consumption of its mobile devices. As a result of utilizing a highly integrated transceiver chipset, the Company believes its device design benefits through a reduction in the number of components required on the circuit boards, a reduction in the physical size of the mobile device, improved reliability and ruggedness of the mobile device, increased battery life, and improved testability and repeatability of the design.

COMPETITION. Motorola, the only other company that currently has a product that operates in a ReFlex based two-way wireless data messaging network, has historically dominated the market for paging devices, with sales of its products representing over 80% of sales of all paging devices. Motorola and other potential producers of devices for the two-way wireless data messaging market,

such as Uniden, Sony and Casio, have longer operating histories, significantly greater financial, technological, management and marketing resources, greater name recognition and larger installed customer bases than Glenayre. In addition, each of these companies can devote greater resources to developing, marketing and selling their products than Glenayre and may be able to respond more quickly to new or emerging technologies and changes in customer needs. Additionally, paging-like services are being offered using alternative messaging technologies such as PCS. There can be no assurance that the Company will obtain market acceptance of its products in the face of competing technologies or be successful in introducing new products. The failure of Glenayre to compete effectively could result in lower prices, reduced margins or loss of market share, any of which could have an adverse effect on the Company.

Competition in the Company's End User Device markets is based upon quality, product features, technical performance, capabilities, service and price, in addition to battery life, size, ease of use, appearance, durability, and reliability. End User Devices represent a much more significant ratio (than infrastructure) of a paging provider's total capital investment.

MARKETING AND SALES, CUSTOMERS. The Company markets to paging carriers primarily in the United States through a direct sales force. To date, the Company's two-way and guaranteed message delivery device revenues have been primarily from Skytel, PageNet, and PageMart.

MOBILE AND FIXED NETWORK PRODUCTS

Mobile and fixed network products from the Company's Integrated Network Group accounted for approximately 17%, 16% and 6% of net sales for 1998, 1997 and 1996, respectively and is comprised of the Company's INTELLIGIS product line which includes the MVP System and the openMEDIA platform. By integrating these two platforms, the Company believes it will be in a strong position to serve both fixed and wireless service provider needs for revenue generation. The MVP System and the openMEDIA platform provide network operators with the enhanced services, prepaid wireless and calling card products needed to increase revenues from the current customer base and to acquire new subscribers. By combining these two platforms into a single product, the Company believes it will be able to offer a unique and powerful platform to help carriers reduce their operational costs and become more profitable.

MVP SYSTEM. Glenayre's MVP(R) Modular Voice Processing system is an enhanced services platform that enables cellular, PCS, wireline and paging network operators to offer their subscribers value-added services that enhance and complement their core communication products.

The MVP platform's flexibility allows service providers to choose the number and combination of enhanced services to offer, including voice, fax, and data messaging, short message service, automatic call return, continuous calling and

CONSTANT TOUCH(TM) Service, a single number service. With the MVP System, subscribers can place calls by using a telephone keypad or by using the subscriber's voice alone.

The MVP system's scaleable architecture provides service providers with an efficient growth path for their subscriber base. The MVP system can start out small and grow to handle over 1,000,000 subscribers. Additionally, the MVP platform interfaces into the myriad of trunk interfaces provided by central office switches, cellular switches, paging terminals, telephone answering systems and inter exchange carrier ("IXC") switches, even integrating into different telecommunication networks simultaneously. It also has the capability of integrating into various Intelligent Networks around the world.

The MVP system provides voice messaging with intelligent message notification. Subscribers are notified, via their pager or phone handset, when they receive a new message in their mailbox. The MVP system communicates the number and type of message received, including urgent and fax messages.

The MVP system's Auto Call Back feature allows the subscriber to return calls with a keystroke. When the caller leaves a message, the MVP system captures the caller's telephone number, either by Automatic Number Identification or by the caller manually entering the caller's number. When the subscriber listens to the message, the callback number plays as part of the voice message. At any time, the subscriber can press a button and the caller's phone number is dialed by the MVP system. After the call is completed, the subscriber is returned to the subscriber's voice mailbox.

Fax messaging permits faxes to be sent directly to a subscriber's voice mailbox. The subscriber is notified that a fax message has been received in the subscriber's voice mailbox. The fax is stored in memory and can be printed from any fax machine when the subscriber is ready to retrieve it.

CONSTANT TOUCH, Glenayre's single number application, gives subscribers control of their communications. With CONSTANT TOUCH, subscribers combine all personal and business telephone numbers (pager, home, office, cellular and fax) into a single number that will reach them anywhere. By incorporating any or all of a subscriber's telephone numbers, callers only have to use one number to reach the subscriber.

When a caller dials the subscriber's CONSTANT TOUCH number, the system prompts them to speak their name and enter their telephone number. The MVP system then calls a series of preprogrammed numbers to notify the subscriber that a caller is holding. The MVP plays the caller's name, "introducing" the caller. The subscriber can choose to connect with the subscriber's caller or forward the caller to the subscriber's voice mailbox or assistant.

A major development project for the MVP system over the next few years is speech recognition. Glenayre has developed a new voice dialing application allowing subscribers to place calls using only their voice. The subscriber speaks a name or telephone number and the MVP system places the call. Glenayre expects to develop additional speech recognition products, as well as incorporate speech recognition technology into the voice mailbox.

Additionally, Glenayre is developing products to take advantage of the benefit from the integration of fixed and wireless networks. This technology called Unified Messaging will give the MVP system the ability to incorporate voice, data, fax and e-mail, into a subscriber's mailbox. Unified Messaging will give service providers the ability to offer an integrated voice mailbox that combines the product offerings of the fixed and wireless network through Internet technology. With Unified Messaging, subscribers point and click on a graphical user interface to access their voice, data or other message types. This product is scheduled for general release in the third quarter of 1999.

The Company believes that by providing multiple voice and data applications on a single platform, the MVP system gives service providers a means to generate additional revenue and increase subscriber loyalty.

NETWORK MANAGEMENT SYSTEMS. During 1998, the Company began development of an Operational and Management Control System (OMC). OMC is an external system that monitors the MVP Systems and provides service providers with a sophisticated alarming, provisioning and statistical information relating to the performance of the MVP Systems in a carriers network. This system will enable wireless and wireline operators to continually evolve their businesses beyond the competition. The benefits that Glenayre customers enjoy are reduced costs, improved customer retention, enhanced technological leadership and improved time to market.

OPENMEDIA. Glenayre's openMEDIA Prepaid Wireless application offers a powerful feature set specifically designed for wireless operators throughout the world. The Prepaid Wireless application allows carriers the ability to offer their core wireless service in a network based prepaid offering. With Prepaid Wireless, carriers can sell their service offering before customers use it. This helps

with fraud and allows carriers to tap into huge markets of new subscribers. The Company is developing new releases of its Prepaid Wireless application to include advanced features such as voice-activated "hands-free" dialing, inbound call screening, advanced cellular-to-cellular call rating, nationwide cellular roaming and Intelligent Network Solutions.

Glenayre's openMEDIA Platform is a client/server-based software platform from which multiple telecommunications applications can be run across shared network and database resources. The openMEDIA Platform provides an interface between telephony and computing resources, including switches, voice response units ("VRUs"), databases, billing systems and network management software. The platform facilitates the generation of call flows and insulates application developers from low-level programming of hardware components. openMEDIA's modular, client/server architecture permits the replacement and interchangeability of network hardware components and ensures the reusability of common software modules as Glenayre develops new applications. The openMEDIA Platform provides the following key features: rapid service creation, modularity, high volume and scalability, network connectivity and fast call setup, real-time call management, external interfaces and disaster recovery and reliability.

The Company sees an opportunity for a tight integration between the MVP System and the openMEDIA Platform. Development efforts include the IntelligisSP, which is a new platform that integrates the openMEDIA applications with the full suite of enhanced services offered on the MVP System. In addition, the Company is developing a new architecture for the openMEDIA applications. The architecture is called Service Creation Environment (SCE) and is intended to provide carriers with a much simpler interface to develop new applications and expand their service offering. The openMEDIA platform is also developing the protocols and signaling formats for the integration into various Intelligent Networks.

COMPETITION. For sales of MVP systems, the Company competes in the United States and internationally primarily with Centigram Communications Corporation, Comverse Technologies, Inc., Lucent/Octel Communications Corporation and Unisys Corporation.

For sales of Prepaid Wireless products and services, the Company competes in the United States and internationally primarily with Brite Voice Systems, Inc., Comverse Technologies, Inc. and Precision Systems, Inc.

MARKETING AND SALES. The Company markets to cellular, PCS, wireline, prepaid wireless and paging network operators primarily in the U.S. through a direct sales force. Glenayre has also entered into several Original Equipment Manufacturing ("OEM") agreements with companies that will market and distribute the Intelligis product line throughout the world.

MICROWAVE COMMUNICATION PRODUCTS

The Company's Western Multiplex Group designs, manufactures and markets products for use in point-to-point microwave communications systems which accounted for approximately 8%, 7% and 8% of net sales for 1998, 1997 and 1996, respectively. These products include the microwave radios themselves, both in analog and digital transmission formats, and analog baseband products. Glenayre also provides cellular and PCS operators with wireless cell site and base station interconnect infrastructure. The Company's products are sold to communications service providers, including cellular, specialized mobile radio ("SMR") and inter-exchange common carriers; industrial companies, including utilities, railroads and petroleum producers; federal, state and local governmental entities; and users of wireless data communications.

For sales of microwave radio products, the Company competes in the United States and internationally primarily with Alcatel Alsthom, California Microwave Corporation, Digital Microwave Corporation, Ericsson, Harris Corporation, P-Com, Inc. and Siemens A.G.

CUSTOMERS

Glenayre sells to a range of customers worldwide. In the United States, customers include the regional Bell operating companies, public and private radio common carriers, private carrier paging operators, PCS carriers and cellular carriers. Internationally,

customers include public telephone and telegraph companies, paging and cellular carriers as well as private telecommunication service providers servicing cellular, PCS and paging.

Sales to a single customer totaled approximately 10%, 11% and 15% of 1998, 1997 and 1996 net sales, respectively. An additional customer accounted for 12% of net sales in 1998. Although a single customer accounted for more than 10% of the Company's net sales in each of the prior three years, the dependence on any one customer is mitigated by the large number of entities in the Company's customer base. The amount of business with any customer in a reporting period is determined by the timing of the development and expansion of existing customers' and new customers' systems.

MARKETING AND SALES

The Company markets its products and services in the United States and internationally primarily through a direct sales force. Glenayre also utilizes distributors and agents to sell its products in certain countries and geographic regions to markets outside of the Company's core markets. Glenayre maintains sales offices throughout the United States.

In an effort to better serve its international customers, Glenayre has established sales offices outside of the United States in various locations worldwide, including:

Manila, Philippines
New Delhi, India
Vancouver, Canada
Mexico City, Mexico
Guangzhou, China
Dubai, United Arab Emirates
Sao Paulo, Brazil
Seoul, Korea
Tokyo, Japan
Singapore
Toronto, Canada
Hong Kong
Milton Keynes, England
Beijing, China
Amsterdam, Netherlands
Taipei, Taiwan
Shanghai, China

Glenayre has staffed each of these offices with either local or expatriate multilingual personnel. The Company expects to add new offices and personnel outside of the United States to meet the increasing demand for its products in international markets. See Note 9 to the Company's Consolidated Financial Statements for information relating to export sales.

As part of the Company's integrated marketing and sales efforts, Glenayre encourages and facilitates a philosophy of open communication between the Company and its customers. Toward that end, the Company often invites customer representatives to meet with Glenayre's engineers and marketing personnel to collaborate in the development of new and enhanced products.

The competitive telecommunications market often requires customer financing commitments. These commitments may be in the form of guarantees, secured debt or lease financing. See Notes 3 and 13 to the Company's Consolidated Financial Statements.

INTERNATIONAL BUSINESS RISKS

Approximately 37% of 1998 net sales were generated in markets outside of the United States. International sales are subject to the customary risks associated with international transactions, including political risks, local laws and

taxes, the potential imposition of trade or currency exchange restrictions, tariff increases, transportation delays, difficulties or delays in collecting accounts receivable, and, to a lesser extent, exchange rate fluctuations. Although a substantial portion of 1998 international sales of the Company's products and services were negotiated in U.S. dollars, there can be no assurance that the Company will be able to maintain such a high percentage of U.S. dollar-denominated international sales. Should the Company's level of international sales denominated in U.S. dollars decline, currency hedging transactions would be undertaken to mitigate its currency exchange fluctuation risk. The Company also acts to mitigate certain risks associated with international transactions through the purchase of political risk insurance and the use of letters of credit.

RESEARCH AND DEVELOPMENT

The Company believes that a strong commitment to research and development is essential to the continued growth of its business. Glenayre has consistently developed innovative products and product improvements for the wireless personal communications services industry and has often been the first to bring such products to market. One of the key components of the Company's development strategy is the promotion of a close relationship between its product development staff, internally with Glenayre's manufacturing and marketing personnel, and externally with Glenayre's customers. Utilizing this strategy, Glenayre expects to develop and bring to market customer-driven products in a timely manner.

The Company has extensive expertise in the technologies required to develop wireless communications systems and products including digital signal processing ("DSP"), voice processing (both FM and linear), real-time software, networking and network management software, high-speed digital logic, high and low power radio frequency, protocol development, data network and system design. Additionally, the Company has a core competence in Application Specific Integrated Circuit (ASIC) development and implementation through its WAI subsidiary. The Company believes that by having a research and development staff with expertise in these key areas, it is well positioned to develop enhancements for its existing products as well as new personal communication products. Investment in advanced computer-aided design tools for simulation and analysis has allowed Glenayre to reduce the time for bringing new products to market.

The majority of the Company's research and development staff are engineers or computer science professionals. Glenayre's research and development efforts are located in its Vancouver, British Columbia, Canada; Sunnyvale, California; Atlanta, Georgia; and Santa Clara, California facilities. Total research and development costs for the Company were $52 million, $40 million and $29 million or 13%, 9% and 7% of net sales for 1998, 1997 and 1996, respectively. The Company devotes substantial resources to research and development in order to develop new products, improve existing products and support ongoing custom feature and enhancement development. The availability of research and development funds depends upon the Company's revenues and profitability. Reductions in such expenditures could impair the Company's ability to innovate and compete.

NEW PRODUCTS AND UPGRADES. The principal new products and enhancements introduced by the Company in 1998 related to its Paging Products included the following: (i) Customer revenue features on the GL3000 switch including dial-out and enhanced meet-me as well as a rating engine to support prepaid billing for these services, (ii) full two-way support for ReFLEX25 networks including the GL3000 switch, GL3100 RF Director and the GL3200 Internet gateway, (iii) products to provide IP based linking between switches and base stations, (iv) GL3400 Call Analysis System for capturing call detail records, (v) multi-channel functionality on T9000 linear transmitters and (vi) ReFlex 50 version of the Access Link-II and ReFlex 25 and ReFlex 50 versions of the Access Mate devices providing two-way paging in a more compact size and utilizing the Company's proprietary integrated chipset.

The principal new products and enhancements introduced by the Integrated Network Group in 1998 included the following: (i) a new 4240 MVP system which allows for increased trunking and call capacity and is compliant with an industry recognized network equipment building system, (ii) web server and modifications to an existing fax platform to support the worldwide web server, (iii) a cellular messaging protocol to send messages and page notifications, (iv) additional software applications to support non-Glenayre voicemail systems, (v) a significant increase in MVP voice storage (message) capacity and (vi) enhancements to voice activated dialing.

Additionally, in 1998, the Company's Western Multiplex Group introduced: (i) several additions to the LYNXsc family of license-free spread spectrum digital radios, including 4E1 capacity at 5.8 GHz, and 2T1 at 2.4 GHz, (ii) Lynx.mini2, a new low cost fractional capacity platform covering 64 - 512 kbps operating at 2.4GHz, (iii) the full release of WM 6/45 licensed radio operating at 6GHz and providing a throughput capacity of 45Mbs, with Simple Network Management Protocol and internal IP router and (iv) a 4E1 capacity licensed radio operating at 1.5 GHz to be used for long range spur applications.

MANUFACTURING

Glenayre currently manufactures its Paging Products at Company facilities in Quincy, Illinois and Vancouver, British Columbia, Canada except for its two-way paging devices which are assembled by a third-party manufacturer. The Integrated Network Group's MVP System and openMedia Platform are manufactured at the Vancouver facility. Additionally, the Company's Western Multiplex Group manufactures its analog and digital microwave radios and accessories at its facility in Sunnyvale, California. The Company's manufacturing capabilities reside in assembling sub-assemblies and final systems that are configured to its customers' specifications. The components and assemblies used in the Company's products include

electronic components such as resistors, capacitors, transistors and semiconductors such as field programmable gate arrays, digital signal processors and microprocessors; mechanical materials such as cabinets in which the systems are built; and peripherals, including disk drives. The components and parts used in the Company's products are generally available from multiple sources. Some components, especially those utilizing the latest technology, may only be available from one source. In those instances where components are purchased from a single source, the supplier and the specific component are reviewed both prior to initial specification and then frequently afterward for stability and performance. Although the Company believes that single sourced components could either be obtained from another source or redesigned, temporary delays or increased costs in obtaining these materials may be experienced. Additionally, as necessary, the Company purchases sufficient quantities of certain components which have long-lead requirements in the world market. The Company performs standard procedures to test, tune and verify products prior to shipment to the customer.

The Company believes in setting high standards of quality throughout all its operations. The Company has certification to the ISO 9001 international standard for quality assurance in areas including design, manufacture, assembly and service for the Quincy, Illinois; Vancouver, British Columbia; Sunnyvale, California; and Atlanta, Georgia facilities. All two-way paging products are manufactured by Avex Electronics in Huntsville, Alabama. Avex is an ISO 9000, 9001 and 9002 certified contract manufacturer. ISO is a worldwide federation of national standards bodies which have united to develop internationally accepted quality systems standards so that customers and manufacturers have a system in place that provides a known quality. The standards set by ISO cover every facet of quality from management responsibility to service and delivery. Management believes that adhering to the stringent ISO 9001 procedures not only creates efficiency in its operations, but also positions Glenayre to meet the exacting standards required by its customers.

The Company utilizes Materials Resource Planning ("MRP") systems for production planning in its manufacturing locations and state-of-the-art workstations for its engineering functions. During 1998, Glenayre implemented a new business operating system that links a significant portion of the Company's business functions. The Company's present facilities are believed to be adequate for current manufacturing needs.

PATENTS AND TRADEMARKS

The Company owns or licenses numerous patents used in its current operations. The Company believes that while these patents are useful to the Company, they are not critical or valuable on an individual basis, and that the collective value of the intangible property of the Company is comprised of its patents, blueprints, specifications, technical processes and cumulative employee knowledge. Although the Company attempts to protect its proprietary technology through a combination of trade secrets, patent law, non-disclosure agreements and technical measures, such protection may not preclude competitors from developing products with functionality features similar to the Company's products. The laws of certain foreign countries in which the Company sells or may sell its products, including South Korea, People's Republic of China, Taiwan, Saudi Arabia, Thailand, Dubai, India and Brazil, do not protect the Company's proprietary rights in the products to the same extent as do the laws of the United States. Although the Company believes that its products and technology do not infringe on the proprietary rights of others, the Company is currently party to certain infringement claims, and there can be no assurance that third parties will not assert additional infringement claims against the Company in the future. If such litigation resulted in the Company's inability to use the technology, the Company might be required to expend substantial resources to develop alternative technology or to license the prior technology. There can be no assurance that the Company could successfully develop alternative technology or license the prior technology on commercially reasonable terms. The Company does not believe, however, that an adverse resolution of the pending claims would have a material adverse effect on the Company.

The Company considers its registered trademarks and servicemarks to be valuable assets. The Company protects these marks through registrations in the United States and various countries throughout the world. The Company's marks include "GLENAYRE ", the Glenayre logo, "CONSTANT TOUCH" AND "MVP".

BACKLOG

The Company's firm backlog at December 31, 1998 and 1997 was approximately $123 million and $139 million, respectively. In general, the Company expects to commence shipment of the orders in the backlog within six months of their respective backlog dates. Approximately 70% of orders on hand at December 31, 1998 are expected to be shipped during 1999. The orders not being shipped in 1999 are primarily due to the timing of delivery as requested by customers. This is a forward looking estimate which is subject to substantial change based on the timing of installation of systems by the Company's paging service provider customers and the market acceptance of personal communication products by the customers of such paging service providers.

GOVERNMENT REGULATION

Many of Glenayre's products operate on radio frequencies or connect to public telecommunications networks. Radio frequency and telecommunications network equipment is regulated in the United States and in many international markets. The Company generally must obtain regulatory approvals in connection with the manufacture and sale of its products, and by the service providers that operate the Company's products. There is no assurance that the Company and its customers will continue to be able to obtain appropriate regulatory approvals. The enactment by national, provincial, or local governments of new laws or regulations or a change in the interpretation of existing regulations could

affect the market for the Company's products. However, the Company believes that global privatization and deregulation of telecommunications industries have increased demand for the Company's products. Such changes, while providing new opportunities, also complicate the administrative and technical procedures for placing products into these markets. In addition, the scope to which the Company's products are subject to regulation has increased. The Company has implemented programs to address the technical, administrative, and legal challenges of this dynamic global regulatory environment.

EMPLOYEES

At December 31, 1998, the Company and its subsidiaries employed approximately 2,200 persons. The Company believes its employee relations to be good.

ITEM 2. PROPERTIES

The following table sets forth certain information regarding the Company's principal facilities:

<TABLE>
<CAPTION>

Location	Size (Square Feet)	Owned or Leased	Lease Expiration Date	Uses
<S>	<C>	<C>	<C>	<C>
Vancouver, British Columbia	233,291	142,244 owned 91,047 leased	1999-2002	Manufacturing, service, accounting, purchasing and training facilities, research and development.
Quincy, Illinois	162,356	154,256 owned 8,100 leased	2000	Manufacturing, service, sales, accounting, purchasing and training facilities.
Sunnyvale, California	45,709	leased	2006	Manufacturing, service, sales, accounting, purchasing, research and development.
Santa Clara, California	51,200	leased	2000	Service, sales, accounting, purchasing, research and development, administration.
Atlanta, Georgia	75,000	owned		Sales, service, research and development, and training facilities.
Charlotte, North Carolina	45,000	owned		Corporate headquarters, marketing, accounting and finance, sales, service and training facilities.
Singapore	42,000	owned		Service, sales, accounting and training facilities.

</TABLE>

In addition to its sales offices listed above, Glenayre also maintains sales offices throughout the United States and internationally. See "Business--Marketing and Sales." During the first quarter of 1999 Glenayre halted the construction in progress on a 110,000 square foot expansion of its Vancouver facilities. Revised plans to complete only a parking facility and a 16,000 square foot first level are currently being implemented. The total cost of this expansion is now expected to be approximately $11.7 million and

will be completed during 1999. Approximately $6.3 million and $900,000 paid toward architecture, engineering and construction costs relating to the new expansion are included in capital expenditures for the years ended December 31, 1998 and 1997, respectively. Commitments of approximately $2.5 million relating to the termination of the construction contract are included in the estimated $4.5 million total costs to complete.

ITEM 3. LEGAL PROCEEDINGS

On January 31, 1997 an amended class action complaint consolidating two lawsuits filed in the fourth quarter of 1996 (the "Complaint") was filed in the United States District Court for the Southern District of New York against the Company and certain of its executive officers and directors. The Complaint was dismissed in November 1997, but the plaintiffs were granted the right to amend and refile. An amended Complaint was refiled December 19, 1997 and dismissed on December 29, 1998 without the right to refile. The dismissal was appealed by the plaintiffs to the United States Court of Appeals for the Second Circuit on January 28, 1999. On February 20, 1997, a shareholder's derivative complaint (the "Shareholder's Complaint") was filed in the United States District Court for the Southern District Court of New York against certain current and former directors and against the Company, as a nominal defendant, alleging that the directors breached their fiduciary obligations to the Company by subjecting the Company to the class action referred to above. As the derivative action is based on allegations that the class action has merit, it is likely to remain in suspension until the appeal is resolved. Additionally, the Company is currently involved in various other disputes and legal actions related to its business operations. In the opinion of the Company, the ultimate resolution of these actions will not have a material effect on the Company's financial position, or future results of operations or cash flows.

Additionally, the Company is party to several intellectual property claims and disputes related to its business operations. The Company believes that the ultimate resolution of these claims and disputes will not have a material effect on the Company's financial position or future results of operations. However, if such litigation resulted in the Company's inability to use technology, the Company might be required to expend substantial resources to develop alternative technology or to license such technology on commercially reasonable terms.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on The Nasdaq Stock Market under the symbol "GEMS." The table below sets forth the high and low sale prices for the Company's common stock on The Nasdaq Stock Market for the periods indicated.

<TABLE>
<CAPTION>

	Price Range of Common Stock	
	High	Low
<S>	<C>	<C>
Year Ended December 31, 1998		
First Quarter.....	$14.250	$10.000

Second Quarter	17.000	10.188
Third Quarter	12.250	6.375
Fourth Quarter	7.938	3.969

Year Ended December 31, 1997		
First Quarter	$23.125	$9.750
Second Quarter	16.875	8.000
Third Quarter	21.500	13.625
Fourth Quarter	16.813	9.344

At March 5, 1999 there were approximately 2,200 holders of record of the Company's common stock.

The Company has not paid cash dividends since 1982 and does not anticipate paying cash dividends in the foreseeable future. The Company expects to utilize future earnings to finance the development and expansion of its business.

ITEM 6. SELECTED FINANCIAL DATA

The following Selected Consolidated Financial Data of Glenayre presented below for each of the five years in the period ended December 31, 1998 has been derived from the Company's audited Consolidated Financial Statements. The Company has been in the telecommunications equipment and related software business since November 10, 1992 and previously was engaged in the real estate development business and in oil and gas pipeline construction. The Company acquired Western Multiplex Corporation ("MUX"), a manufacturer of microwave radio systems, on April 25, 1995. The Company made three acquisitions in 1997: (i) CNET, Inc., a developer of software including network management tools on January 9, 1997, (ii) Open Development Corporation ("ODC"), a developer of database management platforms providing applications for calling cards on October 15, 1997, and (iii) Wireless Access, Inc. ("WAI"), a developer and marketer of two-way paging devices on November 3, 1997. The results of the acquired companies are included from the dates of acquisition by the Company. The Selected Consolidated Financial Data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and the other financial data included elsewhere herein.

(In thousands, except per share data)

	Year Ended December 31,				
	1998*	1997*	1996	1995	1994
OPERATING DATA:					
Net sales	$399,942	$451,679	$390,246	$321,404	$172,107
Income (loss) before change in accounting principle and extraordinary item	(37,158)	34,794	70,444	76,448	33,095
Discontinued operations	---	---	---	---	388
Change in accounting principle	---	(688)	---	---	---
Net income (loss)	(39,770)	6,251	70,444	76,448	33,483
PER SHARE DATA					
Per Weighted Average Common Share:					
Income (loss) before accounting change and extraordinary items	(0.65)	0.11	1.16	1.31	0.60
Net income (loss)	(0.65)	0.10	1.16	1.31	0.61

Per Common Share-Assuming Dilution:					
Income (loss) before accounting change and extraordinary items	(0.65)	0.11	1.11	1.22	0.56
Net income (loss)	(0.65)	0.10	1.11	1.22	0.57

	At December 31,				
	1998	1997	1996	1995	1994
BALANCE SHEET DATA:					
Working capital.....	$154,472	$161,454	$279,031	$223,487	$135,209
Total assets.....	561,795	590,161	521,210	447,580	284,961
Long-term debt, including current portion..	823	3,747	879	2,147	2,019
Stockholders' equity.....	462,153	492,359	455,861	390,694	245,435

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*The results for 1998 were impacted by a $26.7 million write-off of goodwill and other intangibles related to the ODC acquisition and a $7.9 million loss on sale of the Company's network management business. The results for 1997 were impacted by a $38.7 million charge for purchased research and development related to the ODC and WAI acquisitions and a $5.2 million write-off of goodwill related to the CNET acquisition. See Note 1 to the Company's Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Glenayre designs, manufactures, markets and services telecommunications equipment and software used in wireless personal communication systems throughout the world specifically focused in three primary marketing areas: (i) paging products including infrastructure equipment from the Wireless Messaging Group ("WMG") and Wireless Access two-way paging devices, (ii) mobile and fixed network products from the Integrated Network Group ("ING") including voice mail systems and database management systems and (iii) microwave communications products from the Western Multiplex Group.

Glenayre acquired three companies in the year ended December 31, 1997. In November 1997, the Company acquired Wireless Access, Inc. ("WAI"), a developer and marketer of two-way paging devices. Glenayre acquired Open Development Corporation, a developer of database management systems providing applications for calling cards in October 1997. In December 1998, the Company wrote off goodwill and other intangibles related to the October 1997 acquisition of ODC. In January 1997, the Company acquired CNET, Inc., a developer of software including network management tools. In December 1998, the Company sold this network management business. The operating results of the three acquired companies are included in the consolidated results of Glenayre since the acquisition dates. In September 1997, the Company announced plans to consider divesting Western Multiplex Corporation ("MUX"), allowing Glenayre to focus on its core markets of paging and enhanced messaging. MUX markets products for use in point-to-point microwave communication systems and was acquired by Glenayre in April 1995. As of March 1999, an acceptable purchase agreement had not been negotiated. However, the Company expects to pursue divesting this business over time.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage of net sales represented by certain line items from Glenayre's consolidated statements of operations:

<TABLE>
<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	100%	100%	100%
Cost of sales	53	48	46
Gross profit	47	52	54
Operating expenses			
Selling, general and administrative	27	22	21
Research and development	13	9	7
Charge for purchased research and development	--	9	--
Depreciation and amortization	10	5	4
Write-off of goodwill and other intangibles	7	1	--
Loss on sale of business	2	--	--
Total operating expenses	59	46	32
Operating income (loss)	(11)	6	22
Interest, net	2	2	3
Other, net	*	*	*
Income (loss) before income taxes and accounting change .	(9)	8	25
Provision for income taxes	1	6	7
Income (loss) before accounting change	(10)	2	18
Accounting change (net of income tax benefit)	--	*	--
Net income (loss)	(10)%	1%	18%

</TABLE>

---

*less than 0.5%

The following table sets forth for the periods indicated net sales represented by the Company's primary marketing areas:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
(DOLLARS IN THOUSANDS)			
Paging products	$299,315	$348,789	$337,091
Mobile and fixed network products	67,724	70,619	24,911
Microwave communication	32,903	32,271	28,244
	$399,942	$451,679	$390,246
(PERCENTAGE OF NET SALES)			
Paging products	75%	77%	87%
Mobile and fixed network products	17	16	6
Microwave communication	8	7	7
	100%	100%	100%

</TABLE>

YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

NET SALES. Net sales for 1998 decreased 11% to $399.9 million as compared to $451.7 million in 1997, which increased 16% from $390.2 million in 1996. International sales decreased to $148.2 million in 1998 as compared to $227.2 million in 1997 and $154.3 million in 1996 and accounted for 37%, 50%, and 40% of net sales for 1998, 1997, and 1996, respectively.

The decrease in sales for 1998 as compared to 1997 resulted primarily from a decrease in deliveries of the Company's paging infrastructure and MVP product to the Pacific Rim market caused by currency destabilization in certain Asian countries. This decrease is being partially offset by the inclusion of a full year of revenues of WAI and ODC products.

The increase in the Company's 1997 net sales compared to 1996 was primarily due to the increased delivery of Glenayre's MVP products to both the domestic and international markets. The 1997 implementation of a more aggressive international strategy helped reverse the significant decrease in the MVP product line growth rate experienced in 1996.

The Company expects shipments to be slow in the first half of 1999, but are expected to increase in the last half of 1999. This is a forward looking statement which is subject to the factors discussed in the cautionary statement attached as Exhibit 99 to this Form 10-K. There can be no assurance that the Company's sales levels or growth will remain at or exceed historical levels in any future period.

GROSS PROFIT. Gross profit was 47% in 1998 compared to 52% in 1997 and 54% in 1996. The declines in gross profit percentages in 1998 and 1997 were primarily due to a lower sales volume of paging switch infrastructure equipment and the inclusion of two-way paging device sales and ODC sales which realize lower margins. Additionally, the Company's paging device manufacturer incurred significant charges for rework on the Company's paging devices in the fourth quarter of 1998 and experienced product start up problems in the second quarter of 1998. The Company believes it has implemented solutions to these pager device issues and anticipates it will increase pager device production yields in the first half of 1999.

The Company anticipates its gross profit percentage to be approximately 50% 1999. However, Glenayre's gross profit margins may be affected by several factors including (i) the mix of products sold, (ii) the price of products sold, and (iii) increases in material costs and other components of cost of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses were $107.2 million, $100.6 million, and $80.4 million for 1998, 1997, and 1996, respectively. The increase for 1998 as compared to 1997 was primarily due to restructuring expenses incurred in 1998 for cost reduction activities related to the global reduction of the Company's workforce (see Note 8 of the Company's Consolidated Financial Statements) and the inclusion of CNET, ODC, and WAI operating expenses since their dates of acquisition in 1997. These expenses in 1998 are partially offset by a reduction in employee incentive, bonus and sales commission expenses. The increase in 1997 versus 1996 was due primarily to the addition of sales, marketing, technical support and administrative personnel and general increases in employee costs and purchased services.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expenses increased to $52.0 million in 1998 compared to $40.4 million in 1997 and $29.0 million in 1996. The 1998 increase was primarily due to (i) restructuring expenses incurred in the first quarter of 1998 for severance and other employee related costs associated with streamlining the Company's paging infrastructure research and development workforce, and (ii) facility exit costs and employee related costs incurred in the fourth quarter of 1998 for the relocation and integration of the ODC facility to the Company's Atlanta facility (see Note 8 to the Company's

Consolidated Financial Statements). The 1998 and 1997 increases were also impacted by the research and development activities of CNET, ODC, and WAI since their dates of acquisition in 1997. These increases were partially offset by a decrease in the Company's use of temporary contract service engineers as well as lower employee incentive and bonus expenses incurred in 1998. The Company relies on its research and development programs related to new products and the improvement of existing products for growth in net sales. Research and development costs are expensed as incurred. Research and development expenses as a percentage of net sales increased to 13% in 1998 from 9% in 1997 and 7% in 1996. Glenayre expects spending for research and development in 1999 to decrease as a percentage of net sales to approximately 10% to 11% with absolute dollars changing in relation to net sales reflecting the Company's continued focus on the development and timely introduction of new products.

CHARGE FOR PURCHASED RESEARCH AND DEVELOPMENT. Purchased research and development costs of $38.7 million were expensed in 1997. These costs include $16.4 million and $22.3 million for the purchase of technology under development associated with ODC's database management products and with WAI's two-way paging device expertise, respectively. The ODC acquisition provides the technology for Glenayre to further strengthen its position as a worldwide provider in the enhanced service platform market. The WAI acquisition gives Glenayre the expertise in advanced pagers and integrated circuit design to offer some of the most advanced, complete paging systems available.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expense increased to $40.1 million in 1998 compared to $22.4 million in 1997 and $13.5 million in 1996. The Company spent $29.9 million, $32.9 million and $43.0 million in 1998, 1997, and 1996, respectively, in order to provide the equipment and capacity necessary to meet the growth of its business. Additionally, goodwill and other intangibles acquired through the businesses purchased amounted to $113.2 million in 1997. The increases in depreciation and amortization expense were due to these significant fixed and intangible asset purchases. Glenayre anticipates equipment purchases in 1999 to be approximately $25 million and is expected to increase depreciation expense in 1999 compared to 1998. Glenayre anticipates amortization expense for 1999 to be lower than 1998 (see "Write-off of Goodwill and Other Intangibles").

WRITE-OFF OF GOODWILL AND OTHER INTANGIBLES. In 1998, the Company wrote off $25.3 million of goodwill and $1.4 million of other intangibles related to its acquisition of ODC, a total of $26.7 million, compared to the 1997 write-off of $5.2 million of goodwill related to its acquisition of CNET.

At the time of the acquisition in the fourth quarter 1997, ODC targeted three principal markets, including prepaid wireless, prepaid wireline, and postpaid calling to deliver its platform products for database management by telephony network operators. Operating projections utilized in establishing the negotiated purchase price of the ODC business included expected revenue from all three of these markets. Throughout 1998, the Company attempted to capitalize on the accessibility of all three of these markets as part of the integration of the ODC business. However, the Company's attempts to deliver the ODC products into the prepaid wireline and postpaid calling markets were not productive. In the fourth quarter 1998, after incurring significant operating losses from the ODC business, management decided to focus on the prepaid wireless market. Management made this strategic change away from the prepaid wireline and postpaid calling markets due to the following reasons which were not readily apparent during the acquisition process: (i) an insufficent internal resource knowledge base related to these markets to compete at a reasonable operating profit level; (ii) due to a high level of vendor specific customization, the data management products in these markets require more capital and manpower resources than anticipated to develop, deploy and maintain; (iii) the business environment is more aligned to system integration rather than standardized product offerings; and (iv) the channels of distribution are weak. Management believes that its future concentration related to ODC products should continue to be primarily in the prepaid wireless market due to (i) Glenayre's core knowledge base established in the wireless market; (ii) distribution channels are in place; and (iii) this

market allows for a standardized product and support. Given this strategic change, the Company anticipates that the future forecasted results for the ODC products will be significantly less than had been anticipated at the time of the Company's acquisition of ODC. As a result of this strategic change, the ODC operating facility is being closed in March 1999 with research and development and administrative functions relocating to the Company's Atlanta facility. ODC's products will be manufactured at Glenayre's Vancouver facility. After making these changes, the Company evaluated the ongoing value of the noncurrent assets of ODC. Based on this evaluation, the Company determined that assets, principally goodwill and other intangibles, with a carrying value of $30.9 million were impaired and wrote them down by $26.7 million to their fair value. Fair value was based on estimated future discounted cash flows to be generated by ODC.

In the first quarter 1997, the Company acquired CNET, a developer of network management systems for the global wireless communications industry. During 1997, revenue goals projected during the acquisition process were not achieved and significant operating losses were incurred. In the fourth quarter of 1997, Company management identified significant adverse changes in the market size for CNET's existing products. These changes were primarily due to fewer than anticipated end uses of a network management tool and significant on-going development costs of radio frequency propagation software. Due to the above changes, the Company revised its projections in the fourth quarter of 1997 and determined that its projected results would not fully support the future amortization of the goodwill balance. In accordance with the Company's policy, management assessed the recoverability of goodwill using an undiscounted cash flow projection based on the remaining amortization period of six years. Based on this projection, the cumulative undiscounted cash flow over the remaining amortization period was insufficient to fully recover the CNET goodwill balance of $8.1 million. At December 31, 1997, the Company wrote off the short-fall of $5.2 million. (See LOSS ON SALE OF BUSINESS below.)

The write-off of ODC goodwill and other intangibles will reduce amortization expense in 1999 as compared to 1998 by approximately $4.9 million. The write-off in 1997 reduced the CNET goodwill amortization expense in 1998 as compared to 1997 by approximately $850,000.

LOSS ON SALE OF BUSINESS. In December 1998, Glenayre sold its network management business which it had been operating since January 1997. For the year ended December 31, 1998, a loss on disposal of $7.9 million was reported in loss from operations before income taxes in connection with the sale. The loss on sale consists of the write-offs of assets, facility closing costs, severance payments to employees, certain transition costs associated with training employees of the buyer and other charges related to the sale. See Note 1 to the Company's Consolidated Financial Statements.

INTEREST INCOME, NET. Interest income, net decreased to $8.2 million in 1998 compared to $10.4 million in 1997 and $9.7 million in 1996. The decrease in 1998 compared to 1997 was primarily due to a decrease in cash and cash equivalents partially offset by higher average balances in customer notes receivable. The increase in 1997 compared to 1996 was primarily due to higher balances in notes receivable along with higher average interest rates earned. The Company expects that the level of interest income, net in 1999 will vary in accordance with the level of secured debt financing commitments exercised by Glenayre's customers.

OTHER, NET. The decrease in expense for 1998 as compared to 1997 was primarily due to expenses recorded in 1997 related to a realignment of certain domestic sales, management, and engineering personnel in order to enhance organizational efficiencies. Additionally, in 1997, the significant decline in relation to the U.S. dollar of currencies of certain countries, including Canada, Singapore and Taiwan, created unrealized translation expense as a result of the remeasurement of the net assets of the Company's foreign operations from the local denominated currency to the functional currency for consolidation. The translation loss or gain recorded was not significant in 1998 but is expected to vary in 1999 depending on the amount of net assets in a foreign country and exchange rate

fluctuations.

PROVISION FOR INCOME TAXES. The 1998 effective tax rate differed from the combined U.S. federal and state statutory tax rate of approximately 40% due primarily to the nondeductible goodwill amortization and the write-off of ODC goodwill. The difference between the 1997 and 1996 effective tax rates and the combined federal and state statutory tax rate is primarily the result of (i) the utilization of the Company's net operating losses ("NOLs"), (ii) lower tax rates on earnings indefinitely reinvested in certain non-U.S. jurisdictions and (iii) the application of Statement of Financial Accounting Standards No. 109 ACCOUNTING FOR INCOME TAXES, ("SFAS 109"), in computing the Company's tax provision.. The difference between the effective tax rates in each of the years is primarily the result of an increase in nondeductible goodwill amortization as well as a variance between the adjustments in each year for realization of tax benefits of net operating loss carryforwards for financial statement purposes in accordance with SFAS 109. These adjustments are primarily due to revisions during each year to the estimated future taxable income during the Company's loss carryforward period. See Note 7 to the Company's Consolidated Financial Statements.

Glenayre had a significantly lower book tax rate as compared with the statutory tax rate in 1996 as a result of reductions in the valuation allowance attributable to the Company's NOLs established prior to 1988 ("prior NOLs"). The prior NOLs had a balance of $70 million as of December 31, 1996 and were fully utilized during 1997. At December 31, 1998, the Company had approximately $33 million of NOLs related to companies acquired during 1997 ("acquired NOLs"). However, due to certain restrictions limiting the Company's future use of the acquired NOLs, the potential benefit of the acquired NOLs has been fully reserved.

The book tax rate is expected to increase to approximately 43% in 1999 due to the increase in nondeductible goodwill amortization. However, the actual book tax rate may be different from the Company's estimate due to various issues including (i) future tax legislation, (ii) the changes in the amount of international business by the Company, (iii) the utilization of U.S. Research and Development tax credits, (iv) changes in federal, state or international tax rates, (v) the availability of foreign sales corporation benefits and (vi) the actual utilization of the acquired NOLs.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. The Company changed its accounting policy in 1997 pursuant to Emerging Issues Task Force No. 97-13 ("EITF No. 97-13") for the project to implement a new business operating system that Glenayre began in 1996 and completed in the second quarter of 1998. Previously all direct costs relating to the project were capitalized, including the portion related to business process reengineering. In accordance with EITF No. 97-13, the unamortized balance of these reengineering costs as of November 1997 of approximately $1.1 million, or $688,000 after tax benefit was written off.

FINANCIAL CONDITION AND LIQUIDITY

LIQUIDITY AND CAPITAL RESOURCES. At December 31, 1998, Glenayre's principal sources of liquidity included $12.3 million of cash and cash equivalents and a $50 million bank line of credit that expires in October 1999. There were borrowings under the line of credit ranging from $1 to $29 million in 1998. However, no borrowings were outstanding as of December 31, 1998. The decrease in cash and cash equivalents of $8.8 million for 1998 is principally due to the purchases of plant and equipment amounting to $29.9 million, offset by $16.5 million of funds provided by operations. The cash provided by operating activities was primarily due to net income (before certain non-cash charges including depreciation and amortization, the write-off of goodwill and other intangibles and the loss on sale of the network management business) offset by significant increases in notes receivable. Additionally, the decrease in cash is being partially offset by cash received from the issuance of common stock (or the result of stock option exercises) of $7.4 million. Notes receivable increased $20.1 million for 1998 due to additional requests from customers for financing primarily related to the sales of paging and voice mail products. Approximately 78% of the notes receivable balance as of December 31, 1998

consists of receivables from three customers. One customer, who accounts for $48.2 million, has a limited operating history, is highly leveraged and is engaged in the buildout of a major narrowband personal communications services network in the newly introduced market of advanced voice and text paging. This customer's ability to complete its network buildout and continue ongoing operations is dependent on

continued financing support from its vendors and financial institutions and its ability to access other capital markets. As of December 31, 1998, the principal due dates of the amounts owing from this customer range from March 2000 to December 2002. Deferred income taxes increased $6.6 million primarily due to research and development credit carrryforwards and temporary differences.

In 1996, the Board of Directors of the Company authorized a repurchase program to buy back 2.5 million shares of the Company's common stock. No shares were repurchased under this program in 1997 or 1998. Additionally, in 1996, the Company began the implementation of a new operating business system. This business system became fully operational by the second quarter of 1998; $3.5 million of costs were incurred and capitalized in 1998 related to this implementation.

The Company's cash and cash equivalents generally consist of high-grade commercial paper, bank certificates of deposit, Treasury bills, notes or agency securities guaranteed by the U.S. Government, and repurchase agreements backed by U.S. Government securities with original maturities of three months or less. The Company expects to use its cash and cash equivalents and bank line of credit for working capital and other general corporate purposes, including the expansion and development of its existing products and markets and the expansion into complementary businesses. Additionally, the competitive telecommunications market often requires customer financing commitments. These commitments may be in the form of guarantees, secured debt or lease financing. At December 31, 1998, the Company had agreements to finance and arrange financing for approximately $73 million of paging and voice mail products. Further, at December 31, 1998, the Company had committed, subject to customers meeting certain conditions and requirements, to finance approximately $6 million for similar systems. The Company cannot currently predict the extent to which these commitments will be utilized, since certain customers may be able to obtain more favorable terms using traditional financing sources. From time to time, the Company also arranges for third-party investors to assume a portion of its commitments. If exercised, the financing arrangements will be secured by the equipment sold by Glenayre.

During 1997 Glenayre began the construction phase for a 110,000 square foot expansion of its Vancouver facility to be used primarily for research and development and service. The total cost of the expansion was expected to be approximately $19.0 million and was to be paid throughout the construction period in 1998 and 1999. However, during the first quarter 1999, the Company halted the construction in progress on the facility and revised plans to complete only a parking facility and a 16,000 square foot first level at an estimated total cost of $11.7 million Approximately $900,000 and $6.3 million paid toward architecture, engineering and construction costs related to the new expansion are included in capital expenditures for the year ended December 31, 1997 and 1998, respectively. Commitments of approximately $2.5 million relating to the termination of the construction contract are included in the estimated $4.5 million total costs to complete.

The Company believes that funds generated from continuing operations, together with its current cash reserves and bank line of credit, will be sufficient to (i) support the short-term and long-term liquidity requirements for current operations (including annual capital expenditures and customer financing commitments) and (ii) to repurchase shares as discussed above. Company management believes that, if needed, it can establish additional borrowing arrangements with lending institutions.

INCOME TAX MATTERS. For 1998, Glenayre's actual cash outlay for taxes was

limited to U.S. alternative minimum tax and foreign and state income taxes primarily due to the availability of foreign sales corporation benefits and the utilization of research and development tax credits. In 1997 and prior years, the Company had a favorable income tax position principally because of the existence of a significant amount of U.S. tax net operating loss carryforwards established prior to 1988. These tax loss carryforwards were available to shelter U.S. taxable income generated by the Company. Therefore, the Company's actual cash outlay for income taxes in 1997 and prior years was limited to U.S. alternative minimum tax and foreign and state income taxes. The remainder of prior NOLs were utilized in 1997.

As described in Note 7 to the Company's Consolidated Financial Statements, the Company at December 31, 1998 had U.S. NOLs aggregating $33 million related to 1997 acquisitions of ODC and WAI. However, the ability to utilize the acquired NOLs to offset future income is subject to restrictions and there can be no assurance that they will be utilized in 1999 or future periods. Additionally, as the volume of international sales grows, the percentage of worldwide income taxable in international jurisdictions may increase in the future. As a result, the cash tax rate may be significantly higher in 1999 compared to 1998 and recent years.

The Company has recorded a deferred tax asset of $21 million, net of a valuation allowance of $16 million, at December 31, 1998, in accordance with SFAS 109. This amount represents management's best estimate of the amount of NOLs and other future deductions that are more likely than not to be realized as offsets to future taxable income. The factors that affect the amount of U.S. taxable income in the future, in relation to reported income before income taxes, include primarily the amount

of employee stock options exercised and the portion of such income taxable in jurisdictions outside the U.S., both of which reduce the amount of income subject to U.S. tax, and therefore reduce the utilization of existing net operating loss carryforwards.

YEAR 2000 COMPLIANCE. Until recently, computer programs were generally written using two digits rather than four to define the applicable year. Accordingly, such programs may be unable to distinguish properly between the Year 1900 and Year 2000. This could result in system failures or data corruption for the Company, its customers or suppliers which could cause disruptions of operations, including, among other things, a temporary inability to process transactions or engage in business activities or to receive information, services, raw materials and supplies, or payment from suppliers, customers or business partners or any other companies with which the Company conducts business.

The Company has developed a comprehensive plan intended to address Year 2000 issues. As part of the plan, the Company has selected a team to identify, evaluate and implement remediation efforts aimed at making the Company's information technology, non-information technology systems and products Year 2000 ready prior to December 31, 1999. During 1998, the team completed its assessment of the Company's information technology, non-technology systems, and products and established milestones and detailed plans so that the Company's research programs, products and internal infrastructure are reviewed and the necessary changes made.

The Company's information technology remediation efforts related to internal operating systems is complete for the Charlotte, Quincy, Vancouver and Atlanta facilities. The Company's efforts in 1999 will consist of remediation efforts at WAI, which are anticipated to be completed in the second quarter of 1999. The Company has also prioritized and completed the significant steps of its non-information technology systems plan. The Company's remaining remediation efforts relate to non-information technology systems and products which are expected to be completed during fiscal 1999. If the Company's remaining remediation efforts are not completed on a timely basis, the Year 2000 issue could have an adverse effect on the Company's operations and customers.

Based upon the remediation efforts completed, the Company does not believe a formal contingency plan will be required. Individual locations or business units will develop informal contingency plans in the event that they do not expect to be fully Year 2000 compliant within the current time estimates. To date, the cost of the Company's Year 2000 assessment and remediation efforts has not been material to the Company's results of operations or liquidity. The total expenditures as of December 31, 1998 to remediate the Company's Year 2000 issues, inclusive of its ongoing systems initiatives is approximately $200,000 and is related primarily to product Year 2000 readiness assessments and minor infrastructure upgrades. 1999 expenditures are not expected to exceed $500,000. The Company is funding the expenditures related to the Year 2000 plan with cash flows from operations. The capitalization or expense of the foregoing expenditures will be determined using current authoritative guidance.

The Company is also communicating with its significant suppliers, customers and business partners to coordinate Year 2000 conversion efforts. Currently, the Company is unaware of any material exposures or contingencies in regards to these parties. However, the Company cannot reasonably estimate the potential impact on its financial position, results of operations or cash flows in the event these parties do not become Year 2000 compliant on a timely basis.

INFLATION. For the three fiscal years ended December 31, 1998, the Company does not believe inflation has had a material effect on its results of operations.

FACTORS AFFECTING FUTURE OPERATING RESULTS

This Form 10-K, the Company's Annual Report to Stockholders, any Form 10-Q or any Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company include forward-looking statements reflecting the Company's current views with respect to future events and financial performance.

Although certain cautionary statements have been made in this Form 10-K relating to factors which may affect future operating results, a more detailed discussion of these factors is set forth in Exhibit 99 to this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and its subsidiaries as of December 31, 1998, 1997 and 1996 and for each of the three years in the period ended December 31, 1998, as well as the report of independent auditors thereon, are set forth on the following pages. The index to such financial statements and required financial statement schedules is set forth below and at Item 14(a) of this Annual Report on Form 10-K.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

(i) Financial Statements:

<TABLE>
<CAPTION>

(ii) Supplemental Schedules:

All other schedules are omitted because they are not applicable or not required.

REPORT OF INDEPENDENT AUDITORS

Stockholders
Glenayre Technologies, Inc.

We have audited the consolidated balance sheets of Glenayre Technologies, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glenayre Technologies, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed more fully in Note 1, the Company has modified the methods used to value acquired in-process research and development recorded and written off in connection with the Company's 1997 acquisitions of Open Development Corporation and Wireless Access, Inc. and, accordingly, has restated the consolidated financial statements for the fiscal year ended December 31, 1997 to reflect this change.

ERNST & YOUNG LLP

Charlotte, North Carolina
February 15, 1999

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,283	$ 21,076
Accounts receivable, net	153,773	152,231
Notes receivable	12,810	8,684
Inventories	46,502	49,302
Deferred income taxes	15,906	13,943
Prepaid expenses and other current assets	5,630	6,810
Total current assets	246,904	252,046
Notes receivable, net	69,041	53,050
Property, plant and equipment, net	109,661	103,641
Goodwill	119,626	164,080
Deferred income taxes	5,679	1,088
Other assets	10,884	16,256
TOTAL ASSETS	$561,795	$590,161
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 31,968	$ 27,133
Accrued liabilities	60,258	61,358
Other current liabilities	206	2,101
Total current liabilities	92,432	90,592
Other liabilities	7,210	7,210
Stockholders' Equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $.02 par value; authorized: 200,000,000 shares; outstanding: 1998-62,064,290 shares; 1997-60,650,761 shares	1,241	1,213
Contributed capital	343,251	333,715
Retained earnings	117,661	157,431
Total stockholders' equity	462,153	492,359
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$561,795	$590,161

</TABLE>

See notes to consolidated financial statements.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
NET SALES	$ 399,942	$ 451,679	$ 390,246

COSTS AND EXPENSES:			
Cost of sales	211,255	217,793	180,468
Selling, general and administrative expense	107,181	100,619	80,428
Research and development expense	52,024	40,425	28,983
Charge for purchased research and development	--	38,700	--
Depreciation and amortization expense	40,086	22,368	13,482
Write-off of goodwill and other intangibles	26,705	5,183	--
Loss on sale of business	7,858	--	--
Total costs and expenses	445,109	425,088	303,361
INCOME (LOSS) FROM OPERATIONS	(45,167)	26,591	86,885
OTHER INCOME (EXPENSES):			
Interest income	8,780	10,577	9,805
Interest expense	(591)	(227)	(151)
Other, net	(180)	(2,147)	112
Total other income	8,009	8,203	9,766
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(37,158)	34,794	96,651
PROVISION FOR INCOME TAXES	2,612	27,855	26,207
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(39,770)	6,939	70,444
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NET OF INCOME TAX BENEFIT OF $362)	--	(688)	--
NET INCOME (LOSS)	$ (39,770)	$ 6,251	$ 70,444
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE:			
Income (loss) before cumulative effect of change in accounting principle	$ (0.65)	$ 0.11	$ 1.16
Cumulative effect of change in accounting principle	--	(0.01)	--
Net income (loss) per weighted average common share	$ (0.65)	$ 0.10	$ 1.16
INCOME (LOSS) PER COMMON SHARE--ASSUMING DILUTION:			
Income (loss) before cumulative effect of change in accounting principle	$ (0.65)	$ 0.11	$ 1.11
Cumulative effect of change in accounting principle	--	(0.01)	--
Net income (loss) per common share--assuming dilution	$ (0.65)	$ 0.10	$ 1.11

</TABLE>

See notes to consolidated financial statements.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS AND SHARES IN THOUSANDS)

<TABLE>
<CAPTION>

	Common Stock	Total

	Shares	Amount	Contributed Capital	Retained Earnings	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1995	60,045	$ 1,201	$ 297,017	$ 92,476	$ 390,694
Net income				70,444	70,444
Stock options exercised	1,393	28	14,061		14,089
Utilization of net operating loss carryforwards			10,027	(10,027)	--
Tax benefit of stock options exercised			16,947		16,947
Repurchase of common stock	(1,570)	(32)	(36,281)		(36,313)
Balances, December 31, 1996	59,868	1,197	301,771	152,893	455,861
Net income				6,251	6,251
Stock options exercised	470	10	2,516		2,526
Shares issued and options assumed in connection with business acquisitions	313	6	26,461		26,467
Utilization of net operating loss carryforwards			1,713	(1,713)	--
Tax benefit of stock options exercised			1,254		1,254
Balances, December 31, 1997	60,651	1,213	333,715	157,431	492,359
Net loss				(39,770)	(39,770)
Stock options exercised	1,413	28	7,328		7,356
Tax benefit of stock options exercised			2,208		2,208
Balances, December 31, 1998	62,064	$ 1,241	$ 343,251	$ 117,661	$ 462,153

</TABLE>

See notes to consolidated financial statements.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (39,770)	$ 6,251	$ 70,444
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	40,086	22,368	13,482
Changes in deferred income taxes	(6,554)	18,164	5,392
Loss on disposal of equipment	1,166	254	82
Loss on sale of business	7,858	--	--
Charge for purchased research and development	--	38,700	--
Write-off of goodwill and other intangibles	26,705	5,183	--
Tax benefit of stock options exercised	2,208	1,254	16,947
Other noncash expenses	--	--	121
Changes in operating assets and liabilities, net of effects of business dispositions and acquisitions:			
Accounts receivable	(2,892)	(27,922)	(30,586)
Notes receivable	(20,427)	(38,084)	(388)
Inventories	2,800	7,083	(415)
Prepaids and other current assets	1,140	2,172	(768)
Other assets	384	(1,127)	(559)
Accounts payable	4,842	1,168	3,905

Accrued liabilities	(2,923)	8,532	4,619
Other liabilities	1,878	720	1,207
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,501	44,716	83,483
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(29,949)	(32,889)	(43,017)
Proceeds from sale of equipment	180	46	123
Maturities of short-term investments	--	164,103	171,812
Purchases of short-term investments	--	(86,087)	(205,774)
Acquisitions, net of cash acquired	--	(123,646)	--
NET CASH USED IN INVESTING ACTIVITIES	(29,769)	(78,473)	(76,856)

</TABLE>

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term borrowings	(2,881)	(1,478)	(1,279)
Issuance of common stock	7,356	2,526	14,150
Common stock repurchases	--	--	(36,313)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,475	1,048	(23,442)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,793)	(32,709)	(16,815)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,076	53,785	70,600
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,283	$ 21,076	$ 53,785
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 606	$ 114	$ 140
Income taxes	5,277	6,290	6,183

</TABLE>

SUPPLEMENTAL INFORMATION OF NONCASH INVESTING AND FINANCING ACTIVITIES:

On January 9, 1997, the Company acquired CNET, Inc. ("CNET"). In connection with this acquisition the Company paid $1,194,000 (including $194,000 in acquisition costs) and issued common stock valued at $6,541,000 for assets with a fair value of $11,853,000 and assumed liabilities of $4,118,000.

On October 15, 1997, the Company acquired Open Development Corporation ("ODC"). In connection with this acquisition the Company paid $44,742,000 (including $1,355,000 in acquisition costs) and assumed options to purchase common stock valued at $3,289,000 for assets and in-process research and development with a fair value of $59,040,000 and assumed liabilities of $11,009,000.

On November 3, 1997, the Company acquired Wireless Access, Inc. ("WAI"). In connection with this acquisition the Company paid $83,779,000 (including $1,939,000 in acquisition costs) and assumed options to purchase common stock

valued at $16,636,000 for assets and in-process research and development with a fair value of $108,801,000 and assumed liabilities of $8,386,000.

See notes to consolidated financial statements.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

1. BUSINESS ACQUISITIONS

(A) CNET, INC. ACQUISITION AND SUBSEQUENT SALE

On January 9, 1997, the Company completed the acquisition of CNET, Inc. ("CNET"), located in Plano, Texas. CNET develops and provides integrated operational support systems, network management, traffic analysis, and radio frequency propagation software products and services for the global wireless communications industry. CNET licenses its products to cellular, paging and personal communications services operators and wireless equipment manufacturers worldwide. The purchase price of $7.7 million consisted of 369,983 shares of the Company's common stock (including 56,620 shares issuable upon exercise of stock options) valued at $6.5 million, $1.0 million in cash and $194,000 in acquisition costs. The Company's consolidated financial statements for the year ended December 31, 1997 include the operating results of CNET for the period January 9, 1997 to December 31, 1997. The acquisition was accounted for as a purchase business combination with the purchase price allocated, as follows:

Current assets	$ 1,752
Equipment	412
Goodwill	9,343
Other non-current assets	346
Liabilities assumed	(4,118)
	$ 7,735

In the fourth quarter of 1997, Company management identified significant adverse changes in the market size for CNET's existing products. These changes were primarily due to fewer than anticipated end uses of the network management tool and significant on-going development costs of the radio frequency propagation software. These conditions led to operating results and forecasted future results that were substantially less than had been anticipated at the time of the Company's acquisition of CNET.

Due to the above changes, the Company revised its projections in the fourth quarter of 1997 and determined that its projected results would not fully support the future amortization of the goodwill balance. In accordance with the Company's policy, management assessed the recoverability of goodwill using an undiscounted cash flow projection based on the remaining amortization period of six years. Based on this projection, the cumulative undiscounted cash flow over the remaining amortization period was insufficient to fully recover the CNET goodwill balance of $8.1 million. At December 31, 1997, the Company wrote off the short-fall of $5.2 million.

In December 1998, the Company sold its network management business which it had been operating since the acquisition of CNET in January 1997. Under the terms of the sale agreement, the Company will receive proceeds from the sale only if certain future revenue milestones are met by the acquirer. These contingent amounts, which cannot exceed $1.0 million, will be recorded by the Company when they are received. At the time of sale, the network management business had net assets of approximately $5.2 million. A loss on disposal of $7.9 million was reported in income from operations before income taxes in connection with the sale for the year ended December 31, 1998. The loss on sale consists of the write-offs of assets, facility closing costs, severance payments to employees,

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

certain transition costs associated with training employees of the buyer and other charges related to the sale.

(B) OPEN DEVELOPMENT CORPORATION ACQUISITION

On October 15, 1997, the Company completed the acquisition of Open Development Corporation ("ODC"), located in Norwood, Massachusetts. ODC is a developer of database management platforms and products for telecommunications providers. The purchase price of $48.0 million consisted of 242,066 shares issuable upon exercise of stock options of the Company's common stock valued at $3.3 million, $43.4 million in cash and $1.3 million in

acquisition costs. The Company's consolidated financial statements for the year ended December 31, 1997 include the operating results of ODC for the period October 15, 1997 to December 31, 1997. The acquisition was accounted for as a purchase business combination with the purchase price allocated, as follows:

Current assets	$ 2,979
Equipment	3,808
Goodwill	30,581
Purchased research and development charged to operations	16,400
Other intangibles	3,700
Deferred tax asset	996
Other non-current assets	576
Liabilities assumed	(11,009)
	$ 48,031

Actual 1998 revenue and earnings from ODC's products were significantly lower than anticipated at the date of acquisition, which significantly impacted the Company's 1998 results. These lower than anticipated results were primarily attributed to a strategic change in market strategy during 1998 for ODC's products. This strategic change was from a multiple market approach for the prepaid wireless, prepaid wireline, and postpaid calling markets to a single market approach focused solely on the prepaid wireless market, thus eliminating two markets in which the products were expected to be sold. Operating projections prepared prior to the acquisition included revenue related to all three of these markets. Management believes that its future concentration for the ODC products should continue to be primarily in the prepaid wireless market. Given this strategic change, the Company anticipates that the future forecasted results for the ODC products will be significantly less than had been anticipated at the time of the Company's acquisition of ODC. As a result of this strategic change, the ODC Norwood, Massachusetts operating facility is being closed in the first quarter 1999 with research and development and administrative functions relocating to the Company's Atlanta facility. ODC's products will be manufactured at Glenayre's Vancouver facility.

After making these changes, the Company evaluated the ongoing value of the noncurrent assets of ODC. Based on this evaluation, the Company determined that assets, principally goodwill and other intangibles, with a carrying value of $30.9 million were impaired and wrote them down by $26.7 million to their fair value. Fair value was based on estimated future discounted cash flows to be generated by ODC.

(C) WIRELESS ACCESS, INC. ACQUISITION

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

On November 3, 1997, the Company completed the acquisition of Wireless Access, Inc. ("WAI"), located in Santa Clara, California. WAI develops and markets two-way paging devices. The purchase price of $100.4 million consisted of 1,341,916 shares issuable upon exercise of stock options of the Company's common stock valued at $16.6 million, $81.9 million in cash and $1.9 million in acquisition costs. The Company's consolidated financial statements for the

year ended December 31, 1997 include the operating results of WAI for the period November 3, 1997 to December 31, 1997. The acquisition was accounted for as a purchase business combination with the purchase price allocated, as follows:

Current assets	$ 13,076
Equipment	1,354
Goodwill	59,500
Purchased research and development charged to operations	22,300
Other intangibles	10,035
Deferred tax asset	2,536
Liabilities assumed	(8,386)
	$ 100,415

Pro forma results of operations assuming the acquisitions of CNET, ODC, and WAI had occurred as of January 1, 1996 have not been presented because their effect on net sales and net income would not be significant.

During the fourth quarter 1998 and the first quarter 1999, the Company and the Staff of the Securities and Exchange Commission (the "Staff") had communication with respect to the methods used to value acquired in-process technology recorded and written off at the date of acquisition. As a result, the Company has modified the methods used to value acquired in-process technology in connection with the Company's 1997 acquisitions of ODC and WAI and has restated its 1997 financial statements.

The amounts allocated to purchased research and development for ODC and WAI were determined through established valuation techniques in the high-technology communications industry, were based on adjusted after-tax cash flows that give explicit consideration to the Staff views on in-process research and development as set forth in its September 15, 1998 letter to the American Institute of Certified Public Accountants, and were expensed upon acquisition, because technological feasibility had not been established and no future alternative uses existed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Glenayre is a worldwide provider of telecommunications equipment and related software used in the wireless personal communications service markets including wireless messaging, voice processing, mobile data systems and point-to-point wireless interconnection products. The Company designs, manufactures, markets and services its products principally under the Glenayre name. These products include switches, transmitters, receivers, controllers, software, paging devices and other equipment used in personal communications systems (including paging, voice messaging, cellular, and message management and mobile data systems), microwave communication systems and radio telephone systems.

USE OF ESTIMATES

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

CONSOLIDATION

The consolidated financial statements include the accounts of Glenayre Technologies, Inc. and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

OPERATING CYCLE

Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the consolidated balance sheets, as they will be liquidated in the normal course of contract completion.

CASH EQUIVALENTS

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

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

INVENTORIES

Inventories are valued at the lower of average cost or market.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally using the straight-line method based on the estimated useful lives of the related assets (buildings, 20-40 years; furniture, fixtures and equipment, 3-7 years).

GOODWILL

Goodwill represents the excess of cost over assigned fair market value of net assets acquired and is being amortized on a straight-line basis over estimated useful lives ranging from 7 to 30 years. Goodwill is shown net of accumulated amortization of $29.1 million and $18.0 million at December 31, 1998 and 1997, respectively. The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the expected future undiscounted cash flow of the entity acquired over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall. In addition, the Company assesses long-lived assets for impairment under FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED Of. Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the

carrying amount of those assets may not be recoverable.

FOREIGN CURRENCY TRANSLATION

The accounts of foreign subsidiaries have been translated into U.S. dollars using the current exchange rate in effect at the balance sheet date for monetary assets and liabilities; and for non-monetary items, the exchange rates in effect when acquired. Revenues and expenses are translated into U.S. dollars using average exchange rates, except for depreciation, which is translated at the exchange rate in effect when the related assets were acquired. The resulting gains or losses on currency translations, which are not significant, are included in the consolidated statements of income.

REVENUE RECOGNITION

The Company recognizes revenues at the time products are shipped (except for certain long-term contracts described below) and collection of the resulting receivable is deemed probable by the Company. Existing customers may purchase product enhancements and upgrades after such enhancements or upgrades are developed by the Company. The Company has no obligations to customers after the date products, product enhancements and upgrades are shipped, except for product warranties as described below.

The Company recognizes fees from installation and repair services when such services are provided to customers. Revenues derived from contractual postcontract support services are recognized ratably over the one-year contract period of required support.

The Company uses the percentage-of-completion method to recognize revenues on certain long-term telecommunications hardware and installation contracts. Earnings are accrued based on the completion of key contract performance requirements. As long-term contracts extend over one or more years, revisions in cost and profit estimates are reflected in the accounting period in which the facts that require the revision become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

SOFTWARE COSTS

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

Pursuant to Emerging Issues Task Force Issue No. 97-13 ("EITF No. 97-13"), issued in November 1997, the Company changed its accounting policy in the fourth quarter of 1997, regarding a project to implement a new business operating system that it began in 1996 and completed in the second quarter of 1998. Prior to the fourth quarter of 1997, substantially all direct costs relating to the project were capitalized, including the portion related to business process reengineering. Under EITF No. 97-13, the unamortized balance of these reengineering costs as of November 20, 1997 of approximately $1,050,000, or $688,000 after tax benefit ($.01 per share), was written off as a one-time, non-cash, cumulative effective adjustment in the fourth quarter of 1997.

ESTIMATED WARRANTY COSTS

The Company warrants its telecommunications products other than certain transmitters for one year after sale. The majority of the Company's transmitters and paging devices are warranted for two years after sale. A provision for

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

estimated warranty costs is recorded at the time of sale.

STOCK-BASED COMPENSATION

The Company grants stock options and issues shares under option plans and an employee stock purchase plan as described in Note 12 to the Company's Consolidated Financial Statements. The Company accounts for stock option grants and shares sold under the employee stock purchase plan in accordance with APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and, accordingly, records compensation expense for options granted and sales made at prices that are less than fair market value at the date of grant or sale. No compensation expense is recognized for options granted to employees with an exercise price equal to the fair value of the shares at the date of grant.

INCOME TAXES

Income taxes have been provided using the liability method in accordance with SFAS 109, ACCOUNTING FOR INCOME TAXES.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

On December 31, 1998, the Company adopted FASB Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("SFAS 131"). The new rules establish revised standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. The adoption of SFAS 131 did not have a material effect on Glenayre's primary financial statements, but did affect the disclosure of segment information contained elsewhere herein. See Note 9 to the Company's Consolidated Financial Statements.

On December 31, 1998, the Company adopted FASB Statement No. 132, EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS ("SFAS 132"). SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans. The adoption of SFAS 132 will have no impact on the Company's consolidated results of operations, financials position or cash flows.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which is required to be adopted in years beginning after June 15, 1999. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable at December 31, 1998 and 1997 consist of:

	1998	1997
Trade receivables	$ 154,342	$ 151,949
Retainage receivables	1,256	1,028
Other	4,005	3,796

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	159,603	156,773
Less: allowance for doubtful accounts	(5,830)	(4,542)
	$ 153,773	$ 152,231

Trade receivables at December 31, 1998 and 1997 included unbilled costs and estimated earnings under contracts in the amount of approximately $30.5 million and $8.3 million, respectively. Unbilled amounts are invoiced upon reaching certain milestones.

Notes receivable at December 31, 1998 and 1997 consist of:

	1998	1997
Current	$ 12,810	$ 8,684
Non-current ...	74,518	57,092
	87,328	65,776
Less: reserves	(5,477)	(4,042)
	$ 81,851	$ 61,734

Concentrations of credit risk with respect to accounts receivable are generally limited due to the large number of entities comprising the Company's customer base. However, as of December 31, 1998 principally all of the Company's receivables are concentrated in the telecommunications industry. Further, approximately 78% of notes receivable as of December 31, 1998 consist of receivables from three customers, one of which accounts for $48.2 million, has a limited operating history, is highly leveraged and is engaged in the buildout of a major narrowband personal communications services network in the newly introduced market of advanced voice and text paging. Due to significant start-up expenses incurred by this one customer, Glenayre agreed to long-term financing agreements. As of December 31, 1998, the principal due dates of the amounts owing from this one customer range from March 2000 to December 2002. This customer's ability to complete its network buildout and continue on-going operations is dependent on continued financing support from its vendors and financial institutions and its ability to access other capital markets. Approximately 78% of notes receivable are from customers located in the U.S. with the remaining balance predominately from customers located in the Pacific Rim and South America. Generally, all notes receivable are secured by the related equipment.

4. INVENTORIES

Inventories at December 31, 1998 and 1997 consist of:

	1998	1997
Raw materials.....	$26,046	$25,970
Work in process.....	11,818	10,813
Finished goods.....	8,638	12,519
	$46,502	$49,302

5. PROPERTY, PLANT AND EQUIPMENT

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Property, plant and equipment at December 31, 1998 and 1997 consist of:

	1998	1997
Land	$ 3,746	$ 3,746
Buildings	47,829	41,320
Equipment	109,370	91,179
Leasehold improvements	2,376	2,586
	163,321	138,831
Less: Accumulated depreciation	(53,660)	(35,190)
	$ 109,661	$ 103,641

6. ACCRUED LIABILITIES

Accrued liabilities at December 31, 1998 and 1997 consist of:

	1998	1997
Accrued project costs	$9,805	$13,290
Accrued warranty costs	7,951	3,814
Accrued payroll costs	14,170	16,288
Accrued restructuring costs	4,323	--
Accrued income taxes	5,090	4,134
Other accruals	18,919	23,832
	$60,258	$61,358

7. INCOME TAXES

The Company's income tax provision consists of the following:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Current provision:			
United States Federal	$ (445)	$ 25,544	$ 12,978
Charge equivalent to tax benefit of stock option exercises	2,208	1,254	16,947
Foreign	4,006	3,802	2,432
State and local	(96)	2,160	3,032
Total current	5,673	32,760	35,389
Deferred provision (benefit):			
Before valuation allowance adjustment	(2,861)	(3,192)	845
Adjustment to federal net operating loss carryforward	664	--	--
Adjustment to state net operating loss carryforward	1,422	--	--
Adjustment to valuation allowance	(2,286)	(1,713)	(10,027)
Total deferred benefit	(3,061)	(4,905)	(9,182)
Total provision	$ 2,612	$27,855	$26,207

	========	=======	=======

The sources of income (loss) before income taxes are presented as follows:

	1998	1997	1996
United States.....	$(49,049)	$18,758	$84,880
Foreign	11,891	16,036	11,771
	$(37,158)	$34,794	$96,651

</TABLE>

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

The consolidated income tax provision was different from the amount computed using the U.S. statutory income tax rate for the following reasons:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income tax provision at U.S. statutory rate	(13,005)	$ 12,177	$ 33,828
Reduction in valuation allowance	(2,286)	(1,713)	(10,027)
Reduction in federal net operating loss carryforwards due to sale of business	664	--	--
Reduction in state net operating loss carryforwards	1,422	--	--
Foreign taxes at rates other than U.S. statutory rate	716	(1,229)	(1,201)
U.S. research and experimentation credits	(905)	(953)	(977)
Foreign tax credits	(639)	--	--
State taxes (net of federal benefit)	378	412	3,474
Benefit from Foreign Sales Corporation	(1,060)	--	--
Non-deductible loss on sale of business	1,374	--	--
Non-deductible charge for purchased research and development	--	14,701	--
Write-off of non-deductible goodwill and other intangibles	9,141	--	--
Non-deductible goodwill	6,812	4,460	1,110
Income tax provision	$ 2,612	$27,855	$ 26,207

</TABLE>

The tax effect of temporary differences and net operating loss carryforwards ("NOLs") that gave rise to the Company's deferred tax assets and liabilities at December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Assets:		
U.S. net operating loss carryforwards.....	$11,654	$12,318
State net operating loss carryforwards.....	1,397	2,816
Other.....	31,767	22,304

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	44,818	37,438
Less: Valuation allowance.....	(16,216)	(18,502)
	28,602	18,936
Liabilities.....	(7,017)	(3,905)
Deferred tax asset, net.....	$21,585	$15,031

</TABLE>

The deferred tax asset is broken down between current and noncurrent amounts in the accompanying 1998 consolidated balance sheet according to the classification of the related asset and liability or, in the case of tax loss carryforwards, based on their expected utilization date.

The decrease in the valuation allowance of $2.3 million during the year ended December 31, 1998 is related primarily to the reduction in net operating loss carryforwards. The valuation allowance related specifically to all carryforwards, including various credits, of acquired companies is $14.3 million. The Company believes that it is more likely than not that the net deferred tax asset recorded at December 31, 1998 will be fully realized.

At December 31, 1998 and December 31, 1997, the Company has U.S. NOLs of $33 million and $34 million, respectively, which expire beginning in 2005. All of these NOLs relate to companies acquired during the year ended December 31, 1997. The Company's ability to use the NOLs to offset future income is subject to restrictions enacted in the United States Internal Revenue Code of 1986 as amended (the "Code"). These restrictions limit the Company's

future use of the NOLs. As a result, the potential tax benefit of the NOLs has been fully reserved as part of the deferred tax asset valuation allowance.

As of December 31, 1996, the Company had net operating loss carryforwards of $70 million. All of these NOLs were utilized during the year ended December 31, 1997. Subsequent to a quasi-reorganization completed on February 1, 1988, the benefits derived from the utilization of these tax net operating loss carryforwards are reported in the statement of operations in the year such tax benefits are realized and then reclassified from retained earnings to contributed capital. The Company adopted the accounting method for utilization of these tax net operating loss carryforwards outlined above on February 1, 1988. On September 28, 1989, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 86 ("SAB 86") which set forth the SEC staff's position with respect to this accounting treatment. According to the SEC staff's interpretation of SFAS 96 contained in SAB 86, realized tax benefits should be reported as a direct addition to contributed capital. Subsequently, the Company consulted with SEC staff and determined that the SEC staff would not object to the accounting method outlined above for companies which had adopted such accounting methods prior to the issuance of SAB 86.

If the original guidance in SAB 86 had been applied, the Company's net income for the years ended December 31, 1997 and 1996 would have been reduced by the amount of the benefit from utilization of tax net operating loss carryforwards. Such reduction in net income would have been $1,713,000 ($.03 per share) in 1997, and $10,027,000 ($.16 per share) in 1996.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $36.7 million at December 31, 1998. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal

and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately $1.7 million would be payable upon remittance of all previously unremitted earnings at December 31, 1998.

8. BUSINESS RESTRUCTURING

During 1998 the Company recorded a pre-tax charge of $8.0 million related to restructuring its global workforce, exiting facilities and impairment of associated long-lived assets. Separate charges were recorded in the first and fourth quarters of the year. The first quarter charge related to consolidating the Company's paging research and development efforts from two locations into one location. This pre-tax charge amounted to $1.2 million, all of which related to employee severance and outplacement expenses. The fourth quarter charge amounted to $6.8 million and related to a 10% reduction of the Company's global workforce, the exiting of two leased facilities and an impairment charge for assets to be abandoned, principally leasehold improvements. Included in the fourth quarter charge are the following expenses: $3.3 million for severance and outplacement of terminated employees, $2.1 million for costs associated with exiting facilities and $1.4 million related to write-down of long-lived assets.

The total pre-tax charge for restructuring, exiting leased facilities and impairment of assets of $8.0 million was recorded as $1.0 million of cost of sales, $3.8 million of selling, general and administrative expenses and $3.2 million of research and development expenses.

During the year ended December 31, 1998 the Company paid approximately $2.3 million of the restructuring charge in cash and took a non-cash charge of approximately $1.4 million related to an asset write-down and other adjustments. The cash payments relate principally to employee termination costs. The restructuring charges

incorporated severance for approximately 320 employees. The work force has been reduced by approximately 310 employees as of December 31, 1998.

At December 31, 1998 the Company had $4.3 million accrued to cover remaining charges. Management believes the remaining reserves for business restructuring are adequate to complete its plan.

9. SEGMENT REPORTING

Glenayre is a worldwide provider of telecommunications equipment and related software used in the wireless personal communications service markets including wireless messaging, voice processing, mobile data systems and point-to-point wireless interconnection products. Sales to one customer amounted to approximately 10%, 11% and 15% of net sales for 1998, 1997 and 1996, respectively in the paging segment. An additional customer, in the paging segment, accounted for 12% of net sales in 1998.

Glenayre has three principal businesses which are managed separately due to

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

different product market areas: Paging; Mobile and Fixed Network; and Microwave Communication.

Glenayre's Paging segment includes switches, transmitters, receivers, controllers and related software provided by the Company's Wireless Messaging Group as well as service and support groups for these products. Paging is a method of wireless telecommunication which uses an assigned radio frequency to contact a paging subscriber anywhere within a service area. Additionally the Paging segment includes the Company's two-way paging devices since the acquisition of WAI in November 1997. WAI designs, develops and markets innovative, low-power, two-way wireless data messaging devices.

Glenayre's Mobile and Fixed Network segment includes products and support services from the Company's Integrated Network Group. This segment is comprised of the Company's INTELLIGIS product line including (i) the MVP system, (ii) from January 1997 to December 1998, network management systems developed by the Company's Options group (formerly known as CNET), and (iii) since October 1997 data management systems for calling card services developed by ODC.

Glenayre's Microwave Communication segment includes products for use in point-to-point microwave communications systems, designed, manufactured and marketed by the Company's Western Multiplex Group. These products include microwave radios (analog and digital transmission formats) and analog baseband products.

The Company evaluates performance and allocates resources based on income from operations before income taxes, which excludes interest income (expense) and other income (expense). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Segment income (loss) excludes corporate activities and special charges. Business assets used by each business are allocated to the segments except that assets used in the manufacturing of the MVP system are included in the Paging segment. However, depreciation expense is allocated to the appropriate segment using a percentage of manufacturing costs incurred for the reporting period.

Corporate activities include operating expenses (including depreciation expense) for the following corporate functions: (i) administration and finance (ii) information technology services (iii) legal services (iv) business development, (v) marketing communications and (vi) human resources. Corporate assets include cash and cash equivalents, short-term investments and fixed assets associated with corporate functions. Other assets consist of the Company's current and long-term deferred tax assets.

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
SEGMENT NET SALES			
Paging	$299,315	$348,712	$335,995
Mobile and Fixed Network	67,724	70,611	24,911
Microwave Communication	32,903	32,356	29,340
Total	$399,942	$451,679	$390,246

</TABLE>

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

SEGMENT INCOME (LOSS)	1998	1997	1996
<S>	<C>	<C>	<C>
Paging	$ 35,220	$ 81,892	$ 95,514
Mobile and Fixed Network	(27,473)	4,040	(1,903)
Microwave Communication	1,978	4,393	6,475
Corporate activities	(20,329)	(19,851)	(13,201)
Charge for purchased research and development	--	(38,700)	--
Loss on sale of business	(7,858)	--	--
Write-off of goodwill and other intangibles	(26,705)	(5,183)	--
Interest income	8,189	10,350	9,654
Other income (expense)	(180)	(2,147)	112
Income (loss) before income taxes and cumulative effect of changes in accounting principle	$(37,158)	$ 34,794	$ 96,651

</TABLE>

The Mobile and Fixed Network results for 1998 were impacted by $5.1 million in restructuring charges. Additionally, operating losses of $4.2 million and $3.8 million incurred by the Company's network management business sold in 1998 are included in results for Mobile and Fixed Network for 1998 and 1997, respectively. See Notes 1 and 8.

<TABLE>
<CAPTION>

SEGMENT ASSETS	1998	1997	1996
<S>	<C>	<C>	<C>
Paging	$477,193	$469,462	$321,634
Mobile and Fixed Network	21,577	60,694	10,010
Microwave Communication	34,451	35,563	34,596
Other assets	21,585	15,031	29,663
Corporate assets	6,989	9,411	125,307
Total	$561,795	$590,161	$521,210

</TABLE>
<TABLE>
<S> <C> <C> <C>

SEGMENT LONG-LIVED ASSETS

DEPRECIATION AND AMORTIZATION EXPENSE:	1998	1997	1996
Paging	$26,044	$13,872	$ 7,479
Mobile and Fixed Network	10,263	4,961	3,510
Microwave Communication	1,441	1,598	1,398
Corporate activities	2,338	1,937	1,095
Total	$40,086	$22,368	$13,482

</TABLE>

<TABLE>
<S> <C> <C> <C>

EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT	1998	1997	1996
Paging	$21,811	$24,723	$28,643
Mobile and Fixed Network	4,991	4,311	9,322
Microwave Communication	860	901	1,522
Corporate activities	2,287	2,954	3,530
Total	$29,949	$32,889	$43,017

ADDITION OF LONG-LIVED ASSETS THROUGH BUSINESS ACQUISITIONS:	1998	1997	1996
PAGING:			
Goodwill	$---	$59,500	$---
Other intangibles	---	10,035	---
Equipment	---	1,354	---
MOBILE AND FIXED NETWORK:			
Goodwill	---	39,924	---
Other intangibles	---	3,700	---
Equipment	---	4,220	---
Other non-current assets	---	922	---
	$---	$119,655	$---

</TABLE>

The following geographic area data represents property, plant and equipment by location and trade revenues based on product shipment destination.

<TABLE>

<S>

PROPERTY, PLANT AND EQUIPMENT:	1998	1997	1996
United States	$63,622	$64,781	$45,970
Canada	29,597	23,792	22,569
NE Asia	134	216	8
SE Asia	12,987	12,974	10,613
China	1,226	86	38
Europe, Middle East and Africa	1,593	1,175	874
Latin America	502	617	429
Total	$109,661	$103,641	$80,501

NET SALES	1998	1997	1996
United States	$251,640	$224,488	$237,172
Canada	6,835	9,432	16,270
NE Asia	1,427	18,564	31,123
SE Asia	27,208	68,940	20,661
China	68,349	52,478	40,324
Europe, Middle East and Africa	24,763	48,134	26,339
Latin America	19,603	29,643	13,506
Other Countries	117	---	4,851
TOTAL	$399,942	$451,679	$390,246

</TABLE>

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

10. OPERATING LEASE COMMITMENTS

The Company leases office facilities and various equipment under non-cancellable operating leases. Future minimum lease payments under non-cancellable operating leases (with minimum or remaining lease terms in excess of one year) for calendar years subsequent to December 31, 1998 are as follows:

1999	$4,553
2000	4,200
2001	2,459
2002	1,070
2003	566
Thereafter	1,573
	$14,421

Rent expense amounted to $6,926,000, $4,302,000, and $3,629,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Exit costs of $2.8 million in the aggregate related to the ODC facility closing and the sale of the network management business are included in rent expense for the year ended December 31, 1998.

11. EMPLOYEE BENEFIT PLANS

(A) POSTRETIREMENT HEALTH CARE BENEFITS

The Company provides its U.S. employees with certain health care benefits upon retirement assuming the employees meet minimum age and service requirements. The Company's policy is to fund benefits as they become due.

The actuarial present value of accumulated postretirement benefit obligations at December 31, 1998 and 1997 is as follows:

<TABLE>

	1998	1997
<S>	<C>	<C>
Retirees	$1,037	$531
Fully eligible plan participants	113	231
Other active plan participants	1,045	849
Accumulated postretirement benefit obligation	2,195	1,611
Unrecognized gain (loss)	(32)	281
Unrecognized transition obligation	(712)	(763)
Postretirement benefit liability recognized in balance sheet	$1,451	$1,129

</TABLE>

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

The change in Accumulated Postretirement Benefit Obligation ("APBO") from year to year is as follows:

<TABLE>

	1998	1997
<S>	<C>	<C>
APBO at the beginning of the year	$1,611	$1,420
Service cost	222	195
Interest cost	115	101
Actuarial (gain) loss	293	(54)
Plan participants contributions	30	19
Acquisitions	4	---
Benefits paid	(80)	(70)
APBO at end of the year	$2,195	$1,611

</TABLE>

Net postretirement benefit costs for the years ended December 31, 1998, 1997 and 1996 consist of the following components:

<TABLE>

	1998	1997	1996
<S>	<C>	<C>	<C>
Service cost	$222	$195	$190
Interest cost on APBO	115	101	109
Amortization of gain	(15)	(14)	--
Amortization of transition obligation	51	51	51
	$373	$333	$350

</TABLE>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation as of December 31, 1998 was 8%, decreasing linearly each successive year until it reaches 4.25% in 2009, after which it remains constant. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1998 and the 1998 aggregate interest and services cost by approximately 14.7% and 18.8%, respectively. A one percentage point decrease in the assumed health care cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of December 31,1998 and the 1998 aggregate interest and service cost by approximately 12.3% and 19.0%, respectively. The assumed discount rate used in determining the accumulated postretirement benefit obligation at December 31, 1998 and 1997 was 6.75% and 7.25%, respectively.

(B) DEFINED CONTRIBUTION PLANS

The Company has defined contribution plans covering substantially all of its full-time employees. Under the plans, the employees can contribute a certain percentage of their compensation and the Company matches a portion of the employees' contribution. The Company's contributions under these plans amounted to approximately $3,223,000, $2,787,000 and $2,210,000 during the years ended December 31, 1998, 1997 and 1996, respectively.

12. STOCKHOLDERS' EQUITY

(A) STOCKHOLDERS RIGHTS AGREEMENT

In May 1997, the Company's Board of Directors adopted a Preferred Shares Rights Agreement. The Preferred Shares Rights Agreement was amended on January 14, 1999 (the "Amendment") to provide special provisions with respect to the State of Wisconsin Investment Board ("SWIB"). Under the Preferred Shares Rights Agreement, the Board of Directors declared a dividend of one Right for each outstanding share of common stock to holders of record as of the close of business on June 12, 1997. Initially, the Rights will automatically trade with the common stock and will not be exercisable.

Except as provided in the Amendment with respect to SWIB, if any person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock, or commences a tender or exchange offer that results in that person or group acquiring such level of beneficial ownership, each Rights holder (other than Rights owned by such person or group, which become void) is entitled to purchase, for an exercise price of $80, 1/100th of a share of Series A Junior Participating Preferred Stock. Each fractional preferred share will have economic and voting terms similar to those of one share of common stock, except as provided in the Amendment with respect to SWIB. In the event of such a tender offer or 15% or more stock acquisition, the Rights certificates, after a short period, will trade separately from the common stock and will be exercisable.

Each Right, under certain circumstances, entitles the holder to purchase the number of shares of Glenayre common stock (or, at the discretion of the Board of Directors, shares of Series A Junior Participating Preferred Stock) which have an aggregate market value equal to twice the exercise price of $80. Under certain circumstances, the Board of Directors may exchange each outstanding Right for either one share of Glenayre common stock or 1/100th share of Series A Junior Participating Preferred Stock. The Board may also redeem the Rights at a price of $0.01 per Right.

In addition, except as provided in the Amendment with respect to SWIB, if any person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock and Glenayre either merges with or into another company or Glenayre sells 50% or more of its assets or earning power to another company, each Rights holder (other than Rights owned by such person or group, which become void) is entitled to purchase, for an exercise price of $80, a number of shares of the surviving company which has a market value equal to twice the exercise price.

The Amendment provides that, instead of the 15% beneficial ownership level described above, SWIB's beneficial ownership level will be 20% through January 14, 2000 and, after that date, will be reduced to (i) 15% if SWIB does not beneficially own 15% or more of Glenayre's outstanding common stock on January 14, 2000 or (ii) if SWIB beneficially owns 15% or more of Glenayre's outstanding

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

common stock at the close of business on January 14, 2000, the next highest whole percentage in excess of the percentage of Glenayre's outstanding common stock then beneficially owned by SWIB, not exceeding 20%.

The Rights will expire on May 21, 2007, unless redeemed earlier.

(B) STOCK REPURCHASE PROGRAMS

In September 1996, the Board of Directors authorized the purchase of up to 2.5 million shares of the Company's common stock. No shares under this program were repurchased through December 31, 1998. In December 1994, the Board of Directors authorized the purchase of up to 1.7 million shares of the Company's common stock. The 1994 repurchase program was completed in 1996 with the repurchase of 1,684,375 shares at a total cost of $38.6 million during the term of the program.

(C) STOCK OPTION PLANS

The Company maintains two stock option plans (the "1996 Plan" and the "1991 Plan") which were approved by the stockholders, are administered by a committee of the Board of Directors (the "Committee") and are utilized to promote the long-term financial interests and growth of the Company. The 1996 and 1991 Plans authorize the grant of up to 4,400,000 and 11,475,000 shares, respectively, of the Company's common stock to directors, officers and key employees. Options granted have an option price of the fair market value of the Company's common stock on the date of grant. Options under the plans expire no later than ten years from the grant date.

Activity and price information regarding the Company's stock option plans is summarized as follows:

<TABLE>

<S>	<C> Shares	<C> Price Range
Outstanding, December 31, 1995	5,307	$1.04---$47.67
Granted	1,247	20.00 --- 48.38
Exercised	(1,330)	1.04 --- 44.25
Canceled	(32)	22.44 -- 48.38
Outstanding, December 31, 1996	5,192	1.27 --- 47.67
Granted	586	9.00 --- 21.63
Assumed	1,641	0.08 --- 23.00
Exercised	(470)	0.17 --- 11.11
Canceled	(224)	1.13 --- 44.17
Outstanding, December 31, 1997	6,725	0.08 ---43.59
Granted	2,392	4.44 --- 16.75
Exercised	(1,183)	0.08 --- 13.57
Canceled	(572)	1.13 --- 28.22
Outstanding, December 31, 1998	7,362	$0.17-- $43.59

</TABLE>

Of the outstanding options under the Company's stock option plans at December

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

31, 1998, approximately 4,917,000 are currently exercisable. The weighted-average exercise price for the outstanding and currently exercisable options at December 31, 1998 is $9.51 and $8.36, respectively. The weighted-average exercise price for options granted during the year is $13.40. The weighted average remaining contractual life of options outstanding is 7.5 years.

In November 1996, due to a significant decline in the market price of the Company's common stock, the Committee reduced the exercise price to $23.88 per share on options to purchase 632,667 shares which had been awarded originally at various dates during 1996 at $32.50 to $51.38 per share to employees of the Company. In April 1997, as part of a broader market decline of paging industry stocks, the market value of the Company's stock experienced a further significant decline. In an effort to ensure retention of key technical and management employees, the Committee reduced the exercise price to $9.00 per share on options to purchase 3,005,228 shares which had been awarded originally at various dates from May 1994 to March 1997 at $10.63 to $47.67 per share to employees of the Company.

The reduced exercise price and the original exercise prices reflected the fair market value of the Company's common stock on the date of modification and the dates of the original awards.

In December 1998, the Board of Directors amended the 1996 and 1991 Plans to allow future reductions in option exercise prices only with the prior approval of the Company's stockholders. Further, any amendment or repeal of this provision will require prior approval of the Company's stockholders.

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

<TABLE>

	1998	1997	1996
<S>	<C>	<C>	<C>
Expected Life in Years.....	1 to 4	2 to 6	1.3 to 4
Risk Free Interest Rate.....	5.0% to 5.1%	5.9% to 6.3%	5.8% to 6.2%
Volatility.....	.59	.56	.53
Dividend Yield.....	---	---	---

</TABLE>

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

<TABLE>

	1998	1997	1996
<S>	<C>	<C>	<C>
Pro forma income (loss) before cumulative effect of change in accounting principle.....	$(45,252)	$(3,709)	$59,090
Pro forma income (loss) before cumulative effect of change in accounting principle per share:			
Income (loss) per weighted average common share....	(0.74)	(0.06)	0.98
Income (loss) per common share - assuming dilution.	(0.74)	(0.06)	0.94

</TABLE>

Because FAS 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect is not fully reflected until 1997.

The 1996 and 1997 award modifications described above resulted in (i) a decrease to 1996 pro forma net income of approximately $906,000 ($0.01 per weighted average common share and per common share-assuming dilution); (ii) an increase to the 1997 pro forma loss before cumulative effect in accounting change of approximately $4.3 million ($0.07 per weighted average common share and per common share-assuming dilution) and (iii) an increase to the 1998 pro forma net loss of approximately $852,000 ($0.02 per weighted average common share and per common share-assuming dilution).

Contributed capital was increased $2.2 million, $1.3 million and $16.9 million in 1998, 1997 and 1996, respectively, which represents the income tax benefits the Company realized from stock options exercised during these periods.

(D) EMPLOYEE STOCK PURCHASE PLAN

Effective July 1, 1993, the Company established the Glenayre Technologies, Inc., Employee Stock Purchase Plan (the "ESP Plan") reserving 506,250 shares of common stock. The purpose of the ESP Plan is to give employees an opportunity to purchase common stock of the Company through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company.

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

All regular full-time employees of the Company are eligible to enter the ESP Plan as of the first day of each six-month period beginning every January 1 and July 1. The price for common stock offered under the ESP Plan for each six-month period is equal to 85% of the average market price of the common stock for the five trading days prior to the first day of the six-month period. For the January 1, 1999 to June 30, 1999 period, the stock purchase price will be $3.60. As of December 31, 1998, 403,065 shares had been issued at a purchase price range of $5.60 to $37.07 with 103,185 shares reserved under the ESP Plan.

(E) INCOME (LOSS) PER COMMON SHARE

The following table sets forth the computation of income (loss) per share:

<TABLE>

<S>	1998 <C>	1997 <C>	1996 <C>
Numerator:			
Income (loss) before cumulative effect of change in accounting principle.....	$(39,770)	$6,939	$70,444
Denominator:			
Denominator for basic income (loss) per share - weighted average shares.....	61,550	60,323	60,597
Effect of dilutive securities: stock options.....	---	2,995	2,819
Denominator for diluted income (loss) per share-adjusted weighted average shares and assumed conversions.	61,550	63,318	63,416
Income (loss) before cumulative effect of change in accounting principle per weighted average common share.....	$(0.65)	$0.11	$1.16
Income (loss) before cumulative effect of change in accounting principle per common share - assuming dilution.....	$(0.65)	$0.11	$1.11

</TABLE>

13. COMMITMENTS AND CONTINGENCIES

The Company entered into a new $50 million line of credit agreement in October 1998, which expires in October 1999 and replaces the $50 million line of credit established with the same lending banks in October 1997. Interest on the new line of credit is computed at the (i) higher of the bank's prime rate or the Federal funds rate plus 0.5% or (ii) the Eurodollar rate plus a rate of .625% to 1.25%, at the option of the Company. There is a commitment fee at a per annum rate of 0.25% to 0.375% paid quarterly on the unused portion of the line of credit. The line of credit requires the Company to maintain certain financial ratios and minimum net worth. During the calendar year 1998, borrowings under the $50 million bank lines of credit ranged from $1 million to $29 million.

(TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

There were no borrowings outstanding as of December 31, 1998.

In the normal course of business, the Company issues bid and performance letters of credit which in the aggregate amounted to approximately $15 million and $14 million as of December 31, 1998 and 1997, respectively. These letters of credit have terms from approximately 6 to 58 months. The fair value of these letters of credit is estimated to be the same as the contract values based on the nature of the fee arrangements with the issuing banks.

The competitive telecommunications market often requires customer financing commitments. These commitments may be in the form of guarantees, secured debt or lease financing. At December 31, 1998, the Company had agreements to finance and arrange financing for approximately $73 million of paging and voice mail products. Additionally, at December 31, 1998, the Company had committed, subject to customers meeting certain conditions and requirements, to finance approximately $6 million for similar systems. The Company cannot currently predict the extent to which these commitments will be utilized, since certain customers may be able to obtain more favorable terms using traditional financing sources. From time to time, the Company also arranges for third-party investors to assume a portion of its commitments. If exercised, the financing arrangements will be secured by the equipment sold by Glenayre.

On January 31, 1997 an amended class action complaint consolidating two lawsuits filed in the fourth quarter of 1996 (the "Complaint") was filed in the United States District Court for the Southern District of New York against the Company and certain of its executive officers and directors. The Complaint was dismissed in November 1997, but the plaintiffs were granted the right to amend and refile. An amended Complaint was refiled December 19, 1997 and dismissed on December 29, 1998 without the right to refile. The dismissal was appealed by the plaintiffs to the United States Court of Appeals for the Second Circuit on January 28, 1999. On February 20, 1997, a shareholder's derivative complaint (the "Shareholder's Complaint") was filed in the United States District Court for the Southern District Court of New York against certain current and former directors and against the Company, as a nominal defendant, alleging that the directors breached their fiduciary obligations to the Company by subjecting the Company to the class action referred to above. As the derivative action is based on allegations that the class action has merit, it is likely to remain in suspension until the appeal is resolved. Additionally, the Company is currently involved in various other disputes and legal actions related to its business operations. In the opinion of the Company, the ultimate resolution of these actions will not have a material effect on the Company's financial position, or future results of operations or cash flows.

<TABLE>

14. INTERIM FINANCIAL DATA--UNAUDITED

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
<S>	<C>	<C>	<C>	<C>
1998 (A)				
Net sales	$94,533	$81,881	$126,689	$96,839
Gross profit	48,769	41,626	61,895	36,397
Net income (loss):				

As previously reported	3,166	77	11,653	(45,421)
Adjustment (c)	(3,045)	(3,082)	(3,118)	---
As restated	121	(3,005)	8,535	(45,421)
Net income (loss) per weighted average common share:				
As previously reported	0.05	0.00	0.19	(0.73)
Adjustment (c)	(0.05)	(0.05)	(0.05)	---
As restated	0.00	(0.05)	0.14	(0.73)
Net income (loss) per common share - assuming dilution:				
As previously reported	0.05	0.00	0.18	(0.73)
Adjustment (c)	(0.05)	(0.05)	(0.05)	---
As restated	0.00	(0.05)	0.13	(0.73)
1997 (B)				
Net sales	$105,771	$110,172	$112,122	$123,614
Gross profit	55,221	59,601	59,684	59,380
Income (loss) before cumulative effect of change in accounting principle:				
As previously reported	13,446	14,960	15,034	(120,844)
Adjustment (c)	---	---	---	84,343
As restated	13,446	14,960	15,034	(36,501)
Net income (loss):				
As previously reported	13,446	14,960	15,034	(121,532)
Adjustment (c)	---	---	---	84,343
As restated	13,446	14,960	15,034	(37,189)
Income (loss) per weighted average common share: Before cumulative effect of change in accounting principle:				
As previously reported	0.22	0.25	0.25	(2.00)
Adjustment	---	---	---	1.40
As restated	0.22	0.25	0.25	(0.60)
Net income (loss):				
As previously reported	0.22	0.25	0.25	(2.01)
Adjustment (c)	---	---	---	1.40
As restated	0.22	0.25	0.25	(0.61)

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Income (loss) per common share - assuming dilution: Before cumulative effect of change in accounting principle:				
As previously reported	0.22	0.24	0.24	(2.00)
Adjustment (c)	---	---	---	1.40
As restated	0.22	0.24	0.24	(0.60)

Net income (loss):				
As previously reported	0.22	0.24	0.24	(2.01)
Adjustment (c)	---	---	---	1.40
As restated	0.22	0.24	0.24	(0.61)

</TABLE>

(a) The results for the fourth quarter 1998 were impacted by a $26.7 million write-off of goodwill and other intangibles and a $7.9 million loss on sale of business. See Note 1.
(b) The results for the fourth quarter 1997 were impacted by a $38.7 million charge for purchased research and development and a $5.2 million write-off of goodwill. See Note 1.
(c) In previously issued financial statements, the Company recorded charges for acquired in-process technology of $125.2 million in the fourth quarter 1997 in connection with the acquisitions of Open Development Corporation and Wireless Access, Inc. In response to recent communications from the Securities and Exchange Commission, the Company has reduced the amount of charges for acquired in-process technology to $38.7 million in the fourth quarter 1997. These reductions have been reallocated to goodwill, and the Company's financial statements have been restated to reflect the adjustments to amortization expense in the fourth quarter of 1997 and the first three quarters of 1998. See Note 1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Items 10 through 13 are incorporated herein by reference to the sections captioned "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," "EXECUTIVE OFFICERS OF THE REGISTRANT," "ELECTION OF DIRECTORS," "COMPENSATION--Compensation of Directors," "COMPENSATION--Executive Compensation," "COMPENSATION--Employment Agreements," "COMPENSATION--Compensation Committee Interlocks and Insider Participation," "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held May 25, 1999.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

A. INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

<TABLE>

All other schedules are omitted because they are not applicable or not required.

B. REPORTS ON FORM 8-K

None

</TABLE>

C. EXHIBITS

Exhibit Number	Description
2.1	Acquisition Agreement among Glenayre, WAI Acquisition Corp. And Wireless Access, Inc., dated October 1, 1997 ("WAI Acquisition Agreement") was filed as Exhibit 2 to the Registrant's Current Report on Form 8-K filed November 11, 1997 and is incorporated herein by reference.
3.1	Composite Certificate of Incorporation of Glenayre reflecting the Certificate of Amendment filed December 8, 1995 was filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference.
3.2	Restated by-laws of Glenayre effective June 7, 1990, as amended September 21, 1994 was filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and is incorporated herein by reference.
4.1	Preferred Shares Rights Agreement dated May 21, 1997 between the Company and American Stock Transfer & Trust Company, incorporated herein by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A, File No. 0-15761.
4.2	Amendment, dated January 14, 1999, to the Preferred Shares Rights Agreement dated as of May 21, 1997 incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated January

14, 1999.

4.3 Certificate of Designation of Rights, Preferences and Privileges of Series A Junior Participating Preferred Stock of the Company filed May 23, 1997 was filed as Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997 and is incorporated herein by reference.

10.1 Agreement, dated December 31, 1996, which terminates the Employment Agreement, dated December 3, 1990 between the Company and Clarke H. Bailey was filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 and is incorporated herein by reference.*

10.2 Employment Agreement, dated June 21, 1995, between the Company and Ramon D. Ardizzone was filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995 and is incorporated herein by reference.*

10.3 Amendment, dated December 8, 1995, to the Employment Agreement dated June 21, 1995 between the Company and Ramon D. Ardizzone was filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference.*

10.4 Second Amendment, dated December 12, 1996 to the Employment Agreement dated June 21, 1995 between the Company and Ramon D. Ardizzone was filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 and is incorporated herein by reference.*

10.5 Termination Agreement, dated September 30, 1997, between the Company and Ramon D. Ardizzone was filed as Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and is incorporated herein by reference.*

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ended June 30, 1997 and is incorporated herein by reference. Executive Severance Benefit Agreements, between the Company and individually with Beverley W. Cox (dated February 1, 1995, as amended) , James W. Marion (dated March 31, 1998), Warren K. Neuberger (dated January 14, 1999) and Gary P. Hermansen (dated January 14, 1999) are identical, in all material respects, with the Ellison Agreement and are not filed as exhibits.*

10.12 Consulting Services Agreement, dated November 11, 1998, between the Company and Dan Case is filed herewith.*

10.13 Letter Agreement dated May 26, 1998 between the Registrant and Amir Zoufonoun is filed herewith.*

10.14 Glenayre Electronics, Inc. Deferred Compensation Plan was filed as exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 and is incorporated herein by reference.*

10.15 Glenayre Technologies Management By Objective Plan for the year ended December 31, 1998 was filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and is incorporated herein by reference.*

10.16 Glenayre Technologies, Inc. Management By Objective Plan for the year ended December 31, 1997 was filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and is incorporated herein by reference.*

10.17 Glenayre 1996 Incentive Stock Plan, as amended April 18, 1997, was filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and is incorporated herein by reference.*

10.18 Amendment, dated December 18, 1998, to the Glenayre 1996 Incentive Stock Plan is filed herewith.*

10.19 Glenayre Long-Term Incentive Plan, as amended and restated effective May 26, 1994, was filed as Exhibit 4 to the Registrant's Form S-8 filed June 16, 1994 and is incorporated herein by reference.*

10.20 Amendment, dated December 18, 1998, to the Glenayre Long-Term Incentive Plan is filed herewith.*

10.21 Credit Agreement, dated October 30, 1998, between Glenayre Electronics, Inc. and NationsBank, N.A., as Agent is filed herewith.

10.22 Credit Agreement, dated October 31, 1997, between Glenayre Electronics, Inc. and NationsBank, N.A. as Agent was filed as Exhibit 10.18 to the Registrant's Annual Report of Form 10-K for the year ended December 31, 1997 and is incorporated herein by reference.#

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

21 Subsidiaries of the Company is filed herewith.

23 Consent of Ernst & Young LLP is filed herewith.

27 Financial Data Schedule for the year ended December 31, 1998. (Filed in electronic format only. Pursuant to Rule 402 of Regulation S-T, this schedule shall not be deemed filed for purposes of Section 11 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934.)

99 Cautionary Statement under safe harbor provisions of the Private Securities Litigation Reform Act of 1995 is filed herewith.

---

*Management Contract

Indicates that a portion of the document is confidential and has been omitted and filed separately with the Securities and Exchange Commission in connection with a request for confidential treatment of such omitted material.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS)

<TABLE>

<S> <C> <C> <C> <C>

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
ACCOUNTS RECEIVABLE - ALLOWANCE FOR DOUBTFUL ACCOUNTS :					
Year ended December 31, 1998	$4,542	$1,187	$806	$705	$5,830
Year ended December 31, 1997	4,527	1,155	1,192	2,332	4,542
Year ended December 31, 1996	4,072	878	5	428	4,527
NOTES RECEIVABLE - FAIR MARKET VALUATION ALLOWANCE:					
Year ended December 31, 1998	4	1,095	---	---	1,099
Year ended December 31, 1997	322	----	(318)	---	4
Year ended December 31, 1996	394	(73)	---	---	322
NOTES RECEIVABLE - ALLOWANCE FOR DOUBTFUL ACCOUNTS:					
Year ended December 31, 1998	4,038	(439)	881	102	4,378
Year ended December 31, 1997	---	120	3,918(1)	---	4,038
VALUATION ALLOWANCE ON INVENTORIES:					
Year ended December 31, 1998	5,511	5,701	(292)	4,077	6,843
Year ended December 31, 1997	4,365	2,476	1,037	2,367	5,511

Year ended December 31, 1996	4,705	1,904	---	2,244	4,365

</TABLE>

(1) Includes amounts reclassified from previously established accrued liabilities and reserves and collected fee offsets.

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 26, 1999.

GLENAYRE TECHNOLOGIES, INC.

By /s/ Ramon D. Ardizzone
Ramon D. Ardizzone
CHAIRMAN OF THE BOARD, PRESIDENT,
CHIEF EXECUTIVE OFFICER AND DIRECTOR

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 26, 1999:

<TABLE>
<S> <C>

/s/ Ramon D. Ardizzone
Ramon D. Ardizzone
CHAIRMAN OF THE BOARD, PRESIDENT,
CHIEF EXECUTIVE OFFICER AND DIRECTOR

/s/ Donald S. Bates
Donald S. Bates
DIRECTOR

/s/ Peter W. Gilson
Peter W. Gilson
DIRECTOR

/s/ Stanley Ciepcielinski
Stanley Ciepcielinski
EXECUTIVE VICE PRESIDENT, CHIEF OPERATING OFFICER,
CHIEF FINANCIAL OFFICER, (PRINCIPAL FINANCIAL OFFICER),
TREASURER AND DIRECTOR

/s/ John J. Hurley
John J. Hurley
DIRECTOR

/s/ Billy C. Layton
Billy C. Layton
VICE PRESIDENT ,CONTROLLER,
SECRETARY AND CHIEF ACCOUNTING OFFICER
(PRINCIPAL ACCOUNTING OFFICER)

/s/ Stephen P. Kelbley
Stephen P. Kelbley
DIRECTOR

/s/ Clarke H. Bailey

/s/ Horace H. Sibley

Clarke H. Bailey	Horace H. Sibley
DIRECTOR	DIRECTOR

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Exhibit 10.9

STATE OF NORTH CAROLINA

RESIGNATION AGREEMENT

COUNTY OF MECKLENBURG

THIS RESIGNATION AGREEMENT (this "Agreement") is entered into as of the 21 st day of December, 1998 by and between GLENAYRE TECHNOLOGIES, INC., a Delaware corporation (the "Company"), and GARY B. SMITH ("Smith").

STATEMENT OF PURPOSE

Smith and the Company entered into an Employment Agreement dated as of the 27 th day of August, 1996 (the "Employment Agreement") whereby Smith was employed by the Company as the President and Chief Operating Officer of the Company. As of the 12 th day of December, 1996, the Employment Agreement was amended by a document entitled "Amendment to Employment Agreement" which, among other things, changed Smith's position to that of President and Chief Executive Officer. As of the 2 1 " day of May, 1997 the parties entered into a Second Amendment to Employment Agreement (the Employment Agreement as amended is hereinafter referred to as the "Amended Employment Agreement"). In addition to serving as President and Chief Executive Officer, Smith also serves as a member of the Company's Board of Directors. Smith has decided to voluntarily resign from his employment with the Company.

Smith and the Company have agreed to terminate their relationship on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the Statement of Purpose and the te provisions of this Agreement, the parties hereto mutually agree as follows:

I . Resignation. Smith hereby resigns from his employment with the Company and resigns from all offices, committees and positions he holds with the Company and any affiliated company, including but not limited to, President and Chief Executive Officer of the Company and a member of the Company's Board of Directors, with said resignation to be effective on December 21, 1998. If requested by the Company, Smith will execute any additional resignation letters, forms or other documents which acknowledge his resignation from such employment, positions, committees and offices.

2. Payment of Compensation and Provision of Certain Benefits by the Company. The Company agrees to pay or provide Smith with the following:

(a) Compensation and benefits to which Smith is otherwise entitled as an employee of the Company at Smith's current rate and status through December 31, 1998, including any accrued but unpaid vacation pay, automobile allowance and previously incurred expenses, in accordance with the Company's generally applicable policies and procedures;

(b) An amount equal to two times the annual rate of Smith's Base Salary as provided in Paragraph 3(a)(3) of the Amended Employment Agreement.

(c) Medical and dental benefits for Smith and his dependents until December 21, 1999 under the Company's group medical plan. Smith Shall be entitled to elect to continue such coverage under the COBRA provisions of federal law, and his right to such continued coverage shall begin on December 21, 1999.

(d) Smith has vested interests under a Company sponsored 401(k) plan. Smith's interests in said plan shall be paid when and as provided in, and otherwise subject to the terms, provisions and conditions of said plan and nothing in this Agreement shall modify or override those terms, provisions or conditions.

(e) Smith has vested interests under the Company's 1991 Long-Term Incentive Plan and its 1996 Incentive Stock Plan and various stock options have been granted to Smith pursuant to said plans. In accordance with Paragraph 3(b) of the Amended Employment Agreement, all previously granted stock options shall become fully vested and immediately exercisable and shall remain exercisable for a period of 12 months from the date of this Agreement.

3. Acknowledgment as to Receipt of Compensation. Smith acknowledges that he has been paid or provided all compensation and benefits to which he was entitled through the date of termination of his employment. Smith further acknowledges that the terms of Paragraph 2 above provide to him all of the compensation and benefits to which he is entitled under the Amended Employment Agreement. Moreover, Smith acknowledges that he is not entitled to receive any payment under the Management by Objectives Bonus Plan for 1998.

4. Survival of Certain Paragraphs of the Amended Employment Agreement. Notwithstanding the termination of Smith's employment with the Company, the parties acknowledge that certain provisions of the Amended Employment Agreement remain in full

force and effect. Specifically, renumbered Paragraphs 6 (Confidential Information), 7 (Benefit of Designs), 8 (Non-Competition), 9 (Indemnification) and 10 (Reimbursement of Legal and Related Expenses) remain in full force and

effect notwithstanding the termination of Smith's employment.

5. Employment Taxes and Withholdings. Smith acknowledges and agrees that the Company shall withhold from the payments and benefits described in this Agreement all taxes, including income and employment taxes, required to be so deducted or withheld under applicable law.

6. Release of the Company. Smith, on behalf of himself and his heirs, personal representatives, successors and assigns, hereby releases and forever discharges the Company and each and every one of its respective present and former shareholders, directors, officers, employees, agents, successors and assigns, of and from any and all claims, demands, actions, causes of action, damages, costs and expenses, which Smith now has or may have by reason of any thing occurring, done or omitted to be done to the date of this Agreement; provided, however, this release shall not apply to any claims which Smith may have for the payments or benefits expressly provided for Smith or otherwise specifically referred to in this Agreement, and shall not apply to any rights of indemnification or exculpation to which Smith would otherwise have been entitled under the Charter or By-Laws of the Company or any benefits under directors and officers' insurance maintained by the Company.

7. Release by the Company. The Company does hereby release and forever discharge Smith, his heirs and assigns of and from any and all claims, demands, actions and causes of action, damages, costs and expenses, which the Company now has or may have by reason of anything occurring, done or omitted to be done to the date of this Agreement.

8. Confidentiality of this Agreement; Employment Reference. Smith shall not at any time, directly or indirectly, discuss with or disclose to anyone (other than to members of his immediate family, his attorney, his tax advisors and the appropriate taxing authorities or as otherwise required by law, hereinafter "Qualified Persons") the terms of this Agreement, including the amounts payable hereunder. Smith further agrees that he shall not discuss with anyone other than Qualified Persons the circumstances surrounding the termination of his employment. If any person asks Smith about the above matters, he will simply say that he resigned from the Company and all issues relating to his employment have been resolved. Smith further agrees that he will refrain from making derogatory comments about the Company, its Board of Directors, its officers or agents. The Company agrees that its officers and directors will likewise refrain from making derogatory comments about Smith, and if any person asks the Company about such matters, the Company will advise such person only as to the dates of Employee's employment with the company, the positions held and that he voluntarily resigned from his employment with the Company.

9. Applicable Law. This Agreement is made and executed with the intention that the construction, interpretation and validity hereof shall be determined in accordance with and governed by the laws of the State of North Carolina.

10. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns. This Agreement shall be binding upon and inure to the benefit of Smith, his heirs, executors and administrators.

11. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes and, except as provided in Paragraph 4 above, cancels all prior or contemporaneous oral or written agreements and understandings between them with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its duly authorized officers and its corporate seal to be hereunto affixed, and Smith has hereunto set his hand and seal, all as of the day and year first above written.

GLENAYRE TECHNOLOGIES, INC.

[CORPORATE SEAL]

ATTEST:

/s/ Eugene C. Pridgen

Secretary

By /s/ Ramon D. Ardizzone

Ramon D. Ardizzone
Chairman of the Board

/s/ G Smith [SEAL]

Gary B. Smith

Exhibit 10.12

November 11, 1998

Mr. Dan Case
Glenayre Electronics, Inc.
11360 Lakefield Drive
Atlanta, GA

Dear Dan:

As we previously discussed, I would like for you to continue your association with Glenayre as a consultant to the Integrated Network Group ("ING"). The terms and conditions of this consulting role are set forth below.

1. Consulting Period. The period of your Consulting Services (the "Consulting Period") shall commence on January 1, 1999 and shall continue until such time as Glenayre and you terminate, by written notice, the Consulting Period, provided that the Consulting Period shall continue for a minimum of four months.

2. Consulting Services. During the Consulting Period, you agree to provide to Glenayre reasonable services of an advisory or consulting nature with respect to ING's business and affairs, including without limitation advice and consultation related to ING's strategy, operating procedures, customers, suppliers, products and financial matters (the "Consulting Services"). The Consulting Services will be provided as follows: (i) during the first four months of the Consulting Period you agree to devote, at Glenayre's request, up to a total of 30 days (each eight hour period to be deemed a "day"); and (ii) thereafter, during the remainder of the Consulting Period, you agree to provide Consulting Services on an as-needed basis, subject to your availability, it being understood that you will not be required to render any Consulting Services during times in which you have prior business or personal commitments. In performing Consulting Services, you will not be required to be active in the day-to-day operations of ING.

3. Payments for Consulting Service. In consideration of the Consulting Services that you provide under Paragraph 2 above, Glenayre agrees to pay or provide benefits to you as follows:

   (a) During the first four months of the Consulting Period, Glenayre shall pay you the sum of $106,000 in four equal monthly installments of $26,500 each. Each payment will be made no later than the 10th day of the month.

   (b) Thereafter, during the Consulting Period, Glenayre will pay you a monthly retainer in the amount of $10,500.

(c) During the Consulting Period, you shall receive insured health and dental benefits.

(d) Glenayre shall reimburse you for all reasonable out-of-pocket expenses incurred by you during the Consulting Period at Glenayre's request.

5. Facilities. Upon your request, Glenayre shall furnish you with office space and facilities necessary for you to provide the Consulting Services.

7. No Recruitment of Employees. During the Consulting Period, and for a period of two years thereafter, you agree not to recruit, provide information on any personnel of the Glenayre Companies, or assist another employer in the recruitment of any employee of the Glenayre Companies. For this purpose, the term "Glenayre Companies" refers to Glenayre Electronics, Inc. and any subsidiary or affiliate of Glenayre Electronics, Inc. or Glenayre Technologies, Inc.

8. Miscellaneous.

(a) This agreement embodies the entire agreement and understanding between Glenayre and you concerning the subject matter of this agreement and supersedes all prior and contemporaneous agreements and understandings between Glenayre and you with respect to any payments to be made to your after the termination of your employment with Glenayre.

(b) The terms and conditions of this agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

I appreciate your willingness to help Glenayre during this transition period.

Very truly yours,

GLENAYRE ELECTRONICS, INC.

By: /s/ G Smith
Gary B. Smith
President and CEO

ACCEPTED AND AGREED

By: /s/ Dan Case
Dan Case

Exhibit 10.13

May 26, 1998

CONFIDENTIAL

Mr. Amir Zoufonoun
Glenayre Western Multiplex
1196 Borregas Avenue
Sunnyvale, CA 94089-1302

Dear Amir:

As you know, Glenayre's current strategic intention is to sell Glenayre Western Multiplex ("Western Multiplex "). We believe that you will play an important role in insuring that Western Multiplex is refocused on an effective growth strategy to position Western Multiplex for its future sale and in supporting Glenayre's efforts to sell Western Multiplex. The purpose of this agreement is to provide incentives to you to assist Glenayre in accomplishing these objectives.

I . Your Responsibilities. In addition to fulfilling your current job responsibilities, you agree to cooperate fully with Glenayre and its investment bankers, attorneys and accountants in connection with the Sale of Western Multiplex to any prospective Buyer. You acknowledge that the Buyer may be a strategic as well as a financial Buyer, and you agree to cooperate fully with, and support, Glenayre in either case. You agree to meet with prospective Buyers, work with other Western Multiplex employees to insure their continued loyalty to a prospective Buyer and generally use your best efforts to insure that the highest possible sales price is received by Glenayre for the Sale of Western Multiplex. In the event that you are offered an opportunity to receive an equity interest in the Buyer or Western Multiplex as part of the Sale of Western Multiplex, you agree to keep Glenayre advised of your negotiations with the Buyer.

2. Your Benefits . Contingent upon your full compliance with your responsibilities under Paragraph 1 above, Glenayre agrees to provide the following benefits to you (assuming that you remain an employee of Western Multiplex at the time a Sale of Western Multiplex closes):

(1) Promptly after the closing of the Sale of Western Multiplex, you will receive an acquisition bonus based on a percentage of the sales

price for Western Multiplex (with a minimum bonus of $200,000), as set forth in more detail on Attachment 1.

(2) I will recommend to the Plan Administration Committee of the Board of Directors of Glenayre that all of your options for Glenayre common stock be fully vested as of the closing date of the Sale of Western Multiplex and that you be permitted to exercise your options within one year after the closing date.

(3) Glenayre will pay to you a lump sum severance benefit equal to 100% of your base salary (as in effect at the closing of the Sale of Western Multiplex) if a Sale of Western Multiplex occurs and either (i) you are not offered employment by the Buyer or Western Multiplex at a position with substantially the same or greater responsibilities than your current position with Western Multiplex and at substantially the same or greater compensation and other benefits and you do not accept another position with the Buyer or Western Multiplex or (ii) you accept employment with Western Multiplex or the Buyer but your Termination of Employment occurs within one year after the Sale of Western Multiplex.

(4) These benefits apply to a Sale of Western Multiplex prior to June 30, 1999. Prior to June 30, 1999, these benefits will be reviewed, although it is currently anticipated that a similar program will be in effect after June 30, 1999.

3. Confidentiality. You agree that you will keep strictly confidential and will not disclose, directly or indirectly, any document or information (including all proprietary, confidential, or trade secret information of Glenayre or Western Multiplex that you have had in your possession or of which you are or become aware) relating to your employment with Western Multiplex or to the business and operations of Western Multiplex. You further agree that you will not make any statement nor take any action which might adversely reflect upon Glenayre or Western Multiplex, or any of their officers, directors or employees. You also agree that you will keep strictly confidential the terms of this agreement and will not reveal any of such terms to any other employee of Western Multiplex .

4. Miscellaneous. This agreement supersedes and replaces the letter agreements dated May 11, 1998 and August 22, 1997, and any and all other arrangements, between Glenayre and you in regard to the sale of Western Multiplex. This agreement will not be construed to provide you any right of continued employment by Western Multiplex. The construction, interpretation and validity of this agreement shall be determined in accordance with and governed by the laws of the State of North Carolina. In addition to the terms defined in this agreement, the other capitalized terms in this agreement shall

have the meanings set forth in Attachment 2 hereto. No provision of this agreement shall be deemed to restrict the absolute right of Glenayre at any time to sell or dispose of Western Multiplex or any part of its business or assets on such terms as Glenayre considers to be in its best interests.

/s/ Eugene C. Pridgen /s/ G Smith

Eugene C. Pridgen
Executive Vice President
Corporate Development

Gary B. Smith
President and Chief Executive Officer

ACCEPTED AND AGREED T0:
/s/ Amir Zoufonoun
Amir Zoufonoun

Date: /s/ 6/3/98

Attachment 1

Acquisition Bonus

(Bonus Targets not required to be disclosed)

ATTACHMENT 2

DEFINITIONS

"Buyer means the acquiror (or any of its subsidiaries) of (i) more than 50% of the common stock of Western Multiplex or (ii) all or substantially all of the business and assets of Western Multiplex.

"Cause" means (1) dishonesty or fraud on your part which is intended to result in your substantial personal enrichment at the expense of Western Multiplex or the Buyer; (2) a material violation of your responsibilities as an employee of Western Multiplex or the Buyer which is willful and deliberate: or (3) your conviction (after the exhaustion of all appeals of a felony involving moral turpitude or the entry of a plea of nolo contendere for such a felony; provided, however, that Western Multiplex or the Buyer must first (i) give written notice to you specifying the occurrence of a violation described in clause (2) above and (ii) allow you 30 days from receipt of the written notice to correct the violation.

"Sale of Western Multiplex" means (i) the sale of more than 50% of Western Multiplex's common stock or (ii) the sale of all or substantially all of the business and assets of Western Multiplex.

"Disability" means your inability, due to the condition of your physical, mental or emotional health, to regularly and satisfactorily perform your duties or responsibilities as an employee of Western Multiplex or the Buyer for a continuous period in excess of 90 days.

"Good Reason" means the occurrence of any of the following without your consent: (1) a significant change in the nature or scope of your authority as in effect immediately prior to a Sale of Western Multiplex; (2) an assignment to you of duties which are materially inconsistent with your duties or responsibilities immediately prior to a Sale of Western Multiplex; (3) a reduction in your base salary; or (4) a requirement that the principal location where you are required to perform services change by more than 30 miles; provided, however, that you must first (i) give written notice to Western Multiplex or the Buyer specifying the occurrence of an event described in clause (1), (2), (3) or (4) above and (ii) allow the Buyer or Western Multiplex 60 days from receipt of the written notice to correct the event.

"Termination of Employment" means the termination of your employment with Western Multiplex or the Buyer for any reason other than (1) your death, (2) your Disability, (3) the termination of your employment for Cause or (4) your voluntary termination of employment other than for Good Reason.

Exhibit 10.18

GLENAYRE TECHNOLOGIES, INC.
1996 INCENTIVE STOCK PLAN

THIS INSTRUMENT OF AMENDMENT (this "Instrument") is executed as of the 18th day of December, 1998 by GLENAYRE TECHNOLOGIES, INC., a Delaware corporation (the "Company").

Statement of Purpose

The Company sponsors the Glenayre Technologies, Inc. 1996 Incentive Stock Plan (the "Plan"). The Company desires to amend the Plan as set forth herein. In accordance with Section 16.1 of the Plan, the amendment set forth herein has been approved by the Board of Directors of the Company.

NOW, THEREFORE, the Company hereby amends the Plan effective as of the date hereof as follows:

1. Section 16.1 of the Plan is hereby amended to add the following provision:

> "In no event shall any issued and outstanding Option be repriced to a lower Option Price at any time during the term of such Option, without the prior affirmative vote of a majority of shares of stock of the Company present at a stockholders meeting in person or by proxy and entitled to vote thereon. Any amendment or repeal of this provision shall require the affirmative vote of a majority of shares of stock of the Company present at a stockholders meeting in person or by proxy and entitled to vote thereon."

2. Except as expressly or by necessary implication amended hereby, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed by its duly authorized officer as of the day and year first above written.

GLENAYRE TECHNOLOGIES, INC.

By: /s/ Ramon D. Ardizzone

Ramon D. Ardizzone
Chairman of the Board, President
and Chief Executive Officer

Exhibit 10.20

GLENAYRE TECHNOLOGIES, INC.
LONG-TERM INCENTIVE PLAN

THIS INSTRUMENT OF AMENDMENT (this "Instrument") is executed as of the 18th day of December, 1998 by GLENAYRE TECHNOLOGIES, INC., a Delaware corporation (the "Company").

Statement of Purpose

The Company sponsors the Glenayre Technologies, Inc. Long-Term Incentive Plan (the "Plan"). The Company desires to amend the Plan as set forth herein. In accordance with Section 1.13 of the Plan, the amendment set forth herein has been approved by the Board of Directors of the Company.

NOW, THEREFORE, the Company hereby amends the Plan effective as of the date hereof as follows:

1. Section 1.13 of the Plan is hereby amended to add the following provision:

> "In no event shall any issued and outstanding Stock Option be repriced to a lower option price at any time during the term of such Stock Option, without the prior affirmative vote of a majority of shares of stock of the Company present at a stockholders meeting in person or by proxy and entitled to vote thereon. Any amendment or repeal of this provision shall require the affirmative vote of a majority of shares of stock of the Company present at a stockholders meeting in person or by proxy and entitled to vote thereon."

2. Except as expressly or by necessary implication amended hereby, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed by its duly authorized officer as of the day and year first above written.

GLENAYRE TECHNOLOGIES, INC.

By: /s/ Ramon D. Ardizzone

Ramon D. Ardizzone
Chairman of the Board, President
and Chief Executive Officer

Exhibit 10.21

364-DAY CREDIT AGREEMENT

Dated as of October 30, 1998

among

GLENAYRE ELECTRONICS, INC.,
as Borrower,

GLENAYRE TECHNOLOGIES, INC. AND
CERTAIN SUBSIDIARIES OF THE BORROWER
FROM TIME TO TIME PARTY HERETO,
as Guarantors,

THE SEVERAL LENDERS
FROM TIME TO TIME PARTY HERETO

AND

NATIONSBANK, N.A.,
as Agent

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SCHEDULES

EXHIBITS

CREDIT AGREEMENT

THIS CREDIT AGREEMENT dated as of October 30, 1998 (as amended, modified, restated or supplemented from time to time, the "Credit Agreement"), is by and among GLENAYRE ELECTRONICS, INC., a Colorado corporation (the "Borrower"), GLENAYRE TECHNOLOGIES, INC., a Delaware corporation (the "Parent"), and certain Domestic Subsidiaries (as defined herein) of the Borrower which are Guarantors (as defined herein), the Lenders (as defined herein) and NATIONSBANK, N.A., as Agent for the Lenders (in such capacity, the "Agent").

W I T N E S S E T H

WHEREAS, the Borrower has requested that the Lenders provide a $50,000,000 364-day credit facility for the purposes hereinafter set forth; and

WHEREAS, the Lenders have agreed to make the requested credit facility available to the Borrower on the terms and conditions hereinafter set forth;

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1

DEFINITIONS

1.1 Definitions.

As used in this Credit Agreement, the following terms shall have the meanings specified below unless the context otherwise requires:

"Acquisition", by any Person, means the acquisition by such Person of the Capital Stock or all or substantially all of the Property

of another Person, whether or not involving a merger or consolidation with such Person.

"Additional Credit Party" means each Domestic Subsidiary of the Parent or the Borrower (excluding Inactive Subsidiaries) that becomes a Guarantor after the Closing Date by execution of a Joinder Agreement.

"Adjusted Eurodollar Rate" means the Eurodollar Rate plus the Applicable Percentage.

"Affiliate" means, with respect to any Person, any other Person (i) directly or indirectly controlling or controlled by or under direct or indirect common control with such Person or (ii) directly or indirectly owning or holding five percent (5%) or more of the Capital Stock in such Person. For purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agency Services Address" means NationsBank, N. A., NC1-001-15-04, 101 North Tryon Street, Charlotte, North Carolina 28255, Attn: Agency Services, or such other address as may be identified by written notice from the Agent to the Borrower.

"Agent" shall have the meaning assigned to such term in the heading hereof, together with any successors or assigns.

"Agent's Fee Letter" means that certain letter agreement, dated as of October 8, 1998, between the Agent and the Borrower, as amended, modified, restated or supplemented from time to time.

"Agent's Fees" shall have the meaning assigned to such term in Section 3.5(d).

"Applicable Lending Office" means, for each Lender, the office of such Lender (or of an Affiliate of such Lender) as such Lender may from time to time specify to the Agent and the Borrower by written notice as the office by which its Eurodollar Loans are made and maintained.

"Applicable Percentage" means, for purposes of calculating the applicable interest rate for any day for any Eurodollar Loan, or the applicable rate of the Unused Fee for any day for purposes of Section 3.5(b) or the applicable rate of the Letter of Credit Fee for any day for purposes of Section 3.5(c)(i), the appropriate applicable percentage corresponding to the Leverage Ratio in effect as of the most recent Calculation Date:

<TABLE>
<CAPTION>

Pricing Level	Leverage Ratio	Applicable Percentage for Eurodollar Loans	Applicable Percentage for Letters of Credit	Applicable Percentage for Unused Fees
<S>	<C>	<C>	<C>	<C>
I	>=1.25	1.25%	1.25%	0.375%
II	<1.25 >=1.0	1.125%	1.125%	0.375%
III	< 1.0 >= 0.75	1.000%	1.000%	0.300%
IV	< 0.75 >= 0.50	0.875%	0.875%	0.300%
V	< 0.50 >= 0.25	0.750%	0.750%	0.250%
VI	< 0.25	0.625%	0.625%	0.250%

</TABLE>

The Applicable Percentages shall be determined and adjusted quarterly on the date (each a "Calculation Date") five Business Days after the date by which the Borrower is required to provide the officer's certificate in accordance with the provisions of Section 7.1(c) for the most recently ended fiscal quarter of the Consolidated Parties; provided, however, that (i) the initial Applicable Percentages shall be based on

the Leverage Ratio as of the last day of the fiscal quarter ended June 30, 1998 and shall remain at such Pricing Level until the first Calculation Date subsequent to the Closing Date and, thereafter, the Pricing Level shall be determined by the Leverage Ratio as of the last day of the most recently ended fiscal quarter of the Consolidated Parties preceding the applicable Calculation Date, and (ii) if the Borrower fails to provide the officer's certificate to the Agency Services Address as required by Section 7.1(c) for the last day of the most recently ended fiscal quarter of the Consolidated Parties, the Applicable Percentage from such Calculation Date shall be based on Pricing Level I until such time as an appropriate officer's certificate is provided, whereupon the Pricing Level shall be determined by the Leverage Ratio as of the last day of the most recently ended fiscal quarter of the Consolidated Parties preceding such Calculation Date. Each Applicable Percentage shall be effective from one Calculation Date until the next Calculation Date. Any adjustment in the Applicable Percentages shall be applicable to all existing Loans as well as any new Loans made or issued.

"Application Period", in respect of any Asset Disposition, shall have the meaning assigned to such term in Section 8.5.

"Asset Disposition" means the disposition of any or all of the assets of any Consolidated Party whether by sale, lease, transfer or otherwise, but excluding (a) the sale of inventory in the ordinary course of business for fair consideration, (b) the sale or disposition of machinery and equipment no longer used or useful in the conduct of such Person's business and (c) any Equity Issuance.

"Asset Disposition Prepayment Event" means, with respect to any Asset Disposition other than an Excluded Asset Disposition, (i) any Asset Disposition not occurring in the ordinary course of Business of the Borrower or (ii) the failure of the Borrower to apply (or cause to be applied) the Net Cash Proceeds of such Asset Disposition to the purchase, acquisition or construction of Eligible Assets during the Application Period for such Asset Disposition.

"Attributed Principal Amount" means, on any day, with respect to any Permitted Receivables Financing entered into by a Credit Party (other than the Parent), the aggregate amount (with respect to any such transaction, the "Invested Amount") paid to, or borrowed by, such Person as of such date under such Permitted Receivables Financing, minus the aggregate amount received by the applicable Receivables Financier and applied to the reduction of the Invested Amount under such Permitted Receivables Financing.

"Bankruptcy Code" means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

"Bankruptcy Event" means, with respect to any Person, the occurrence of any of the following with respect to such Person: (i) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or ordering the winding up or liquidation of its affairs; or (ii) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of sixty (60) consecutive days; or (iii) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or make any general assignment for the benefit of creditors; or (iv) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they

become due.

"Base Rate" means, for any day, the rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus one-half of one percent (0.5%) and (b) the Prime Rate for such day. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Prime Rate or Federal Funds Rate.

"Base Rate Loan" means any Loan bearing interest at a rate determined by reference to the Base Rate.

"Borrower" means the Person identified as such in the heading hereof, together with any permitted successors and assigns.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized or required by law to close, except that, when used in connection with a Eurodollar Loan, such day shall also be a day on which dealings between banks are carried on in U.S. dollar deposits in London, England.

"Calculation Date" has the meaning set forth in the definition of "Applicable Percentage" set forth in this Section 1.1.

"Canadian Property" means, the real property located at 1570 and 1590 Kootenay Street, Vancouver, Canada.

"Capital Lease" means, as applied to any Person, any lease of any Property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Capital Stock" means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Equivalents" means (a) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than eighteen months from the date of acquisition, (b) U.S. dollar denominated time deposits and certificates of deposit of (i) any Lender, (ii) any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 or (iii) any bank whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an "Approved Bank"), in each case with maturities of not more than eighteen months from the date of acquisition, (c) commercial paper and variable or fixed rate notes issued by any Approved Bank (or by the parent company thereof) or any variable rate notes issued by, or guaranteed by, any domestic corporation rated A-1 (or the equivalent thereof) or better by S&P or P-1 (or the equivalent thereof) or better by Moody's and maturing within six months of the date of acquisition, (d) repurchase agreements with a bank or trust company (including any of the Lenders) or recognized securities dealer having capital and surplus in excess of $500,000,000 for direct obligations issued by or fully guaranteed by the United States of America in which any Credit Party shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a fair market value of at least 100% of the amount of the repurchase obligations, (e) Investments, classified in accordance with GAAP as current assets, in money market investment programs registered under the Investment Company Act of 1940, as amended, which are administered by reputable financial institutions having capital of at least $500,000,000 and the portfolios of which are limited to Investments of the character described in the foregoing subdivisions (a) through (d), and (f) Investments of the character described in the foregoing subdivisions (a) through (d) by a Consolidated Party (other than a Credit Party) in countries in which

such Consolidated Party operates.

"Cash-on-Hand" means as to any Person, the sum of all deposits in checking, money market, brokerage or savings accounts maintained by such Person at a financial institution.

"Change of Control" means the occurrence of any of the following events: (i) the failure of the Parent to own all of the Capital Stock of the Borrower, (ii) any Person or two or more Persons acting in concert shall have acquired beneficial ownership, directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, control over, Voting Stock of the Parent (or other securities convertible into such Voting Stock) representing 30% or more of the combined voting power of all Voting Stock of the Parent, or (iii) during any period of up to 12 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 12 month period were directors of the Parent (together with any new director whose election by the Parent's Board of Directors or whose nomination for election by the Parent's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Parent then in office. As used herein, "beneficial ownership" shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

"Closing Date" means the date hereof.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto, as interpreted by the rules and regulations issued thereunder, in each case as in effect from time to time. References to sections of the Code shall be construed also to refer to any successor sections.

"Commitment" means (i) with respect to each Lender, the commitment of such Lender in an aggregate principal amount at any time outstanding of up to such Lender's Commitment Percentage of the Committed Amount, (A) to make Loans in accordance with the provisions of Section 2.1(a) and (B) to purchase Participation Interests in Letters of Credit in accordance with the provisions of Section 2.2(c), and (ii) with respect to the Issuing Lender, the LOC Commitment.

"Commitment Percentage" means, for any Lender, the percentage identified as its Commitment Percentage on Schedule 2.1(a), as such percentage may be modified in connection with any assignment made in accordance with the provisions of Section 11.3.

"Committed Amount" shall have the meaning assigned to such term in Section 2.1(a).

"Consolidated Capital Expenditures" means, for any period, all capital expenditures of the Consolidated Parties on a consolidated basis for such period, as determined in accordance with GAAP.

"Consolidated Cash Taxes" means, for any period, the aggregate of all taxes of the Consolidated Parties on a consolidated basis for such period (excluding income taxes incurred in connection with income from the sales of Western Multiplex Corporation and Glenayre OPTIONS Corp.), as determined in accordance with GAAP, to the extent the same are paid in cash during such period.

"Consolidated EBITDA" means, for any period, the sum of (i) Consolidated Net Income for such period, plus (ii) an amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) Consolidated Interest Expense, (B) total federal, state, local and foreign income, value added and similar tax expenses, (C) depreciation and amortization expense, all as determined in accordance with GAAP and (D) other non-cash charges.

"Consolidated Interest Expense" means, for any period, interest expense (including the amortization of debt discount and premium, the interest component under Capital Leases and the implied interest component under Permitted Receivables Financings and the implied

interest component under Synthetic Leases) of the Consolidated Parties on a consolidated basis for such period, as determined in accordance with GAAP.

"Consolidated Interest Income" means, for any period, interest income for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP.

"Consolidated Net Income" means, for any period, net income (excluding extraordinary items, but including in any event Consolidated Interest Income) after taxes for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP; provided, however, Consolidated Net Income shall not include income arising under Permitted Customer Financing Transactions with maturities exceeding 120 days until cash payment in respect of such income has been received by the applicable Consolidated Party.

"Consolidated Net Worth" means, as of any date, shareholders' equity or net worth of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP.

"Consolidated Parties" means a collective reference to the Parent and its Subsidiaries, and "Consolidated Party" means any one of them.

"Consolidated Scheduled Funded Debt Payments" means, as of the end of each fiscal quarter of the Consolidated Parties, for the Consolidated Parties on a consolidated basis, the sum of all scheduled payments of principal on Funded Indebtedness for the applicable period ending on such date (including the principal component of payments due

on Capital Leases during the applicable period ending on such date); it being understood that Scheduled Funded Debt Payments shall not include voluntary prepayments or the mandatory prepayments required pursuant to Section 3.3.

"Continue", "Continuation", and "Continued" shall refer to the continuation pursuant to Section 3.2 hereof of a Eurodollar Loan from one Interest Period to the next Interest Period.

"Convert", "Conversion", and "Converted" shall refer to a conversion pursuant to Section 3.2 or Sections 3.7 through 3.12, inclusive, of a Base Rate Loan into a Eurodollar Loan.

"Conxus Credit Agreement" means that Second Amended and Restated Credit Agreement dated as of May 28, 1998 among Conxus Financial Corp., a Delaware corporation, the several banks and other financial institutions from time to time parties thereto, Glenayre Electronics, Inc., a Colorado corporation, Motorola, Inc. by and through its Messaging Systems Products Group and the Chase Manhattan Bank, a New York banking association, as administration agent for the lenders thereunder.

"Credit Documents" means a collective reference to this Credit Agreement, the Notes, the LOC Documents, each Joinder Agreement, the Agent's Fee Letter, and all other related agreements and documents issued or delivered hereunder or thereunder or pursuant hereto or thereto (in each case, as the same may be amended, modified, restated, supplemented, extended, renewed or replaced from time to time) and "Credit Document" means any one of them.

"Credit Parties" means a collective reference to the Borrower and the Guarantors, and "Credit Party" means any one of them.

"Credit Party Obligations" means, without duplication, (i) all of the obligations of the Credit Parties to the Lenders (including the Issuing Lender) and the Agent, whenever arising, under this Credit Agreement, the Notes or any of the other Credit Documents (including, but not limited to, any interest accruing after the occurrence of a Bankruptcy Event with respect to any Credit Party, regardless of whether such interest is an allowed claim under the Bankruptcy Code) and (ii) all liabilities and obligations, whenever arising, owing from the Borrower to any Lender, or any Affiliate of a Lender, arising under any Hedging Agreement.

"Customer Financing Policy" means that certain Customer Financing Policy No. FIN-110 of Glenayre Technologies, Inc. issued July 19, 1997 and revised October 22, 1997.

"Customer Financing Transaction" means as to any Consolidated Party, any extension of credit to another Person to finance (i) the cost of equipment, inventory or other goods (including, without limitation, software) manufactured or sold by such Consolidated

Party to such Person or (ii) the cost of any services provided by such Consolidated Party to such Person.

"Default" means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulting Lender" means, at any time, any Lender that (a) has failed to make a Loan or purchase a Participation Interest required pursuant to the term of this Credit Agreement within one Business Day of when due, (b) other than as set forth in (a) above, has failed to pay to the Agent or any Lender an amount owed by such Lender pursuant to the terms of this Credit Agreement within one Business Day of when due, unless such amount is subject to a good faith dispute or (c) has been deemed insolvent or has become subject to a bankruptcy or insolvency proceeding or with respect to which (or with respect to any of assets of which) a receiver, trustee or similar official has been appointed.

"Dollars" and "$" means dollars in lawful currency of the United States of America.

"Domestic Subsidiary" means, with respect to any Person, any Subsidiary of such Person which is incorporated or organized under the laws of any State of the United States or the District of Columbia.

"Eligible Assets" means another business or any substantial part of another business or other long-term assets, in each case, in, or used or useful in, the same or a similar line of business as the Consolidated Parties were engaged in on the Closing Date or any reasonable extensions or expansions thereof.

"Eligible Assignee" means (i) a Lender; (ii) an Affiliate of a Lender; and (iii) any other Person approved by the Agent and, unless an Event of Default has occurred and is continuing at the time any assignment is effected in accordance with Section 11.3, the Borrower (such approval not to be unreasonably withheld or delayed by the Borrower); provided, however, that neither the Borrower nor an Affiliate of the Borrower shall qualify as an Eligible Assignee.

"Environmental Laws" means any and all lawful and applicable Federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"Equity Issuance" means any issuance by any Consolidated Party to any Person which is not a Credit Party of (a) shares of its Capital Stock, (b) any shares of its Capital Stock pursuant to the exercise of options or warrants or (c) any shares of its Capital Stock pursuant to the conversion of any debt securities to equity. The term "Equity Issuance" shall not include any Asset Disposition or any issuance of Capital Stock pursuant to stock option plans maintained by the Parent existing as of the Closing Date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto, as interpreted by the rules and regulations thereunder, all as the same may be in effect from time to time. References to sections of ERISA shall be construed also to refer to any successor sections.

"ERISA Affiliate" means an entity which is under common control with any Consolidated Party within the meaning of Section 4001(a)(14) of ERISA, or is a member of a group which includes the Borrower and which is treated as a single employer under Sections 414(b) or (c) of the Code.

"ERISA Event" means (i) with respect to any Plan, the occurrence of a Reportable Event or the substantial cessation of operations (within the meaning of Section 4062(e) of ERISA); (ii) the withdrawal by any Consolidated Party or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a substantial employer (as such term is defined in Section 4001(a)(2) of ERISA), or the termination of a Multiple Employer Plan; (iii) the distribution of a notice of intent to terminate or the actual termination of a Plan pursuant to Section 4041(a)(2) or 4041A of ERISA; (iv) the institution of proceedings to terminate or the actual termination of a Plan by the PBGC under Section 4042 of ERISA; (v) any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan; (vi) the complete or partial withdrawal of any Consolidated Party or any ERISA Affiliate from a Multiemployer Plan; (vii) the conditions for imposition of a lien under Section 302(f) of ERISA exist with respect to any Plan; or (viii) the adoption of an amendment to any Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA.

"Eurodollar Loan" means any Loan that bears interest at a rate based upon the Eurodollar Rate.

"Eurodollar Rate" means, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Agent to be equal to the quotient obtained by dividing (a) the Interbank Offered Rate for such Eurodollar Loan for such Interest Period by (b) 1 minus the Eurodollar Reserve Requirement for such Eurodollar Loan for such Interest Period.

"Eurodollar Reserve Requirement" means, at any time, the maximum rate at which reserves (including, without limitation, any marginal, special, supplemental, or emergency reserves) are required to be maintained under regulations issued from time to time by the

Board of Governors of the Federal Reserve System (or any successor) by member banks of the Federal Reserve System against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Eurodollar Reserve Requirement shall reflect any other reserves required to be maintained by such member banks with respect to (i) any category of liabilities which includes deposits by reference to which the Adjusted Eurodollar Rate is to be determined, or (ii) any category of extensions of credit or other assets which include Eurodollar Loans. The Adjusted Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Requirement.

"Excluded Asset Disposition" means (i) the sale, conveyance or other contribution of applicable Transferred Assets by a Credit Party (other than the Parent) as part of any Permitted Receivables Financing, (ii) any Asset Disposition by any Consolidated Party to any Credit Party if after giving effect such Asset Disposition, no Default or Event of Default exists and (iii) any Asset Disposition by any Consolidated Party (which is not a Credit Party) to any other Consolidated Party if after giving effect such Asset Disposition, no Default or Event of Default exists.

"Executive Officer" of any Person means any of the chief executive officer, chief operating officer, president, vice president, chief financial officer or treasurer of such Person.

"Event of Default" means such term as defined in Section 9.1.

"Fees" means all fees payable pursuant to Section 3.5.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day

shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Agent (in its individual capacity) on such day on such transactions as determined by the Agent.

"Fixed Charge Coverage Ratio" means, as of the end of each fiscal quarter of the Consolidated Parties for the twelve month period ending on such date, the ratio of (a) the sum of (i) Consolidated EBITDA for the applicable period minus (ii) Consolidated Cash Taxes for the applicable period to (b) the sum of (i) Consolidated Interest Expense for the applicable period plus (ii) Consolidated Capital Expenditures plus (iii) Restricted Payments made in cash.

"Foreign Subsidiary" means, with respect to any Person, any Subsidiary of such Person which is not a Domestic Subsidiary of such Person.

"Funded Indebtedness" means, with respect to any Person, without duplication, (a) all Indebtedness of such Person other than Indebtedness of the types referred to in clauses (e), (f), (g), (i) and (n) of the definition of "Indebtedness" set forth in this Section 1.1, (b) all Indebtedness of another Person of the type referred to in clause (a) above secured by (or for which the holder of such Funded Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (c) all Guaranty Obligations of such Person with respect to Indebtedness of the type referred to in clause (a) above of another Person and (d) Indebtedness of the type referred to in clause (a) above of any partnership or unincorporated joint venture in which such Person is legally obligated or has a reasonable expectation of being liable with respect thereto.

"GAAP" means generally accepted accounting principles in the United States applied on a consistent basis and subject to the terms of Section 1.3.

"Governmental Authority" means any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantors" means a collective reference to the Parent and each of the Domestic Subsidiaries of the Parent (excluding the Borrower) and the Borrower identified as a "Guarantor" on the signature pages hereto and each Additional Credit Party which may hereafter execute a Joinder Agreement, together with their successors and permitted assigns, and "Guarantor" means any one of them; provided, however, that "Guarantors" shall not include any Inactive Subsidiary.

"Guaranty Obligations" means, with respect to any Person, without duplication as to the Consolidated Parties, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Indebtedness or any Property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (iii) to lease or purchase Property, securities or services primarily for the purpose of assuring the holder of such Indebtedness, or (iv) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation hereunder shall

(subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Guaranty Obligation is made.

"Hedging Agreements" means any interest rate protection agreement, foreign currency exchange agreement or commodity/raw materials price hedging agreement between any Consolidated Party and any Lender, or any Affiliate of a Lender.

"Inactive Subsidiary" means any of the following entities: Wireless Access, Inc., a Delaware corporation, Western Multiplex International Sales Corp., a California corporation, Sunway Financial Services, Inc. or Sunway Management, Inc; provided that on or after the Closing Date (i) no Inactive Subsidiary shall have EBITDA greater than 5% of Consolidated EBITDA and (ii) the aggregate EBITDA of all Inactive Subsidiaries shall not exceed 10% of Consolidated EBITDA.

"Indebtedness" means, with respect to any Person, without duplication as to the Consolidated Parties, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations of such Person issued or assumed as the deferred purchase price of Property or services purchased by such Person which would appear as liabilities on a balance sheet of such Person, (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guaranty Obligations of such Person, (h) the principal portion of all obligations of such Person under Capital Leases, (i) all obligations of such Person under Hedging Agreements, (j) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (k) all preferred Capital Stock issued by such Person and required by the terms thereof to be redeemed, or for which mandatory sinking fund payments are due, by a fixed date, (l) with respect to the Borrower or any of its Subsidiaries, the outstanding Attributed Principal Amount under any Permitted Receivables Financing, (m) the principal portion of all obligations of such Person under Synthetic Leases and (n) the Indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer. In no event shall the term "Indebtedness" include accounts payable due within six months of incurrence thereof, accrued expenses, deferred revenue items, pension liabilities, and other advance payments incurred in the ordinary course of business.

"Interbank Offered Rate" means, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "Interbank Offered Rate" shall mean, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%).

"Interest Payment Date" means (a) as to Base Rate Loans, December 31, 1998, March 31, 1999, June 30, 1999, September 30, 1999 and the Maturity Date, and (b) as to Eurodollar Loans, the last day of each applicable Interest Period and the Maturity Date, and in addition where the applicable Interest Period for a Eurodollar Loan is greater than three months, then also the date three months from the beginning of the Interest Period and each three months thereafter.

"Interest Period" means as to any Eurodollar Loan, a period of

one, two, three or six months' duration, as the Borrower may elect, commencing in each case, on the date of the borrowing (including continuations and conversions thereof); provided, however, (a) if any Interest Period would end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day (except that in the case of Eurodollar Loans where the next succeeding Business Day falls in the next succeeding calendar month, then on the next preceding Business Day), (b) no Interest Period shall extend beyond the Maturity Date and (C) in the case of Eurodollar Loans, where an Interest Period begins on a day for which there is no numerically corresponding day in the calendar month in which the Interest Period is to end, such Interest Period shall end on the last Business Day of such calendar month.

"Investment" in any Person means (a) the acquisition (whether for cash, property, services, assumption of Indebtedness, securities or otherwise) of assets, shares of Capital Stock, bonds, notes, debentures, partnership, joint ventures or other ownership interests or other securities of such other Person or (b) any deposit with, or advance, loan or other extension of credit to, such Person (other than deposits made in connection with the purchase of equipment or other assets in the ordinary course of business) or (c) any other capital contribution to or investment in such Person, including, without limitation, any Guaranty Obligations (including any support for a letter of credit issued on behalf of such Person) incurred for the benefit of such Person, but excluding any Restricted Payment to such Person.

"Issuing Lender" means NationsBank.

"Issuing Lender Fees" shall have the meaning assigned to such term in Section 3.5(c)(ii).

"Joinder Agreement" means a Joinder Agreement substantially in the form of Exhibit 7.12 hereto, executed and delivered by an Additional Credit Party in accordance with the provisions of Section 7.12.

"Lender" means any of the Persons identified as a "Lender" on the signature pages hereto, and any Person which may become a Lender by way of assignment in accordance with the terms hereof, together with their successors and permitted assigns.

"Letter of Credit" means any letter of credit issued by the Issuing Lender for the account of the Borrower in accordance with the terms of Section 2.2.

"Letter of Credit Fee" shall have the meaning assigned to such term in Section 3.5(c)(i).

"Leverage Ratio" means, with respect to the Consolidated Parties on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter, the ratio of (a) Funded Indebtedness of the Consolidated Parties on a consolidated basis on the last day of such period to (b) Consolidated EBITDA for such period.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

"Loan" or "Loans" shall have the meaning assigned to such term in Section 2.1(a) and shall include within the meaning thereof any portion of any Loan bearing interest at the Base Rate or the Adjusted Eurodollar Rate and referred to as a Base Rate Loan or a Eurodollar Loan.

"LOC Commitment" means the commitment of the Issuing Lender to issue Letters of Credit in an aggregate face amount at any time outstanding (together with the amounts of any unreimbursed drawings thereon) of up to the LOC Committed Amount.

"LOC Committed Amount" shall have the meaning assigned to such term in Section 2.2(a).

"LOC Documents" means, with respect to any Letter of Credit, such Letter of Credit, any amendments thereto, any documents delivered in connection therewith, any application therefor, and any agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (i) the rights and obligations of the parties concerned or at risk or (ii) any collateral security for such obligations.

"LOC Obligations" means, at any time, the sum of (i) the maximum amount which is, or at any time thereafter may become, available to be drawn under Letters of Credit then outstanding, assuming compliance with all requirements for drawings referred to in such Letters of Credit plus (ii) the aggregate amount of all drawings under Letters of Credit honored by the Issuing Lender but not theretofore reimbursed by the Borrower.

"Material Adverse Effect" means a material adverse effect on (i) the condition (financial or otherwise), results of operations, business, assets, liabilities or prospects of the Consolidated Parties taken as a whole, (ii) the ability of any Credit Party to perform any material obligation under the Credit Documents to which it is a party or (iii) the material rights and remedies of the Lenders under the Credit Documents.

"Materials of Environmental Concern" means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Laws, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Maturity Date" means October 29, 1999.

"Moody's" means Moody's Investors Service, Inc., or any successor or assignee of the business of such company in the business of rating securities.

"Multiemployer Plan" means a Plan which is a multiemployer plan as defined in Sections 3(37) or 4001(a)(3) of ERISA.

"Multiple Employer Plan" means a Plan which any Consolidated Party or any ERISA Affiliate and at least one employer other than the Consolidated Parties or any ERISA Affiliate are contributing sponsors.

"NationsBank" means NationsBank, N. A. and its successors.

"Net Cash Proceeds" means the aggregate cash proceeds received by the Consolidated Parties in respect of any Asset Disposition, Equity Issuance or Permitted Receivables Financing, net of (a) direct costs (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and (b) taxes paid or payable as a result thereof; it being understood that "Net Cash Proceeds" shall include,

without limitation, any cash received upon the sale or other disposition of any non-cash consideration received by the Consolidated Parties in any Asset Disposition, Equity Issuance or Permitted Receivables Financing.

"Note" or "Notes" means the promissory notes of the Borrower in favor of each of the Lenders evidencing the Loans provided pursuant to Section 2.1(e), individually or collectively, as appropriate, as such promissory notes may be amended, modified, restated, supplemented, extended, renewed or replaced from time to time.

"Notice of Borrowing" means a written notice of borrowing in substantially the form of Exhibit 2.1(b)(i), as required by Section 2.1(b)(i).

"Notice of Extension/Conversion" means the written notice of extension or conversion in substantially the form of Exhibit 3.2, as required by Section 3.2.

"Operating Lease" means, as applied to any Person, any lease (including, without limitation, leases which may be terminated by the lessee at any time) of any Property which is not a Capital Lease other than any such lease in which that Person is the lessor.

"Other Taxes" means such term as is defined in Section 3.11.

"Parent" means the Person identified as such in the heading hereof, together with any permitted successors and assigns.

"Participation Interest" means, a purchase by a Lender of a participation in any Letters of Credit or LOC Obligations as provided in Section 2.2(c) or in any Loans as provided in Section 3.14.

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA and any successor thereof.

"Permitted Acquisition" means an Acquisition by any Consolidated Party for the fair market value of the Capital Stock or Property acquired; provided that (i) the Capital Stock or Property acquired in such Acquisition relates to a line of business similar to the business of the Consolidated Parties engaged in on the Closing Date, (ii) the Agent shall have received all items in respect of the Capital Stock or Property acquired in such Acquisition (and/or the seller thereof) required to be delivered by the terms of Section 7.12, (iii) in the case of an Acquisition of the Capital Stock of another Person, the board of directors (or other comparable governing body) of such other Person shall have duly approved such Acquisition, (iv) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect to such Acquisition on a Pro Forma Basis, the Consolidated Parties shall be in compliance with all of the covenants set forth in Section 7.11, (v) the representations and warranties made by the Credit Parties in any Credit Document shall be true and correct in all material respects at

and as if made as of the date of such Acquisition (after giving effect thereto) except to the extent such representations and warranties expressly relate to an earlier date, (vi) the cost (including cash and non-cash consideration) for any such Acquisition or transaction described in Section 8.4 occurring after the Closing Date shall not exceed $50,000,000 and (vii) the aggregate cost (including cash and non-cash consideration plus the book value of assumed liabilities) for all such Acquisitions and all transactions described in Section 8.4 occurring after the Closing Date shall not exceed $100,000,000.

"Permitted Customer Financing Transactions" means (i) any Customer Financing Transaction permitted under the terms and conditions set forth in the Customer Financing Policy or (ii) extensions of credit by the Borrower under the Conxus Credit Agreement.

"Permitted Investments" means Investments which are either (i) cash and Cash Equivalents; (ii) accounts receivable created, acquired or made by any Consolidated Party in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (iii) Investments consisting of Capital Stock, obligations, securities or other property received by any Consolidated Party in settlement of accounts receivable (created in the ordinary course of business) from bankrupt obligors; (iv) Investments existing as of the Closing Date and set forth in Schedule 1.1A, (v) Guaranty Obligations permitted by Section 8.1; (vi) transactions permitted by Section 8.9 or Section 8.16, (vii) advances or loans to directors, officers, employees, agents, customers or suppliers that do not exceed $500,000 in the aggregate at any one time outstanding for all of the Consolidated Parties; (viii) Investments in any Credit Party; (ix) Permitted Acquisitions; (x) Investments by a Consolidated Party in a Receivables Financing SPC made in connection with a Permitted Receivables Financing; (xi) equity securities listed on the New York Stock Exchange, provided that (A) the long-term credit rating of the corporation issuing such securities shall be A- (or the equivalent thereof) or better from S&P or A3 (or the equivalent thereof) or better from Moody's and (B) the purchase price paid for all such equity securities held at any time shall not exceed $1,000,000; (xii) Investments in Foreign Subsidiaries of any Consolidated Party not exceeding in the aggregate $45,000,000 per fiscal year of the Borrower; (xiii) Investments in joint ventures, partnerships, limited liability companies or OEMs in which a Consolidated Party owns an equity interest, provided such Investments shall not exceed (when combined with Investments described in clause (xiv)), in the aggregate, 5% of Consolidated Net Worth; and (xiv) Investments consisting of Capital Stock and/or warrants, taken by any Consolidated Party as consideration in a Permitted Customer Financing Transaction in lieu of cash, provided such Investments shall not exceed

(when combined with Investments described in clause (xiii)), in the aggregate, 5% of Consolidated Net Worth.

"Permitted Liens" means:

(i) Liens in favor of the Agent to secure the Credit Party Obligations;

(ii) Liens (other than Liens created or imposed under ERISA) for taxes, assessments or governmental charges or levies not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

(iii) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that such Liens secure only amounts not yet due and payable or, if due and payable, are unfiled and no other action has been taken to enforce the same or are being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

(iv) Liens (other than Liens created or imposed under ERISA) incurred or deposits made by any Consolidated Party in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(v) Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 30 days after the expiration of any such stay;

(vi) easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;

(vii) Liens on Property securing purchase money Indebtedness (including Capital Leases) to the extent permitted under Section 8.1(c) and Liens on the Canadian Property with respect to Sale and Leaseback Transactions and Synthetic Leases to the extent permitted under Section 8.1(g), provided that any such Lien attaches to such Property concurrently with or within 90 days after the acquisition thereof;

(viii) leases or subleases granted to others not interfering in any material respect with the business of any Consolidated Party;

(ix) any interest of title of a lessor under, and Liens arising from UCC financing statements (or equivalent filings, registrations or agreements in foreign jurisdictions) relating to, leases permitted by this Credit Agreement;

(x) Liens in favor of a Receivables Financing SPC or Receivables Financier created or deemed to exist in connection with a Permitted Receivables Financing (including any related filings of any financing statements), but only (a) to the extent that any such Lien relates to the applicable Transferred Assets actually sold, contributed, financed or otherwise conveyed or pledged pursuant to such transaction or (b) as required in connection with the Non-Notification Factoring Agreement to be

executed by NationsBanc Commercial Corporation and a Credit Party (other than the Parent);

(xi) Liens deemed to exist in connection with Investments in repurchase agreements permitted under Section 8.6;

(xii) normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

(xiii) Liens existing as of the Closing Date and set forth on Schedule 1.1B, as renewed, refunded or refinanced; provided that (a) no such Lien shall at any time be extended to or cover any Property other than the Property subject thereto on the Closing Date and (b) the Indebtedness secured by such Liens shall not be increased; and

(xiv) other Liens not to exceed in the aggregate $15,000,000.

"Permitted Receivables Financing" means any one or more receivables financings in which (i) a Consolidated Party (a) sells (as determined in accordance with GAAP) any accounts receivable, notes receivable, rights to future lease payments or residuals (collectively, together with certain related property relating thereto and the right to collections thereon, being the "Transferred Assets") to any Person that is not a Subsidiary or Affiliate of the Borrower (with respect to any such transaction, the "Receivables Financier"), (b) borrows from such Receivables Financier and secures such borrowings by a pledge of such Transferred Assets and/or (c) otherwise finances its acquisition of such Transferred Assets and, in connection therewith, conveys an interest in such Transferred Assets to the Receivables Financier or (ii) a Consolidated Party sells, conveys or otherwise contributes any Transferred Assets to a Receivables Financing SPC, which Receivables Financing SPC then (a) sells (as determined in accordance with GAAP) any such receivables (or an interest therein) to any Receivables Financier, (b) borrows from such Receivables Financier and secures such borrowings by a pledge of such receivables or (c) otherwise finances its acquisition of such receivables and, in connection therewith, conveys an interest in such receivables to the Receivables Financier, provided that (1) the

aggregate amount of uncollected accounts receivable subject to all such receivables financings shall not at any time exceed the lesser of $25,000,000 or 25% of total accounts receivable of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, as of the most recent fiscal quarter end preceding any date of determination with respect to which the Agent shall have received the Required Financial Information, (2) such receivables financing shall not involve any recourse to the Borrower or any of its Subsidiaries for any reason other than (A) repurchases of non-eligible receivables, (B) indemnifications for losses other than credit losses related to the receivables sold in such financing or (C) in connection with the Non-Notification Factoring Agreement to be executed by NationsBanc Commercial Corporation and a Credit Party (other than the Parent), (3) the Agent shall be reasonably satisfied with the structure of and documentation for any such transaction and that the terms of such transaction, including the discount at which receivables are sold (which in any event shall not exceed 10%), the term of the commitment of the Receivables Financier thereunder and any termination events, shall be (in the good faith understanding of the Agent) consistent with those prevailing in the market for similar transactions involving a receivables originator/servicer of similar credit quality and a receivables pool of similar characteristics, (4) the documentation for such transaction shall not be amended or modified without the prior written approval of the Agent, which approval shall not be unreasonably withheld or delayed and (5) the Net Cash Proceeds received from such Permitted Receivables Financing shall be immediately applied to prepay the Loans in accordance with Section 3.3(b)(ii).

"Person" means any individual, partnership, joint venture, firm, corporation, limited liability company, association, trust or other enterprise (whether or not incorporated) or any Governmental Authority.

"Plan" means any employee benefit plan (as defined in Section 3(3) of ERISA) which is covered by ERISA and with respect to which any Consolidated Party or any ERISA Affiliate is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to

be) an "employer" within the meaning of Section 3(5) of ERISA.

"Prime Rate" means the per annum rate of interest established from time to time by NationsBank as its prime rate, which rate may not be the lowest rate of interest charged by NationsBank to its customers.

"Principal Office" means the principal office of NationsBank, presently located at Charlotte, North Carolina.

"Pro Forma Basis" means, with respect to any transaction, that such transaction shall be deemed to have occurred (for purposes of calculating compliance in respect of such transaction with each of the financial covenants set forth in Section 7.11 as of the most recent fiscal quarter end preceding the date of such transaction with respect to which the Agent has received the Required Financial Information) as of the first day of the four fiscal-quarter period ending as of such fiscal quarter end. As used herein, "transaction"

shall mean (i) any incurrence or assumption of Indebtedness as referred to in Section 8.1(g), (ii) any merger or consolidation as referred to in Section 8.4, (iii) any Asset Disposition as referred to in Section 8.5, (iv) any Permitted Acquisition or (v) any Restricted Payment as referred to in Section 8.7. With respect to any transaction of the type described in clause (i) above regarding Indebtedness which has a floating or formula rate, the implied rate of interest for such Indebtedness for the applicable period for purposes of this definition shall be determined by utilizing the rate which is or would be in effect with respect to such Indebtedness as at the relevant date of determination. With respect to any transaction of the type described in clause (ii) or (iv) above, any Indebtedness incurred by the Borrower or any of its Subsidiaries in order to consummate such transaction (A) shall be deemed to have been incurred on the first day of the applicable period and (B) if such Indebtedness has a floating or formula rate, then the implied rate of interest for such Indebtedness for the applicable period for purposes of this definition shall be determined by utilizing the rate which is or would be in effect with respect to such Indebtedness as at the relevant date of determination. In connection with any calculation of the financial covenants set forth in Section 7.11 upon giving effect to a transaction on a Pro Forma Basis for purposes of Section 8.1(g), Section 8.4, Section 8.5, clause (v) of the definition of "Permitted Acquisition" set forth in this Section 1.1, or Section 8.7, as applicable:

(A) for purposes of any such calculation in respect of any incurrence or assumption of Indebtedness as referred to in Section 8.1(g), any Indebtedness which is retired in connection with such incurrence or assumption shall be excluded and deemed to have been retired as of the first day of the applicable period;

(B) for purposes of any such calculation in respect of any Asset Disposition as referred to in Section 8.5, (1) income statement items (whether positive or negative) attributable to the Property disposed of in such Asset Disposition shall be excluded and (2) any Indebtedness which is retired in connection with such Asset Disposition shall be excluded and deemed to have been retired as of the first day of the applicable period;

(C) for purposes of any such calculation in respect of any merger or consolidation as referred to in Section 8.4, any Permitted Acquisition or any Restricted Payment as referred to in Section 8.7, (1) any Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with such transaction shall be deemed to have been incurred as of the first day of the applicable period and (2) income statement items (whether positive or negative) attributable to the Property acquired in such transaction or to the Investment comprising such transaction, as applicable, shall be included to the extent relating to the relevant period; and

(D) for purposes of any such calculation, the principles set forth in the second paragraph of Section 1.3 shall be applicable.

"Pro Forma Compliance Certificate" means a certificate of an Executive Officer of the Borrower delivered to the Agent in connection with (i) any incurrence, assumption or retirement of Indebtedness as referred to in Section 8.1(g), (ii) any merger or consolidation as referred to in Section 8.4, (iii) any Asset Disposition as referred to in Section 8.5, (iv) any Permitted Acquisition or (v) any Restricted Payment as referred to in Section 8.7, as applicable, and containing reasonably detailed calculations, upon giving effect to the applicable transaction on a Pro Forma Basis, of the Fixed Charge Coverage Ratio and the Leverage Ratio as of the most recent fiscal quarter end preceding the date of the applicable transaction with respect to which the Agent shall have received the Required Financial Information.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Receivables Financier" shall have the meaning assigned to such term in the definition of "Permitted Receivables Financing" set forth in this Section 1.1.

"Receivables Financing SPC" shall mean, in respect of any Permitted Receivables Financing, any Subsidiary or Affiliate of the Borrower to which the Borrower or any of its Subsidiaries sells, contributes or otherwise conveys any Transferred Assets in connection with such Permitted Receivables Financing.

"Register" shall have the meaning given such term in Section 11.3(c).

"Regulation T, U, or X" means Regulation T, U or X, respectively, of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment (including the abandonment or discarding of barrels, containers and other closed receptacles containing any Materials of Environmental Concern).

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the notice requirement has been waived by regulation.

"Required Financial Information" means, with respect to the applicable Calculation Date, (i) the financial statements of the Consolidated Parties required to be delivered pursuant to Section 7.1(a) or (b) for the fiscal period or quarter ending as of such Calculation Date, and (ii) the certificate of an Executive Officer of the Borrower

required by Section 7.1(c) to be delivered with the financial statements described in clause (i) above.

"Required Lenders" means, at any time, Lenders which are then in compliance with their obligations hereunder (as determined by the Agent) and holding in the aggregate at least 51% of (i) the Commitments (and Participation Interests therein) or (ii) if the Commitments have been terminated, the outstanding Loans and Participation Interests (including the Participation Interests of the Issuing Lender in any Letters of Credit).

"Requirement of Law" means, as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its material property is subject.

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding, (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding and (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding.

"S&P" means Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc., or any successor or assignee of the business of such division in the business of rating securities.

"Sale and Leaseback Transaction" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to any Consolidated Party of any Property, whether owned by such Consolidated Party as of the Closing Date or later acquired, which has been or is to be sold or transferred by such Consolidated Party to such Person or to any other Person from whom funds have been, or are to be, advanced by such Person on the security of such Property.

"Single Employer Plan" means any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan or a Multiple Employer Plan.

"Solvent" or "Solvency" means, with respect to any Person as of a particular date, that on such date (i) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (ii) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature in their ordinary course, (iii) such Person is not engaged in a business or a

transaction, and is not about to engage in a business or a transaction, for which such Person's Property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged or is to engage, (iv) the fair value of the Property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person and (v) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subsidiary" means, as to any Person, (a) any corporation more than 50% of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity of which such Person directly or indirectly through Subsidiaries has more than 50% Capital Stock at any time.

"Synthetic Lease" means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an Operating Lease for accounting purposes.

"Taxes" means such term as is defined in Section 3.11.

"Transferred Assets" shall have the meaning assigned to such term in the definition of "Permitted Receivables Financing" set forth in this Section 1.1.

"Unused Fee" shall have the meaning assigned to such term in Section 3.5(b).

"Unused Fee Calculation Period" shall have the meaning assigned to such term in Section 3.5(b).

"Unused Committed Amount" means, for any period, the amount by which (a) the then applicable Committed Amount exceeds (b) the daily average sum for such period of (i) the outstanding aggregate principal amount of all Loans plus (ii) the outstanding aggregate principal amount of all LOC Obligations.

"Upfront Fee" shall have the meaning assigned to such term in

Section 3.5(a).

"Voting Stock" means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Wholly Owned Subsidiary" of any Person means any Subsidiary 100% of whose Voting Stock is at the time owned by such Person directly or indirectly through other Wholly Owned Subsidiaries.

"Year 2000 Compliant" shall have the meaning assigned to such term in Section 6.24.

1.2 Computation of Time Periods.

For purposes of computation of periods of time hereunder, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding."

1.3 Accounting Terms.

Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall be prepared, in accordance with GAAP applied on a consistent basis. All calculations made for the purposes of determining compliance with this Credit Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with the most recent annual or quarterly financial statements delivered pursuant to Section 7.1 (or, prior to the delivery of the first financial statements pursuant to Section 7.1, consistent with the financial statements as at December 31, 1997); provided, however, if (a) the Borrower shall object to determining such compliance on such basis at the time of delivery of such financial statements due to any change in GAAP or the rules promulgated with respect thereto or (b) the Agent or the Required Lenders shall so object in writing within 30 days after delivery of such financial statements, then such calculations shall be made on a basis consistent with the most recent financial statements delivered by the Borrower to the Lenders as to which no such objection shall have been made.

Notwithstanding the above, the parties hereto acknowledge and agree that, for purposes of all calculations made in determining compliance with the financial covenants set forth in Section 7.11 (including without limitation for purposes of the definitions of "Applicable Percentage" and "Pro Forma Basis" set forth in Section 1.1), (i)(A) income statement items (whether positive or negative) attributable to the Property disposed of in any Asset Disposition as contemplated by Section 8.5, as applicable, shall be excluded to the extent relating to any period occurring prior to the date of such transaction and (B) Indebtedness which is retired in connection with any such Asset Disposition shall be excluded and deemed to have been retired as of the first day of the applicable period and (ii) income statement items (whether positive or negative) attributable to any Property acquired in any Investment transaction contemplated by

Section 8.6 shall be included to the extent relating to any period applicable in such calculations occurring after the date of such transaction (and, notwithstanding the foregoing, during the first four fiscal quarters following the date of such transaction, shall be included on an annualized basis).

SECTION 2

CREDIT FACILITIES

2.1 Loans.

(a) Commitment. Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make available to the Borrower such Lender's Commitment Percentage of revolving credit loans requested pursuant to this Credit Agreement by the Borrower in Dollars ("Loans") from time to time from the Closing Date until the Maturity Date, or such earlier date

as the Commitments shall have been terminated as provided herein for the purposes hereinafter set forth; provided, however, that the sum of the aggregate principal amount of outstanding Loans shall not exceed FIFTY MILLION AND 00/100 DOLLARS ($50,000,000.00) (as such aggregate maximum amount may be reduced from time to time as provided in Section 3.4, the "Committed Amount"); provided, further, (i) with regard to each Lender individually, such Lender's outstanding Loans shall not exceed such Lender's Commitment Percentage of the Committed Amount, and (ii) the aggregate principal amount of outstanding Loans plus LOC Obligations outstanding shall not exceed the Committed Amount. Loans may consist of Base Rate Loans or Eurodollar Loans, or a combination thereof, as the Borrower may request; provided, however, that no more than 5 Eurodollar Loans shall be outstanding hereunder at any time. For purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period. Loans hereunder may be repaid and reborrowed in accordance with the provisions hereof.

(b) Loan Borrowings.

(i) Notice of Borrowing. The Borrower shall request a Loan borrowing by written notice (or telephonic notice promptly confirmed in writing) to the Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day prior to the date of the requested borrowing in the case of Base Rate Loans, and on the third Business Day prior to the date of the requested borrowing in the case of Eurodollar Loans. Each such request for borrowing shall be irrevocable and shall specify (A) that a Loan is requested, (B) the date of the requested borrowing (which shall be a Business Day), (C) the aggregate principal amount to be borrowed, and

(D) whether the borrowing shall be comprised of Base Rate Loans, Eurodollar Loans or a combination thereof, and if Eurodollar Loans are requested, the Interest Period(s) therefor. If the Borrower shall fail to specify in any such Notice of Borrowing (I) an applicable Interest Period in the case of a Eurodollar Loan, then such notice shall be deemed to be a request for an Interest Period of one month, or (II) the type of Loan requested, then such notice shall be deemed to be a request for a Base Rate Loan hereunder. The Agent shall give notice to each affected Lender promptly upon receipt of each Notice of Borrowing pursuant to this Section 2.1(b)(i), the contents thereof and each such Lender's share of any borrowing to be made pursuant thereto.

(ii) Minimum Amounts. Each Eurodollar Loan or Base Rate Loan shall be in a minimum aggregate principal amount of $1,000,000 and integral multiples of $500,000 in excess thereof (or the remaining amount of the Committed Amount, if less).

(iii) Advances. Each Lender will make its Commitment Percentage of each Loan borrowing available to the Agent for the account of the Borrower as specified in Section 3.15(a), or in such other manner as the Agent may specify in writing, by 1:00 P.M. (Charlotte, North Carolina time) on the date specified in the applicable Notice of Borrowing in Dollars and in funds immediately available to the Agent. Such borrowing will then be made available to the Borrower by the Agent by crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Agent by the Lenders and in like funds as received by the Agent.

(c) Repayment. The principal amount of all Loans shall be due and payable in full on the Maturity Date, unless accelerated sooner pursuant to Section 9.2.

(d) Interest. Subject to the provisions of Section 3.1,

(i) Base Rate Loans. During such periods as Loans shall be comprised in whole or in part of Base Rate Loans, such Base Rate Loans shall bear interest at a per annum rate equal to the Base Rate;

(ii) Eurodollar Loans. During such periods as Loans shall

be comprised in whole or in part of Eurodollar Loans, such Eurodollar Loans shall bear interest at a per annum rate equal to the Adjusted Eurodollar Rate.

Interest on Loans shall be payable in arrears on each applicable Interest Payment Date (or at such other times as may be specified herein).

(e) Notes. The Loans made by each Lender shall be evidenced by a duly executed promissory note of the Borrower to such Lender in an original principal amount

equal to such Lender's Commitment Percentage of the Committed Amount and in substantially the form of Exhibit 2.1(e).

2.2 Letter of Credit Subfacility.

(a) Issuance. Subject to the terms and conditions hereof and of the LOC Documents, if any, and any other terms and conditions which the Issuing Lender may reasonably require and in reliance upon the representations and warranties set forth herein, the Issuing Lender agrees to issue, and each Lender severally agrees to participates in the issuance by the Issuing Lender of, Letters of Credit in Dollars from time to time from the Closing Date until the Maturity Date as the Borrower may request, in a form acceptable to the Issuing Lender; provided, however, that (i) the LOC Obligations outstanding shall not at any time exceed FIFTEEN MILLION AND 00/100 DOLLARS ($15,000,000.00) (the "LOC Committed Amount") and (ii) the sum of the aggregate principal amount of outstanding Loans plus LOC Obligations outstanding shall not at any time exceed the aggregate Committed Amount. No Letter of Credit shall have an original expiry date more than one year from the date of issuance. Each Letter of Credit shall comply with the related LOC Documents. The issuance and expiry dates of each Letter of Credit shall be a Business Day.

(b) Notice and Reports. The request for the issuance of a Letter of Credit shall be submitted by the Borrower to the Issuing Lender at least three (3) Business Days prior to the requested date of issuance. The Issuing Lender will, at least quarterly and more frequently upon request, disseminate to each of the Lenders a detailed report specifying the Letters of Credit which are then issued and outstanding and any activity with respect thereto which may have occurred since the date of the prior report, and including therein, among other things, the beneficiary, the face amount and the expiry date, as well as any payment or expirations which may have occurred.

(c) Participation. Each Lender, upon issuance of a Letter of Credit, shall be deemed to have purchased without recourse a Participation Interest from the applicable Issuing Lender in such Letter of Credit and the obligations arising thereunder and any collateral relating thereto, in each case in an amount equal to its pro rata share of the obligations under such Letter of Credit (based on the respective Commitment Percentages of the Lenders) and shall absolutely, unconditionally and irrevocably assume and be obligated to pay to the Issuing Lender and discharge when due, its pro rata share of the obligations arising under such Letter of Credit. Without limiting the scope and nature of each Lender's Participation Interest in any Letter of Credit, to the extent that the Issuing Lender has not been reimbursed as required hereunder or under any such Letter of Credit, each such Lender shall pay to the Issuing Lender its pro rata share of such unreimbursed drawing in same day funds on the day of notification by the Issuing Lender of an unreimbursed drawing pursuant to the provisions of subsection (d) below. The obligation of each Lender to so reimburse the Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of a Default, an Event of Default or any other

occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender under any Letter of Credit, together with interest as hereinafter provided.

(d) Reimbursement. In the event of any drawing under any Letter

of Credit, the Issuing Lender will promptly notify the Borrower. Unless the Borrower shall immediately notify the Issuing Lender that the Borrower intends to otherwise reimburse the Issuing Lender for such drawing, the Borrower shall be deemed to have requested that the Lenders make a Loan in the amount of the drawing as provided in subsection (e) below on the related Letter of Credit, the proceeds of which will be used to satisfy the related reimbursement obligations. The Borrower promises to reimburse the Issuing Lender on the day of drawing under any Letter of Credit (either with the proceeds of a Loan obtained hereunder or otherwise) in same day funds. If the Borrower shall fail to reimburse the Issuing Lender as provided hereinabove, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the Base Rate plus 2%. The Borrower's reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of setoff, counterclaim or defense to payment the Borrower may claim or have against the Issuing Lender, the Agent, the Lenders, the beneficiary of the Letter of Credit drawn upon or any other Person, including without limitation any defense based on any failure of the Borrower or any other Credit Party to receive consideration or the legality, validity, regularity or unenforceability of the Letter of Credit. The Issuing Lender will promptly notify the other Lenders of the amount of any unreimbursed drawing and each Lender shall promptly pay to the Agent for the account of the Issuing Lender in Dollars and in immediately available funds, the amount of such Lender's pro rata share of such unreimbursed drawing. Such payment shall be made on the day such notice is received by such Lender from the Issuing Lender if such notice is received at or before 2:00 P.M. (Charlotte, North Carolina time) otherwise such payment shall be made at or before 12:00 Noon (Charlotte, North Carolina time) on the Business Day next succeeding the day such notice is received. If such Lender does not pay such amount to the Issuing Lender in full upon such request, such Lender shall, on demand, pay to the Agent for the account of the Issuing Lender interest on the unpaid amount during the period from the date of such drawing until such Lender pays such amount to the Issuing Lender in full at a rate per annum equal to, if paid within two (2) Business Days of the date that such Lender is required to make payments of such amount pursuant to the preceding sentence, the Federal Funds Rate and thereafter at a rate equal to the Base Rate. Each Lender's obligation to make such payment to the Issuing Lender, and the right of the Issuing Lender to receive the same, shall be absolute and unconditional, shall not be affected by any circumstance whatsoever and without regard to the termination of this Credit Agreement or the Commitments hereunder, the existence of a Default or Event of Default or the acceleration of the obligations of the Borrower hereunder and shall be made without any offset, abatement, withholding or reduction whatsoever. Simultaneously with the making of each such payment by a Lender to the Issuing Lender, such Lender shall, automatically and without any further action on the part of the Issuing Lender or such Lender, acquire a Participation Interest in an amount equal to such payment (excluding the portion of such

payment constituting interest owing to the Issuing Lender) in the related unreimbursed drawing portion of the LOC Obligation and in the interest thereon and in the related LOC Documents, and shall have a claim against the Borrower with respect thereto.

(e) Repayment with Loans. On any day on which the Borrower shall have requested, or been deemed to have requested, a Loan advance to reimburse a drawing under a Letter of Credit, the Agent shall give notice to the Lenders that a Loan has been requested or deemed requested by the Borrower to be made in connection with a drawing under a Letter of Credit, in which case a Loan advance comprised of Base Rate Loans (or Eurodollar Loans to the extent the Borrower has complied with the procedures of Section 2.1(b)(i) with respect thereto) shall be immediately made to the Borrower by all Lenders (notwithstanding any termination of the Commitments pursuant to Section 9.2) pro rata based on the respective Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2) and the proceeds thereof shall be paid directly to the Issuing Lender for application to the respective LOC Obligations. Each such Lender hereby irrevocably agrees to make its pro rata share of each such Loan immediately upon any such request or deemed request in the amount, in the manner and on the date specified in the preceding sentence notwithstanding (i) the amount of such borrowing may not comply with the minimum amount for advances of Loans otherwise required hereunder, (ii) whether any conditions specified in Section 5.2 are then satisfied, (iii) whether a Default or an Event of Default then exists,

(iv) failure for any such request or deemed request for Loan to be made by the time otherwise required hereunder, (v) whether the date of such borrowing is a date on which Loans are otherwise permitted to be made hereunder or (vi) any termination of the Commitments relating thereto immediately prior to or contemporaneously with such borrowing. In the event that any Loan cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to the Borrower or any Credit Party), then each such Lender hereby agrees that it shall forthwith purchase (as of the date such borrowing would otherwise have occurred, but adjusted for any payments received from the Borrower on or after such date and prior to such purchase) from the Issuing Lender such Participation Interests in the outstanding LOC Obligations as shall be necessary to cause each such Lender to share in such LOC Obligations ratably (based upon the respective Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2)); provided, however, that at the time any purchase of Participation Interests pursuant to this sentence is actually made, the purchasing Lender shall be required to pay to the Issuing Lender, to the extent not paid to the Issuer by the Borrower in accordance with the terms of subsection (d) above, interest on the principal amount of Participation Interests purchased for each day from and including the day upon which such borrowing would otherwise have occurred to but excluding the date of payment for such Participation Interests, at the rate equal to, if paid within two (2) Business Days of the date of the Loan advance, the Federal Funds Rate, and thereafter at a rate equal to the Base Rate.

(f) Designation of Consolidated Parties as Account Parties. Notwithstanding anything to the contrary set forth in this Credit Agreement, including without limitation Section 2.2(a), a Letter of Credit issued hereunder may contain a statement to the effect that such Letter of Credit is issued for the account of a Consolidated Party other than the Borrower, provided that notwithstanding such statement, the Borrower shall be the actual account party for all purposes of this Credit Agreement for such Letter of Credit and such statement shall not affect the Borrower's reimbursement obligations hereunder with respect to such Letter of Credit.

(g) Renewal, Extension. The renewal or extension of any Letter of Credit shall, for purposes hereof, be treated in all respects the same as the issuance of a new Letter of Credit hereunder.

(h) Uniform Customs and Practices. The Issuing Lender may have the Letters of Credit be subject to The Uniform Customs and Practice for Documentary Credits, as published as of the date of issue by the International Chamber of Commerce (the "UCP"), in which case the UCP may be incorporated therein and deemed in all respects to be a part thereof.

(i) Indemnification; Nature of Issuing Lender's Duties.

(i) In addition to its other obligations under this Section 2.2, the Borrower hereby agrees to pay, and protect, indemnify and save each Lender harmless from and against, any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) that such Lender may incur or be subject to as a consequence, direct or indirect, of (A) the issuance of any Letter of Credit or (B) the failure of such Lender to honor a drawing under a Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or Governmental Authority (all such acts or omissions, herein called "Government Acts").

(ii) As between the Borrower and the Lenders (including the Issuing Lender), the Borrower shall assume all risks of the acts, omissions or misuse of any Letter of Credit by the beneficiary thereof. No Lender (including the Issuing Lender) shall be responsible: (A) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, that may prove to be invalid or ineffective for any reason; (B) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (C) for any loss or delay in the

transmission or otherwise of any document required in order to make a drawing under a Letter of Credit or of the proceeds thereof; and (D) for any consequences arising from causes beyond the control of such Lender, including,

without limitation, any Government Acts. None of the above shall affect, impair, or prevent the vesting of the Issuing Lender's rights or powers hereunder.

(iii) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by any Lender (including the Issuing Lender), under or in connection with any Letter of Credit or the related certificates, if taken or omitted in good faith, shall not put such Lender under any resulting liability to the Borrower or any other Credit Party. It is the intention of the parties that this Credit Agreement shall be construed and applied to protect and indemnify each Lender (including the Issuing Lender) against any and all risks involved in the issuance of the Letters of Credit, all of which risks are hereby assumed by the Borrower (on behalf of itself and each of the other Credit Parties), including, without limitation, any and all Government Acts. No Lender (including the Issuing Lender) shall, in any way, be liable for any failure by such Lender or anyone else to pay any drawing under any Letter of Credit as a result of any Government Acts or any other cause beyond the control of such Lender.

(iv) Nothing in this subsection (i) is intended to limit the reimbursement obligations of the Borrower contained in subsection (d) above. The obligations of the Borrower under this subsection (i) shall survive the termination of this Credit Agreement. No act or omissions of any current or prior beneficiary of a Letter of Credit shall in any way affect or impair the rights of the Lenders (including the Issuing Lender) to enforce any right, power or benefit under this Credit Agreement.

(v) Notwithstanding anything to the contrary contained in this subsection (i), the Borrower shall have no obligation to indemnify any Lender (including the Issuing Lender) in respect of any liability incurred by such Lender (A) arising solely out of the gross negligence or willful misconduct of such Lender, as determined by a court of competent jurisdiction, or (B) caused by such Lender's failure to pay under any Letter of Credit after presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, as determined by a court of competent jurisdiction, unless such payment is prohibited by any law, regulation, court order or decree.

(j) Responsibility of Issuing Lender. It is expressly understood and agreed that the obligations of the Issuing Lender hereunder to the Lenders are only those expressly set forth in this Credit Agreement and that the Issuing Lender shall be entitled to assume that the conditions precedent set forth in Section 5.2 have been satisfied unless it shall have acquired actual knowledge that any such condition precedent has not been satisfied; provided, however, that nothing set forth in this Section 2.2 shall be deemed to prejudice the right of any Lender to recover from the Issuing Lender any amounts made available by such Lender to the Issuing Lender pursuant to this Section 2.2 in the event that it is determined by a court of competent jurisdiction that the payment with respect to a Letter of Credit constituted gross negligence or willful misconduct on the part of the Issuing Lender.

(k) Conflict with LOC Documents. In the event of any conflict between this Credit Agreement and any LOC Document (including any letter of credit application), this Credit Agreement shall control.

SECTION 3

OTHER PROVISIONS RELATING TO CREDIT FACILITIES

3.1 Default Rate.

Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loans and any other amounts owing hereunder or under the other Credit Documents shall bear interest, payable on demand, at a per annum rate 2% greater than the rate which would otherwise be applicable (or if no rate is applicable, whether in respect of interest, fees or other amounts, then the Base Rate plus 2%).

3.2 Extension and Conversion.

Subject to the terms of Section 5.2, the Borrower shall have the option, on any Business Day, to extend existing Loans into a subsequent permissible Interest Period or to convert Loans into Loans of another interest rate type; provided, however, that (i) except as provided in Section 3.8, Eurodollar Loans may be converted into Base Rate Loans only on the last day of the Interest Period applicable thereto, (ii) Eurodollar Loans may be extended, and Base Rate Loans may be converted into Eurodollar Loans, only if no Default or Event of Default is in existence on the date of extension or conversion, (iii) Loans extended as, or converted into, Eurodollar Loans shall be subject to the terms of the definition of "Interest Period" set forth in Section 1.1 and shall be in such minimum amounts as provided in, with respect to Loans, Section 2.1(b)(ii), (iv) no more than 5 Eurodollar Loans shall be outstanding hereunder at any time (it being understood that, for purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period) and (v) any request for extension or conversion of a Eurodollar Loan which shall fail to specify an Interest Period shall be deemed to be a request for an Interest Period of one month. Each such extension or conversion shall be effected by the Borrower by giving a Notice of Extension/Conversion (or telephonic notice promptly confirmed in writing) to the office of the Agent specified in Schedule 2.1(a), or at such other office as the Agent may designate in writing, prior to 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of, in the case of the conversion of a Eurodollar Loan into a Base Rate Loan, and on the third Business Day prior to, in the case of the extension of a Eurodollar Loan as, or conversion of a Base Rate Loan into, a Eurodollar Loan, the date of the proposed extension or conversion, specifying the date of the proposed extension or conversion, the Loans to be so extended or converted, the types of Loans into which such Loans are to be converted and, if appropriate, the

applicable Interest Periods with respect thereto. Each request for extension or conversion shall be irrevocable and shall constitute a representation and warranty by the Borrower of the matters specified in subsections (b), (c), (d), (e) and (f) of Section 5.2. In the event the Borrower fails to request extension or conversion of any Eurodollar Loan in accordance with this Section, or any such conversion or extension is not permitted or required by this Section, then such Eurodollar Loan shall be automatically converted into a Base Rate Loan at the end of the Interest Period applicable thereto. The Agent shall give each Lender notice as promptly as practicable of any such proposed extension or conversion affecting any Loan.

3.3 Prepayments.

(a) Voluntary Prepayments. The Borrower shall have the right to prepay Loans in whole or in part from time to time; provided, however, that each partial prepayment of Loans shall be in a minimum principal amount of $1,000,000 and integral multiples of $500,000. Subject to the foregoing terms, amounts prepaid under this Section 3.3(a) shall be applied as the Borrower may elect; provided that if the Borrower fails to specify a voluntary prepayment then such prepayment shall be applied first to first to Base Rate Loans and then to Eurodollar Loans in direct order of Interest Period maturities. All prepayments under this Section 3.3(a) shall be subject to Section 3.12, but otherwise without premium or penalty.

(b) Mandatory Prepayments.

(i) Committed Amount. If at any time the sum of the aggregate principal amount of outstanding Loans plus LOC Obligations outstanding shall exceed the Committed Amount, the Borrower shall immediately prepay the outstanding principal balance on the Loans (or, after all Loans have been repaid, cash collateralize the LOC Obligations) in an amount sufficient to eliminate such excess.

(ii) Permitted Receivables Financing. Upon the occurrence

and during the continuance of a Default or Event of Default, immediately upon the receipt by any Consolidated Party of Net Cash Proceeds from any Permitted Receivables Financing, the Borrower shall prepay the Loans in an aggregate amount equal to the Net Cash Proceeds of the related Permitted Receivables Financing (such prepayment to be applied as set forth in clause (iv) below).

(iii) Asset Dispositions. Immediately upon the occurrence of any Asset Disposition Prepayment Event, the Borrower shall prepay the Loans in an aggregate amount equal to the Net Cash Proceeds of the related Asset Disposition not applied (or caused to be applied) by the Consolidated Parties during the related Application Period to the purchase, acquisition or construction of Eligible Assets as contemplated by the terms of Section 8.5(f) (such prepayment to be applied as set forth in clause (iv) below).

(iv) Application of Mandatory Prepayments. All amounts required to be paid pursuant to this Section 3.3(b) shall be applied to Loans (first to Base Rate Loans and then to Eurodollar Loans in direct order of Interest Period maturities) and, after all Loans have been repaid, to a cash collateral account in respect of LOC Obligations. All prepayments under this Section 3.3(b) shall be subject to Section 3.12 but shall otherwise be without any premium or penalty.

3.4 Termination and Reduction of Committed Amount.

(a) Voluntary Reductions. The Borrower may from time to time permanently reduce or terminate the Committed Amount in whole or in part (in minimum aggregate amounts of $5,000,000 or in integral multiples of $1,000,000 in excess thereof (or, if less, the full remaining amount of the then applicable Committed Amount)) upon five Business Days' prior written notice to the Agent; provided, however, no such termination or reduction shall be made which would cause the aggregate principal amount of outstanding Loans plus LOC Obligations outstanding to exceed the Committed Amount unless, concurrently with such termination or reduction, the outstanding Loans are repaid to the extent necessary to eliminate such excess. The Agent shall promptly notify each Lender of receipt by the Agent of any notice from the Borrower pursuant to this Section 3.4(a).

(b) Mandatory Reductions. On any date that the Loans are required to be prepaid pursuant to the terms of Sections 3.3(b)(ii) and 3.3(b)(iii), the Committed Amount automatically shall be permanently reduced by the amount of such required prepayment, provided, however, that the Committed Amount shall not be reduced in connection with any prepayment required as a result of the sales of Western Multiplex Corporation and Glenayre OPTIONS Corp. and the Sale and Leaseback Transactions or Synthetic Leases with respect to the Canadian Property.

(c) Maturity Date. The Commitments of the Lenders shall automatically terminate on the Maturity Date.

(d) General. The Borrower shall pay to the Agent for the account of the Lenders in accordance with the terms of Section 3.5(b), on the date of each termination or reduction of the Committed Amount, the Unused Fee accrued through the date of such termination or reduction on the amount of the Committed Amount so terminated or reduced.

3.5 Fees.

(a) Upfront Fees. The Borrower agrees to pay to the Agent for the benefit of the Lenders in immediately available funds on or before the Closing Date an upfront fee (the "Upfront Fee") in the amount provided in the Agent's Fee Letter.

(b) Unused Fee. In consideration of the Commitments of the Lenders hereunder, the Borrower agrees to pay to the Agent for the account of each Lender a fee (the "Unused Fee") on the Unused Committed

Amount computed at a per annum rate for each day during the applicable Unused Fee Calculation Period (hereinafter defined) at a rate equal to the Applicable Percentage in effect from time to time. The Unused Fee shall commence to accrue on the Closing Date and shall be due and payable in arrears on the last business day of each March, June, September and December (and any date that the Committed Amount is reduced as provided in Section 3.4(a) and the Maturity Date) for the immediately preceding quarter (or portion thereof) (each such quarter or portion thereof for which the Unused Fee is payable hereunder being herein referred to as an "Unused Fee Calculation Period"), beginning with the first of such dates to occur after the Closing Date.

(c) Letter of Credit Fees.

(i) Letter of Credit Issuance Fee. In consideration of the issuance of Letters of Credit hereunder, the Borrower promises to pay to the Agent for the account of each Lender a fee (the "Letter of Credit Fee") on such Lender's Commitment Percentage of the average daily maximum amount available to be drawn under each such Letter of Credit computed at a per annum rate for each day from the date of issuance to the date of expiration equal to the Applicable Percentage. The Letter of Credit Fee will be payable quarterly in arrears on the last Business Day of each March, June, September and December for the immediately preceding quarter (or a portion thereof).

(ii) Issuing Lender Fees. In addition to the Letter of Credit Fee payable pursuant to clause (i) above, the Borrower promises to pay to the Issuing Lender for its own account without sharing by the other Lenders a letter of credit fronting fee equal to 0.125% on the average daily maximum amount available to be drawn under each such Letter of Credit (such fee to be payable quarterly in arrears on the last Business Day of each March, June, September and December for the immediately preceding quarter (or a portion thereof)) and the customary charges from time to time of the Issuing Lender with respect to the issuance, amendment, transfer, administration, cancellation and conversion of, and drawings under, such Letters of Credit (collectively, the "Issuing Lender Fees").

(d) Administrative Fees. The Borrower agrees to pay to the Agent, for its own account, the fees referred to in the Agent's Fee Letter (collectively, the "Agent's Fees").

3.6 Capital Adequacy.

If any Lender has determined, after the date hereof, that the adoption or the becoming effective of, or any change in, or any change by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof in the interpretation or administration of, any applicable law, rule or regulation regarding capital adequacy, or compliance

by such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital or assets as a consequence of its commitments or obligations hereunder to a level below that which such Lender could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy), then, upon notice from such Lender to the Borrower, the Borrower shall be obligated to pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction. Each determination by any such Lender of amounts owing under this Section shall, absent manifest error, be conclusive and binding on the parties hereto.

3.7 Limitation on Eurodollar Loans.

If on or prior to the first day of any Interest Period for any Eurodollar Loan:

(a) the Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) the Required Lenders determine (which determination shall be conclusive) and notify the Agent that the Eurodollar Rate will not adequately and fairly reflect the cost to the Lenders of funding Eurodollar Loans for such Interest Period;

then the Agent shall give the Borrower prompt notice thereof, and so long as such condition remains in effect, the Lenders shall be under no obligation to make additional Eurodollar Loans, Continue Eurodollar Loans, or to Convert Base Rate Loans into Eurodollar Loans and the Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Loans, either prepay such Eurodollar Loans or Convert such Eurodollar Loans into Base Rate Loans in accordance with the terms of this Credit Agreement.

3.8 Illegality.

Notwithstanding any other provision of this Credit Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to make, maintain, or fund Eurodollar Loans hereunder, then such Lender shall promptly notify the Borrower thereof and such Lender's obligation to make or Continue Eurodollar Loans and to Convert Base Rate Loans into Eurodollar Loans shall be suspended until such time as such Lender may again make, maintain, and fund Eurodollar Loans (in which case the provisions of Section 3.10 shall be applicable); provided, however, that before giving any notice to the Borrower pursuant to this Section, the notifying Lender shall designate a different Applicable Lending Office or other lending office if such designation will avoid the need for giving such notice and will not in the reasonable judgment of the Lender be materially disadvantageous to the Lender.

3.9 Requirements of Law.

(a) If, after the date hereof, the adoption of any applicable law, rule, or regulation, or any change in any applicable law, rule, or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such Governmental Authority, central bank, or comparable agency:

(i) shall subject such Lender (or its Applicable Lending Office) to any tax, duty, or other charge with respect to any Eurodollar Loans, its Notes, or its obligation to make Eurodollar Loans, or change the basis of taxation of any amounts payable to such Lender (or its Applicable Lending Office) under this Credit Agreement or its Notes in respect of any Eurodollar Loans (other than taxes imposed on the overall net income, and franchise taxes of such Lender by the jurisdiction in which such Lender has its principal office or such Applicable Lending Office);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the Eurodollar Reserve Requirement utilized in the determination of the Adjusted Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (or its Applicable Lending Office), including the Commitment of such Lender hereunder; or

(iii) shall impose on such Lender (or its Applicable Lending Office) or the London interbank market any other condition affecting this Credit Agreement or its Notes or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making, Converting into, Continuing, or maintaining any Eurodollar Loans or to reduce any sum received or receivable by such Lender (or its Applicable Lending Office) under this Credit Agreement or its Notes with respect to any Eurodollar Loans, then the Borrower shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction. If any Lender requests compensation by the Borrower under this Section 3.9(a), the Borrower may, by notice to such Lender (with a copy to the Agent), suspend the obligation of such Lender to make or Continue Eurodollar Loans, or to Convert Base Rate Loans into Eurodollar Loans, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of Section 3.10 shall be applicable); provided that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) Each Lender shall promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section 3.9 and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will

not, in the judgment of such Lender, be otherwise unreasonably disadvantageous to it. Any Lender claiming compensation under this Section 3.9 shall furnish to the Borrower and the Agent a statement setting forth the additional amount or amounts to be paid to it hereunder which shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

3.10 Treatment of Affected Loans.

If the obligation of any Lender to make any Eurodollar Loan or to Continue, or to Convert Base Rate Loans into, Eurodollar Loans shall be suspended pursuant to Section 3.8 or 3.9 hereof, such Lender's Eurodollar Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for such Eurodollar Loans (or, in the case of a Conversion required by Section 3.8 hereof, on such earlier date as such Lender may specify to the Borrower with a copy to the Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 3.8 or 3.9 hereof that gave rise to such Conversion no longer exist:

(a) to the extent that such Lender's Eurodollar Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Eurodollar Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or Continued by such Lender as Eurodollar Loans shall be made or Continued instead as Base Rate Loans, and all Base Rate Loans of such Lender that would otherwise be Converted into Eurodollar Loans shall remain as Base Rate Loans.

If such Lender gives notice to the Borrower (with a copy to the Agent) that the circumstances specified in Section 3.8 or 3.9 hereof that gave rise to the Conversion of such Lender's Eurodollar Loans pursuant to this Section 3.10 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Loans made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Loans, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding Eurodollar Loans and by such Lender are held pro rata (as to principal amounts, interest rate basis, and Interest Periods) in accordance with their respective Commitments.

3.11 Taxes.

(a) Any and all payments by the Borrower to or for the account of any Lender or the Agent hereunder or under any other Credit Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, taxes imposed on its income and franchise taxes imposed on it (including any interest and penalties imposed thereon), by the jurisdiction

under the laws of which such Lender (or its Applicable Lending Office) or the Agent (as the case may be) is organized or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under this Credit Agreement or any other Credit Document to any Lender or the Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.11) such Lender or the Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant

taxation authority or other authority in accordance with applicable law, and (iv) the Borrower shall furnish to the Agent, at its address referred to in Section 11.1, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Borrower agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Credit Agreement or any other Credit Document or from the execution or delivery of, or otherwise with respect to, this Credit Agreement or any other Credit Document (hereinafter referred to as "Other Taxes").

(c) The Borrower agrees to indemnify each Lender and the Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 3.11) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto provided, however, that the Borrower shall have no obligation to indemnify such Lender or the Agent (i) unless five days' notice has been given by such Lender or the Agent, as applicable, to afford the Borrower, in good faith, a reasonable opportunity to contest such payment by such Lender or the Agent, provided such opportunity to contest exists under Applicable Law, and (ii) until such Lender or the Agent shall have delivered to the Borrower a certificate setting forth in reasonable detail the basis of the Borrower's obligation to indemnify such Lender or the Agent pursuant to this Section 3.11. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor. If the Agent (or such Lender, as the case may be), in its discretion , determines that such Taxes or Other Taxes are incorrectly or illegally asserted against it, and the Agent or such Lender has made a claim against the Borrower for such amount, then the Agent or such Lender shall take reasonable action to seek a refund and deliver said refund if received, to the Borrower.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Credit Agreement in the case of each Lender listed on the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by the Borrower or the Agent (but only so long as such

Lender remains lawfully able to do so), shall provide the Borrower and the Agent with (i) Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Credit Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Credit Agreement or any of the other Credit Documents.

(e) For any period with respect to which a Lender has failed to provide the Borrower and the Agent with the appropriate form pursuant to Section 3.11(d) (unless such failure is due to a change in treaty, law, or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 3.11(a) or 3.11(b) with respect to Taxes imposed by the United States; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 3.11, then such

Lender will agree to use its reasonable best efforts to change the jurisdiction of its Applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

(g) Within thirty (30) days after the date of any payment of Taxes, the Borrower shall furnish to the Agent the original or a certified copy of a receipt evidencing such payment.

(h) The agreements and obligations of the Borrower contained in this Section 3.11 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

(i) Each Lender (and the Agent with respect to payments to the Agent for its own account) agrees that (i) it will take all reasonable actions by all usual means to maintain all exemptions, if any, available to it from United States withholding taxes (whether available by treaty, existing administrative waiver, by virtue of the location of any Applicable Lending Office) and (ii) otherwise cooperate with Borrower to minimize amounts payable by the Borrower under this Section 3.11.

3.12 Compensation.

Upon the request of any Lender, the Borrower shall pay to such Lender such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost, or expense (including loss of anticipated profits) incurred by it as a result of:

(a) any payment, prepayment, or Conversion of a Eurodollar Loan for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 9.2) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by the Borrower for any reason (including, without limitation, the failure of any condition precedent specified in Section 5 to be satisfied) to borrow, Convert, Continue, or prepay a Eurodollar Loan on the date for such borrowing, Conversion, Continuation, or prepayment specified in the relevant notice of borrowing, prepayment, Continuation, or Conversion under this Credit Agreement.

With respect to Eurodollar Loans, such indemnification may include an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of the applicable Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Eurodollar Loans provided for herein (excluding, however, the Applicable Percentage included therein, if any) over (b) the amount of interest (as reasonably determined by such Lender) which would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. The covenants of the Borrower set forth in this Section 3.12 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

3.13 Pro Rata Treatment.

Except to the extent otherwise provided herein:

(a) Loans. Each Loan, each payment or (subject to the terms of Section 3.3) prepayment of principal of any Loan or reimbursement obligations arising from drawings under Letters of Credit, each payment of interest on the Loans or reimbursement obligations arising from drawings under Letters of Credit, each payment of Unused Fees, each payment of the Letter of Credit Fee, each reduction of the Committed Amount and each conversion or extension of any Loan, shall be allocated pro rata among the Lenders in accordance with the respective principal amounts of their outstanding Loans and Participation Interests.

(b) Advances. No Lender shall be responsible for the failure or delay by any other Lender in its obligation to make its ratable share of a borrowing hereunder; provided,

however, that the failure of any Lender to fulfill its obligations hereunder shall not relieve any other Lender of its obligations hereunder. Unless the Agent shall have been notified by any Lender prior to the date of any requested borrowing that such Lender does not intend to make available to the Agent its ratable share of such borrowing to be made on such date, the Agent may assume that such Lender has made such amount available to the Agent on the date of such borrowing, and the Agent in reliance upon such assumption, may (in its sole discretion but without any obligation to do so) make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent, the Agent shall be able to recover such corresponding amount from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Agent's demand therefor, the Agent will promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Agent. The Agent shall also be entitled to recover from the Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Agent to the Borrower to the date such corresponding amount is recovered by the Agent (i) from the Borrower at a per annum rate equal to the applicable rate for the applicable borrowing pursuant to the Notice of Borrowing and (ii) from a Lender at a per annum rate equal to the Federal Funds Rate.

3.14 Sharing of Payments.

The Lenders agree among themselves that, in the event that any Lender shall obtain payment in respect of any Loan, LOC Obligations or any other obligation owing to such Lender under this Credit Agreement through the exercise of a right of setoff, banker's lien or counterclaim, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, in excess of its pro rata share of such payment as provided for in this Credit Agreement, such Lender shall promptly purchase from the other Lenders a Participation Interest in such Loans, LOC Obligations and other obligations in such amounts, and make such other adjustments from time to time, as shall be equitable to the end that all Lenders share such payment in accordance with their respective ratable shares as provided for in this Credit Agreement. The Lenders further agree among themselves that if payment to a Lender obtained by such Lender through the exercise of a right of setoff, banker's lien, counterclaim or other event as aforesaid shall be rescinded or must otherwise be restored, each Lender which shall have shared the benefit of such payment shall, by repurchase of a Participation Interest theretofore sold, return its share of that benefit (together with its share of any accrued interest payable with respect thereto) to each Lender whose payment shall have been rescinded or otherwise restored. The Borrower agrees that any Lender so purchasing such a Participation Interest may, to the fullest extent permitted by law, exercise all rights of payment, including setoff, banker's lien or counterclaim, with respect to such Participation Interest as fully as if such Lender were a holder of such Loan, LOC Obligations or other obligation in the amount of such Participation Interest. Except as otherwise expressly provided in this Credit Agreement, if any Lender or the Agent shall fail to remit to the Agent or any other Lender an amount payable by such Lender or the Agent to the Agent or such other Lender pursuant to this

Credit Agreement on the date when such amount is due, such payments shall be made together with interest thereon for each date from the date such amount is due until the date such amount is paid to the Agent or such other Lender at a rate per annum equal to the Federal Funds Rate. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 3.14 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders under this Section 3.14 to share in the benefits of any recovery on such secured claim.

3.15 Payments, Computations, Etc.

(a) Except as otherwise specifically provided herein, all payments hereunder shall be made to the Agent in dollars in immediately available funds, without setoff, deduction, counterclaim or withholding of any kind, at the Agent's office specified in Schedule 2.1(a) not later than 2:00 P.M. (Charlotte, North Carolina time) on the date when due. Payments received after such time shall be deemed to have been received on the next succeeding Business Day. The Agent may (but shall not be obligated to) debit the amount of any such payment owed by the Borrower which is not made by such time to any ordinary deposit account of the Borrower maintained with the Agent (with notice to the Borrower). The Borrower shall, at the time it makes any payment under this Credit Agreement, specify to the Agent the Loans, LOC Obligations, Fees, interest or other amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that it fails so to specify, or if such application would be inconsistent with the terms hereof, the Agent shall distribute such payment to the Lenders in such manner as the Agent may determine to be appropriate in respect of obligations owing by the Borrower hereunder, subject to the terms of Section 3.13(a)). The Agent will distribute such payments to such Lenders, if any such payment is received prior to 12:00 Noon (Charlotte, North Carolina time) on a Business Day in like funds as received prior to the end of such Business Day and otherwise the Agent will distribute such payment to such Lenders on the next succeeding Business Day. Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day (subject to accrual of interest and Fees for the period of such extension), except that in the case of Eurodollar Loans, if the extension would cause the payment to be made in the next following calendar month, then such payment shall instead be made on the next preceding Business Day. Except as expressly provided otherwise herein, all computations of interest and fees shall be made on the basis of actual number of days elapsed over a year of 360 days, except with respect to computation of interest on Base Rate Loans which shall be calculated based on a year of 365 or 366 days, as appropriate. Interest shall accrue from and include the date of borrowing, but exclude the date of payment.

(b) Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Credit Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Agent or any Lender on account of the Credit Party Obligations or any other amounts outstanding under any of the Credit Documents shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees) of the Agent in connection with enforcing the rights of the Lenders under the Credit Documents;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of each of the Lenders in connection with enforcing its rights under the Credit Documents or otherwise with respect to the Credit Party Obligations owing to such Lender;

FOURTH, to the payment of all of the Credit Party Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Credit Party Obligations (including the payment or cash collateralization of the outstanding LOC Obligations);

SIXTH, to all other Credit Party Obligations and other obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive an

amount equal to its pro rata share (based on the proportion that the then outstanding Loans and LOC Obligations held by such Lender bears to the aggregate then outstanding Loans and LOC Obligations) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Agent in a cash collateral account and applied (A) first, to reimburse the Issuing Lender from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 3.15(b).

3.16 Evidence of Debt.

(a) Each Lender shall maintain an account or accounts evidencing each Loan made by such Lender to the Borrower from time to time, including the amounts of principal

and interest payable and paid to such Lender from time to time under this Credit Agreement. Each Lender will make reasonable efforts to maintain the accuracy of its account or accounts and to promptly update its account or accounts from time to time, as necessary.

(b) The Agent shall maintain the Register pursuant to Section 11.3(c), and a subaccount for each Lender, in which Register and subaccounts (taken together) shall be recorded (i) the amount, type and Interest Period of each such Loan hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable to each Lender hereunder and (iii) the amount of any sum received by the Agent hereunder from or for the account of the Borrower and each Lender's share thereof. The Agent will make reasonable efforts to maintain the accuracy of the subaccounts referred to in the preceding sentence and to promptly update such subaccounts from time to time, as necessary.

(c) The entries made in the accounts, Register and subaccounts maintained pursuant to subsection (b) of this Section 3.16 (and, if consistent with the entries of the Agent, subsection (a)) shall be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided, however, that the failure of any Lender or the Agent to maintain any such account, such Register or such subaccount, as applicable, or any error therein, shall not in any manner affect the obligation of the Borrower to repay the Loans made by such Lender in accordance with the terms hereof.

SECTION 4

GUARANTY

4.1 The Guarantee.

Each of the Guarantors hereby jointly and severally guarantees to each Lender, each Affiliate of a Lender that enters into a Hedging Agreement and the Agent as hereinafter provided the prompt payment of the Credit Party Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) strictly in accordance with the terms thereof. The Guarantors hereby further agree that if any of the Credit Party Obligations are not paid in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise), the Guarantors will, jointly and severally, promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Credit Party Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) in accordance with the terms of such extension or renewal.

Notwithstanding any provision to the contrary contained herein or in any other of the Credit Documents or Hedging Agreements, the obligations of each Guarantor hereunder shall be limited

to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any comparable provisions of any applicable state law.

4.2 Obligations Unconditional.

The obligations of the Guarantors under Section 4.1 are joint and several, and, to the fullest extent permitted by applicable law, absolute and unconditional, irrespective of (i) the value, genuineness, validity, regularity or enforceability of any of the Credit Documents or Hedging Agreements, or any other agreement or instrument referred to therein, or any substitution, release, impairment or exchange of any other guarantee of or security for any of the Credit Party Obligations, and (ii) any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 4.2 that the obligations of the Guarantors hereunder shall be absolute and unconditional under any and all circumstances. Each Guarantor agrees that such Guarantor shall have no right of subrogation, indemnity, reimbursement or contribution against the Borrower or any other Guarantor of the Credit Party Obligations for amounts paid under this Section 4 until such time as the Lenders (and any Affiliates of Lenders entering into Hedging Agreements) have been paid in full, all Commitments under this Credit Agreement have been terminated and no Person or Governmental Authority shall have any right to request any return or reimbursement of funds from the Lenders in connection with monies received under the Credit Documents or Hedging Agreements. Without limiting the generality of the foregoing, it is agreed that, to the fullest extent permitted by law, the occurrence of any one or more of the following shall not alter or impair the liability of any Guarantor hereunder which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to any Guarantor, the time for any performance of or compliance with any of the Credit Party Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions of any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be done or omitted;

(c) the maturity of any of the Credit Party Obligations shall be accelerated, or any of the Credit Party Obligations shall be modified, supplemented or amended in any respect, or any right under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be waived or any other guarantee of any of the Credit Party Obligations or any security therefor shall be released, impaired or exchanged in whole or in part or otherwise dealt with;

(d) any Lien granted to, or in favor of, the Agent or any Lender or Lenders as security for any of the Credit Party Obligations shall fail to attach or be perfected; or

(e) any of the Credit Party Obligations shall be determined to be void or voidable (including, without limitation, for the benefit of any creditor of any Guarantor) or shall be subordinated to the claims of any Person (including, without limitation, any creditor of any Guarantor).

With respect to its obligations hereunder, each Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Agent or any Lender exhaust any right, power or remedy or proceed against any Person under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements, or against any other Person under any other guarantee of, or security for, any of the Credit Party Obligations.

4.3 Reinstatement.

The obligations of the Guarantors under this Section 4 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any Person in respect of the Credit Party Obligations is rescinded or must be otherwise restored by any holder of any of the Credit Party Obligations, whether as a result of any proceedings in bankruptcy or

reorganization or otherwise, and each Guarantor agrees that it will indemnify the Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees and expenses of counsel) incurred by the Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

4.4 Certain Additional Waivers.

Without limiting the generality of the provisions of this Section 4, each Guarantor hereby specifically waives the benefits of N.C. Gen. Stat. ss.ss. 26-7 through 26-9, inclusive, to the extent applicable. Each Guarantor further agrees that such Guarantor shall have no right of recourse to security for the Credit Party Obligations, except through the exercise of the rights of subrogation pursuant to Section 4.2 and through the exercise of rights of contribution pursuant to Section 4.6.

4.5 Remedies.

The Guarantors agree that, to the fullest extent permitted by law, as between the Guarantors, on the one hand, and the Agent and the Lenders, on the other hand, the Credit Party Obligations may be declared to be forthwith due and payable as provided in Section 9.2 (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 9.2) for purposes of Section 4.1 notwithstanding any stay, injunction or other prohibition preventing such declaration (or preventing the Credit Party Obligations from becoming automatically due and payable) as against any other Person and that, in the event of such declaration (or the Credit Party Obligations being deemed to have become automatically due and payable), the Credit Party

Obligations (whether or not due and payable by any other Person) shall forthwith become due and payable by the Guarantors for purposes of Section 4.1.

4.6 Rights of Contribution.

The Guarantors hereby agree as among themselves that, if any Guarantor shall make an Excess Payment (as defined below), such Guarantor shall have a right of contribution from each other Guarantor in an amount equal to such other Guarantor's Contribution Share (as defined below) of such Excess Payment. The payment obligations of any Guarantor under this Section 4.6 shall be subordinate and subject in right of payment to the prior payment in full to the Agent and the Lenders of the Guaranteed Obligations, and none of the Guarantors shall exercise any right or remedy under this Section 4.6 against any other Guarantor until payment and satisfaction in full of all of any Guaranteed Obligations. For purposes of this Section 4.6, (a) "Guaranteed Obligations" shall mean any obligations arising under the other provisions of this Section 4; (b) "Excess Payment" shall mean the amount paid by any Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations; (c) "Pro Rata Share" shall mean, for any Guarantor in respect of any payment of Guaranteed Obligations, the ratio (expressed as a percentage) as of the date of such payment of Guaranteed Obligations of (i) the amount by which the aggregate present fair salable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Guarantor (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder) to (ii) the amount by which the aggregate present fair salable value of all assets and other properties of the Borrower and all of the Guarantors exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of the Borrower and the Guarantors hereunder) of the Borrower and all of the Guarantors; provided, however, that, for purposes of calculating the Pro Rata Shares of the Guarantors in respect of any payment of Guaranteed Obligations, any Guarantor that became a Guarantor subsequent to the date of any such payment shall be deemed to have been a Guarantor on the date of such payment and the financial information for such Guarantor as of the date such Guarantor became a Guarantor shall be utilized for such Guarantor in connection with such payment; and (d) "Contribution Share" shall mean, for any Guarantor in respect of any Excess Payment made by any other Guarantor, the ratio (expressed as a percentage) as of the date of such Excess Payment of (i) the amount by which the aggregate present fair salable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Guarantor (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder) to (ii) the amount by which the aggregate present fair salable value of all assets and other properties of the Borrower and all of the Guarantors other than the maker of

such Excess Payment exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of the Borrower and the Guarantors hereunder) of the Borrower and all of the Guarantors other than the maker of such Excess Payment; provided, however, that, for purposes of calculating the Contribution Shares of the Guarantors in respect of any Excess Payment, any Guarantor that became a Guarantor subsequent to the date of any such Excess Payment shall be deemed to have been a Guarantor on the date of such Excess Payment and the financial information for such Guarantor as of the date such Guarantor became a Guarantor shall be utilized for such

Guarantor in connection with such Excess Payment. This Section 4.6 shall not be deemed to affect any right of subrogation, indemnity, reimbursement or contribution that any Guarantor may have under applicable law against the Borrower in respect of any payment of Guaranteed Obligations. Notwithstanding the foregoing, all rights of contribution against any Guarantor shall terminate from and after such time, if ever, that such Guarantor shall be relieved of its obligations pursuant to Section 8.4.

4.7 Continuing Guarantee.

The guarantee in this Section 4 is a continuing guarantee, and shall apply to all Credit Party Obligations whenever arising.

SECTION 5

CONDITIONS

5.1 Closing Conditions.

The obligation of the Lenders to enter into this Credit Agreement and to make the initial Loans or the Issuing Lender to issue the initial Letter of Credit, whichever shall occur first, shall be subject to satisfaction of the following conditions (in form and substance acceptable to the Lenders):

(a) Executed Credit Documents. Receipt by the Agent of duly executed copies of: (i) this Credit Agreement; (ii) the Notes; and (iii) all other Credit Documents, each in form and substance acceptable to the Agent in its sole discretion.

(b) Corporate Documents. Receipt by the Agent of the following:

(i) Charter Documents. Copies of the articles or certificates of incorporation or other charter documents of each Credit Party certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation and certified by a secretary or assistant secretary of such Credit Party to be true and correct as of the Closing Date.

(ii) Bylaws. A copy of the bylaws of each Credit Party certified by a secretary or assistant secretary of such Credit Party to be true and correct as of the Closing Date.

(iii) Resolutions. Copies of resolutions of the Board of Directors of each Credit Party approving and adopting the Credit Documents to which it is a party, the transactions contemplated therein and authorizing execution and delivery

thereof, certified by a secretary or assistant secretary of such Credit Party to be true and correct and in force and effect as of the Closing Date.

(iv) Good Standing. Copies of certificates of good standing, existence or its equivalent with respect to each Credit Party certified as of a recent date by the appropriate Governmental Authorities of the state or other jurisdiction of incorporation and each other jurisdiction in which the failure to so qualify and be in good standing could have a Material Adverse Effect.

(v) Incumbency. An incumbency certificate of each Credit Party certified by a secretary or assistant secretary to be true and correct as of the Closing Date.

(c) Opinions of Counsel. The Agent shall have received, in each case dated as of the Closing Date:

(i) an opinion of legal counsel for the Credit Parties in form and substance satisfactory to the Agent; and

(ii) a legal opinion of special local counsel for each Credit Party incorporated in the State of Colorado in form and substance satisfactory to the Agent.

(d) Material Adverse Effect. No material adverse change shall have occurred since December 31, 1997 in the condition (financial or otherwise), business, management or prospects of the Consolidated Parties taken as a whole.

(e) Litigation. There shall not exist any pending or threatened action, suit, investigation or proceeding against a Consolidated Party that could have a Material Adverse Effect.

(f) Officer's Certificates. The Agent shall have received a certificate or certificates executed by an Executive Officer of the Borrower as of the Closing Date stating that to the best of the Borrower's knowledge (A) each Consolidated Party is in compliance with all of its existing material financial obligations, (B) all governmental, shareholder and third party consents and approvals, if any, with respect to the Credit Documents and the transactions contemplated thereby have been obtained, (C) no action, suit, investigation or proceeding is pending or threatened in any court or before any arbitrator or governmental instrumentality that purports to affect any Consolidated Party or any transaction contemplated by the Credit Documents, if such action, suit, investigation or proceeding could have a Material Adverse Effect, and (D) immediately after giving effect to this Credit Agreement, the other Credit Documents and all the transactions contemplated therein to occur on such date, (1) the Borrower, the Parent and the Consolidated Parties, taken as a whole, are Solvent, (2) no Default or Event of Default exists, (3) all representations and

warranties contained herein and in the other Credit Documents are true and correct in all material respects, and (4) the Credit Parties are in compliance with each of the financial covenants set forth in Section 7.11.

(g) Fees and Expenses. Payment by the Credit Parties of all fees and expenses owed by them to the Lenders and the Agent, including, without limitation, payment to the Agent of the fees set forth in the Fee Letter.

(h) Financial Statements. Receipt by the Agent of (a) financial statements described in Section 7.1(a) for the fiscal year ending December 31, 1997, and (b) financial statements described in Section 7.1(b) for each of the first two fiscal quarters of 1998.

(i) The Agent shall have received a certificate describing the insurance coverage of the Consolidated Parties which identifies carrier, policy number, expiration date, type and amount.

(j) Other. Receipt by the Lenders of such other documents, instruments, agreements or information as reasonably requested by any Lender.

5.2 Conditions to all Extensions of Credit.

The obligations of each Lender to make, convert or extend any Loan and of the Issuing Lender to issue or extend any Letter of Credit (including the initial Loans and the initial Letter of Credit) are subject to satisfaction of the following conditions in addition to satisfaction on the Closing Date of the conditions set forth in Section 5.1:

(a) The Borrower shall have delivered (i) in the case of any Loan, an appropriate Notice of Borrowing or Notice of

Extension/Conversion or (ii) in the case of any Letter of Credit, the Issuing Lender shall have received an appropriate request for issuance in accordance with the provisions of Section 2.2(b);

(b) The representations and warranties set forth in Section 6 shall be, subject to the limitations set forth therein, true and correct in all material respects as of such date (except for those which expressly relate to an earlier date);

(c) There shall not have been commenced against any Credit Party an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded;

(d) No Default or Event of Default shall exist and be continuing either prior to or after giving effect thereto;

(e) As of the Closing Date,. no material adverse change shall have occurred since December 31, 1997 in the condition (financial or otherwise), business, results of operations or prospects of the Consolidated Parties taken as a whole; and

(f) Immediately after giving effect to the making of such Loan (and the application of the proceeds thereof) or to the issuance of such Letter of Credit, as the case may be, (i) the sum of the aggregate principal amount of outstanding Loans plus LOC Obligations outstanding shall not exceed the Committed Amount, and (ii) the LOC Obligations shall not exceed the LOC Committed Amount.

The delivery of each Notice of Borrowing, each Notice of Extension/Conversion and each request for a Letter of Credit pursuant to Section 2.2(b) shall constitute a representation and warranty by the Borrower of the correctness of the matters specified in subsections (b), (c), (d), (e) and (f) above.

SECTION 6

REPRESENTATIONS AND WARRANTIES

The Credit Parties hereby represent to the Agent and each Lender that:

6.1 Financial Condition.

(a) The audited consolidated balance sheet of the Consolidated Parties as of December 31, 1996 and December 31, 1997 and the audited consolidated statements of earnings and statements of cash flows for the years ended December 31, 1996 and December 31, 1997 have heretofore been furnished to each Lender. Such financial statements (including the notes thereto) (i) have been audited by Ernst & Young, LLP (ii) have been prepared in accordance with GAAP consistently applied throughout the periods covered thereby and (iii) present fairly (on the basis disclosed in the footnotes to such financial statements) the consolidated financial condition, results of operations and cash flows of the Consolidated Parties as of such date and for such periods. The unaudited interim balance sheets of the Consolidated Parties as at the end of, and the related unaudited interim statements of earnings and of cash flows for, each quarterly period ended after June 30, 1998 and prior to the Closing Date have heretofore been furnished to each Lender. Such interim financial statements for each such quarterly period, (i) have been prepared in accordance with GAAP consistently applied throughout the periods covered thereby and (ii) present fairly (on the basis disclosed in the footnotes to such financial statements) the consolidated financial condition, results of operations and cash flows of the Consolidated Parties as of such date and for such periods. During the period from June 30, 1998 to and including the Closing Date, there has been no sale, transfer or other disposition by any

Consolidated Party of any material part of the business or property of the Consolidated Parties, taken as a whole, and no purchase or other acquisition by any of them of any business or property (including any Capital Stock of any other person) material in relation to the consolidated financial condition of the Consolidated Parties, taken as a whole, in each case, which, is not reflected in the foregoing financial statements or in the notes thereto and has not otherwise been disclosed in writing to the Lenders on or prior to the Closing Date.

(b) The financial statements delivered to the Lenders pursuant to Section 7.1(a) and (b), (i) have been prepared in accordance with GAAP (except as may otherwise be permitted under Section 7.1(a) and (b)) and (ii) present fairly (on the basis disclosed in the footnotes to such financial statements) the consolidated financial condition, results of operations and cash flows of the Consolidated Parties as of such date and for such periods.

6.2 No Change; Dividends.

Since December 31, 1997, (a) there has been no development or event relating to or affecting a Consolidated Party which has had or could have a Material Adverse Effect and (b) except as otherwise permitted under this Credit Agreement, no dividends or other distributions have been declared, paid or made upon the Capital Stock in a Consolidated Party nor has any of the Capital Stock in a Consolidated Party been redeemed, retired, purchased or otherwise acquired for value by such Consolidated Party.

6.3 Organization and Good Standing.

Each of the Consolidated Parties (a) is duly organized, validly existing and is in good standing under the laws of the jurisdiction of its incorporation or organization except where the failure to be so organized, existing or in good standing would not reasonably be expected to have a Material Adverse Effect, (b) has the corporate or other necessary power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, and (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, other than in such jurisdictions where the failure to be so qualified and in good standing could not have a Material Adverse Effect.

6.4 Power; Authorization; Enforceable Obligations.

Each of the Credit Parties has the corporate or other necessary power and authority, and the legal right, to make, deliver and perform the Credit Documents to which it is a party, and in the case of the Borrower, to obtain extensions of credit hereunder, and has taken all necessary corporate action to authorize the borrowings and other extensions of credit on the terms and conditions of this Credit Agreement and to authorize the execution, delivery and performance of the Credit Documents to which it is a party. No consent or authorization of, filing with, notice to or other similar act by or in respect of, any Governmental Authority or any other Person is required to be obtained or made by or on behalf of any Credit Party in connection with the borrowings or other

extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of the Credit Documents to which such Credit Party is a party, except for (i) consents, authorizations, notices and filings described in Schedule 6.4, all of which have been obtained or made or have the status described in such Schedule 6.4 and (ii) those the failure of which to obtain could not have a Material Adverse Effect. This Credit Agreement has been, and each other Credit Document to which any Credit Party is a party will be, duly executed and delivered on behalf of the Credit Parties. This Credit Agreement constitutes, and each other Credit Document to which any Credit Party is a party when executed and delivered will constitute, a legal, valid and binding obligation of such Credit Party enforceable against such party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.5 No Conflicts.

Neither the execution and delivery of the Credit Documents, nor the

consummation of the transactions contemplated therein, nor performance of and compliance with the terms and provisions thereof by such Credit Party will (a) violate or conflict with any provision of its articles or certificate of incorporation or bylaws or other organizational or governing documents of such Person, (b) violate, contravene or conflict in any material respect with any Requirement of Law or any other law, regulation (including, without limitation, Regulation U or Regulation X), order, writ, judgment, injunction, decree or permit applicable to it, (c) violate, contravene or conflict in any material respect with contractual provisions of, or cause an event of default under, any indenture, loan agreement, mortgage, deed of trust, contract or other agreement or instrument to which it is a party or by which it may be bound, the violation of which could have a Material Adverse Effect, or (d) result in or require the creation of any Lien (other than those contemplated in or created in connection with the Credit Documents) upon or with respect to its properties.

6.6 No Default.

No Consolidated Party is in default in any respect under any contract, lease, loan agreement, indenture, mortgage, security agreement or other agreement or obligation to which it is a party or by which any of its properties is bound which default could have a Material Adverse Effect. No Default or Event of Default has occurred or exists except as previously disclosed in writing to the Lenders.

6.7 Ownership.

Each Consolidated Party is the owner of, and has good and marketable title to, all of its respective material assets and none of such material assets is subject to any Lien other than Permitted Liens

6.8 Indebtedness.

Except as otherwise permitted under Section 8.1, the Consolidated Parties have no Indebtedness.

6.9 Litigation.

Except as disclosed in Schedule 6.9, there are no actions, suits or legal, equitable, arbitration or administrative proceedings, pending or, to the knowledge of any Credit Party, threatened against any Consolidated Party which could reasonably be expected to have a Material Adverse Effect.

6.10 Taxes.

Each Consolidated Party has filed, or caused to be filed, all material tax returns (federal, state, local and foreign) required to be filed and paid (a) all amounts of taxes shown thereon to be due (including interest and penalties) and (b) all other material taxes, fees, assessments and other governmental charges (including mortgage recording taxes, documentary stamp taxes and intangibles taxes) owing by it, except for such taxes (i) which are not yet delinquent or (ii) that are being contested in good faith and by proper proceedings, and against which adequate reserves are being maintained in accordance with GAAP except where the failure to make such filings or pay such amounts could not have a Material Adverse Effect.

6.11 Compliance with Laws.

Each Consolidated Party is in compliance with all Requirements of Law and all other laws, rules, regulations, orders and decrees (including without limitation Environmental Laws) applicable to it, or to its properties, unless such failure to comply could not reasonably be expected to have a Material Adverse Effect. No applicable Requirement of Law could reasonably be expected to cause a Material Adverse Effect.

6.12 ERISA.

Except as disclosed and described in Schedule 6.12 attached hereto:

(a) During the five-year period prior to the date on which this representation is made or deemed made: (i) no ERISA Event has occurred, and, to the best knowledge of the Credit Parties, no event or condition has occurred or exists as a result of which any ERISA Event could reasonably be expected to occur, with respect to any Plan; (ii) no "accumulated funding deficiency," as such term is defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, has occurred with respect to any Plan; (iii) each Plan has been maintained,

operated, and funded in compliance with its own terms and in material compliance with the provisions of ERISA, the Code, and any other applicable federal or state laws; and (iv) no lien in favor of the PBGC or a Plan has arisen or is reasonably likely to arise on account of any Plan.

(b) The actuarial present value of all "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA), whether or not vested, under each Single Employer Plan, as of the last annual valuation date prior to the date on which this representation is made or deemed made (determined, in each case, in accordance with Financial Accounting Standards Board Statement 87, utilizing the actuarial assumptions used in such Plan's most recent actuarial valuation report), did not exceed as of such valuation date the fair market value of the assets of such Plan.

(c) Neither any Consolidated Party nor any ERISA Affiliate has incurred, or, to the best knowledge of the Credit Parties, could be reasonably expected to incur, any withdrawal liability under ERISA to any Multiemployer Plan or Multiple Employer Plan. Neither any Consolidated Party nor any ERISA Affiliate would become subject to any withdrawal liability under ERISA if any Consolidated Party or any ERISA Affiliate were to withdraw completely from all Multiemployer Plans and Multiple Employer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. Neither any Consolidated Party nor any ERISA Affiliate has received any notification that any Multiemployer Plan is in reorganization (within the meaning of Section 4241 of ERISA), is insolvent (within the meaning of Section 4245 of ERISA), or has been terminated (within the meaning of Title IV of ERISA), and no Multiemployer Plan is, to the best knowledge of the Credit Parties, reasonably expected to be in reorganization, insolvent, or terminated.

(d) No prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or breach of fiduciary responsibility has occurred with respect to a Plan which has subjected or may subject any Consolidated Party or any ERISA Affiliate to any liability under Sections 406, 409, 502(i), or 502(l) of ERISA or Section 4975 of the Code which could reasonably be expected to have a Material Adverse Effect, or under any agreement or other instrument pursuant to which any Consolidated Party or any ERISA Affiliate has agreed or is required to indemnify any person against any such liability.

(e) Neither any Consolidated Party nor any ERISA Affiliates has any material liability with respect to "expected post-retirement benefit obligations" within the meaning of the Financial Accounting Standards Board Statement 106. Each Plan which is a welfare plan (as defined in Section 3(1) of ERISA) to which Sections 601-609 of ERISA and Section 4980B of the Code apply has been administered in compliance in all material respects with such sections.

6.13 Subsidiaries.

Set forth on Schedule 6.13 is a complete and accurate list of all Subsidiaries of each Consolidated Party. Information on Schedule 6.13 includes jurisdiction of incorporation and the percentage of outstanding shares of each class owned (directly, indirectly or beneficially) by such Consolidated Party. The outstanding Capital Stock of all such Subsidiaries is validly issued, fully

paid and non-assessable and is owned by each such Consolidated Party, directly, indirectl or beneficially, free and clear of all Liens (other than Permitted Liens). Other than as set forth in Schedule 6.13, no Consolidated Party has outstanding any securities convertible into or exchangeable for its Capital Stock nor does any such Person have outstanding any rights to subscribe for or to purchase or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to its Capital Stock. Schedule 6.13 may be updated from time to time by the Borrower by giving written notice thereof to the Agent.

6.14 Governmental Regulations, Etc.

(a) No part of the Letters of Credit or proceeds of the Loans

will be used, directly or indirectly, for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U, or for the purpose of purchasing or carrying or trading in any securities. If requested by any Lender or the Agent, the Borrower will furnish to the Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U. No indebtedness being reduced or retired out of the proceeds of the Loans was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U or any "margin security" within the meaning of Regulation T. "Margin stock" within the meaning of Regulation U does not constitute more than 25% of the value of the consolidated assets of the Consolidated Parties. None of the transactions contemplated by this Credit Agreement (including, without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or regulations issued pursuant thereto, or Regulation T, U or X.

(b) No Consolidated Party is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, no Consolidated Party is (i) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii) a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(c) No director, executive officer or principal shareholder of any Consolidated Party is a director, executive officer or principal shareholder of any Lender. For the purposes hereof the terms "director", "executive officer" and "principal shareholder" (when used with reference to any Lender) have the respective meanings assigned thereto in Regulation O issued by the Board of Governors of the Federal Reserve System.

(d) Each Consolidated Party has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, accreditations, easements, rights of way and other rights, consents and approvals which are necessary for

the ownership of its respective Property and to the conduct of its respective businesses as presently conducted other than those for which the failure to obtain and hold such could not be expected to have a Material Adverse Effect.

(e) No Consolidated Party is in violation of any applicable statute, regulation or ordinance of the United States of America, or of any state, city, town, municipality, county or any other jurisdiction, or of any agency thereof (including without limitation, environmental laws and regulations), which violation could reasonably be expected to have a Material Adverse Effect.

(f) Each Consolidated Party is current with all material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in compliance in all material respects with all applicable rules and regulations of such commissions.

6.15 Purpose of Loans and Letters of Credit.

The proceeds of the Loans hereunder shall be used solely by the Borrower for working capital, capital expenditures and other lawful corporate purposes. The Letters of Credit shall be used only for or in connection with appeal bonds, reimbursement obligations arising in connection with surety and reclamation bonds, reinsurance, domestic or international trade transactions and obligations not otherwise aforementioned relating to transactions entered into by the applicable account party in the ordinary course of business.

6.16 Environmental Matters.

Except as disclosed and described in Schedule 6.16 attached hereto, no Consolidated Party has and to the best of Borrower's knowledge, no other person has stored, treated, used, managed, generated or disposed of any substance deemed hazardous by any applicable Environmental Laws on any real property now

owned by any Consolidated Party in violation of any Environmental Law. The Consolidated Parties are not in violation of or subject to any existing, pending or, to the best of the Borrower's knowledge, threatened investigation or inquiry by any Governmental Authority or to any material remedial obligations under any applicable Environmental Laws, and this representation and warranty would continue to be true and correct following disclosure to the applicable Governmental Authorities of all relevant facts, conditions and circumstances, if any pertaining to any real property of the Consolidated Parties. The Consolidated Parties have not obtained and are not required to obtain any permits, licenses or similar authorizations (which have not already been obtained) to construct, occupy, operate or use any buildings, improvements, fixtures, and equipment forming a part of any real property of the Consolidated Parties by reason of any applicable Environmental Laws. No Consolidated Parties, and to the best of Borrower's knowledge, no other person has caused the release of any Materials of Environmental Concern on or to the real property of the Consolidated Parties in any manner or quantities which would be deemed a violation or require investigation or remediation under the applicable Environmental Laws.

6.17 Intellectual Property.

Each Consolidated Party owns, or has the legal right to use, all trademarks, tradenames, copyrights, technology, know-how and processes (the "Intellectual Property") necessary for each of them to conduct its business as currently conducted except for those the failure to own or have such legal right to use could not have a Material Adverse Effect. Except as provided on Schedule 6.17, no claim has been asserted in writing and is pending or to the best of the Borrower's knowledge, threatened by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, and to the Credit Parties' knowledge the use of such Intellectual Property by any Consolidated Party does not infringe on the rights of any Person, in either case except for such claims and infringements that in the aggregate, could not have a Material Adverse Effect. Schedule 6.17 may be updated from time to time by the Borrower by giving written notice thereof to the Agent. Upon the reasonable request of the Agent, the Borrower will provide a list of all registered Intellectual Property owned by each Consolidated Party or that any Consolidated Party has the right to use.

6.18 Solvency.

The Borrower, the Parent and the Consolidated Parties, taken as a whole, are and, after consummation of the transactions contemplated by this Credit Agreement, will be Solvent.

6.19 Investments.

All Investments of each Consolidated Party are Permitted Investments.

6.20 Disclosure.

Neither this Credit Agreement nor any financial statements delivered to the Lenders nor any other document, certificate or statement furnished to the Lenders by or on behalf of any Consolidated Party in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading.

6.21 No Burdensome Restrictions.

No Consolidated Party is a party to any agreement or instrument or subject to any other obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.22 Labor Matters.

There are no collective bargaining agreements or Multiemployer Plans covering the employees of a Consolidated Party as of the Closing Date and none of the Consolidated Parties has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the five years preceding the Closing Date.

6.23 Nature of Business.

As of the Closing Date, the Consolidated Parties are engaged in the business of manufacturing, selling, financing, licensing and servicing telecommunications products and services, developing software related thereto and conducting other activities related thereto.

6.24 Year 2000 Compliance.

Each of the Consolidated Parties has (i) initiated a review and assessment of all areas within its and each of its Subsidiaries' businesses and operations (including those affected by suppliers, vendors and customers) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications may not be able to recognize and properly perform date-sensitive functions after December 31, 1999), (ii) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. Based on the foregoing, the Borrower believes that all computer applications (including those of its suppliers, vendors and customers) that are material to its or any of its Subsidiaries' business and operations are reasonably expected on a timely basis to be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 7

AFFIRMATIVE COVENANTS

Each Credit Party hereby covenants and agrees that so long as this Credit Agreement is in effect or any amounts payable hereunder or under any other Credit Document shall remain outstanding, and until all of the Commitments hereunder shall have terminated:

7.1 Information Covenants.

The Borrower will furnish, or cause to be furnished, to the Agent and each of the Lenders:

(a) Annual Financial Statements. As soon as available, and in any event within 120 days after the close of each fiscal year of the Parent, a consolidated balance sheet and income statement of the Consolidated Parties, as of the end of such fiscal year, together

with related consolidated statements of operations and retained earnings and of cash flows for such fiscal year, setting forth in comparative form consolidated figures for the preceding fiscal year, all such financial information described above to be in reasonable form and detail and audited by independent certified public accountants of recognized national standing reasonably acceptable to the Agent and whose opinion shall be to the effect that such financial statements have been prepared in accordance with GAAP (except for changes with which such accountants concur) and shall not be limited as to the scope of the audit or qualified as to the status of the Consolidated Parties as a going concern.

(b) Quarterly Financial Statements. As soon as available, and in any event within 45 days after the close of each fiscal quarter of the Parent (other than the fourth fiscal quarter, in which case 120 days after the end thereof) a consolidated balance sheet and income statement of the Consolidated Parties, as of the end of such fiscal quarter, together with related consolidated statements of operations and retained earnings and of cash flows for such fiscal quarter in each case setting forth in comparative form consolidated figures for the corresponding period of the preceding fiscal year, all such financial information described above to be in reasonable form and detail and reasonably acceptable to the Agent, and accompanied by a certificate of the chief financial officer of the Borrower to the effect that such quarterly financial statements fairly present in all material respects the financial condition of the Consolidated Parties and have been prepared in accordance with GAAP, subject to changes resulting from audit and normal year-end audit adjustments.

(c) Officer's Certificate. At the time of delivery of the

financial statements provided for in Sections 7.1(a) and 7.1(b) above, a certificate of the chief financial officer of the Borrower substantially in the form of Exhibit 7.1(c), (i) demonstrating compliance with the financial covenants contained in Section 7.11 by calculation thereof as of the end of each such fiscal period and (ii) stating that no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto.

(d) Compliance With Certain Provisions of the Credit Agreement. Within 120 days after the end of each fiscal year of the Borrower, a certificate containing information regarding the amount of all Asset Dispositions and Equity Issuances that were made during the prior fiscal year.

(e) Auditor's Reports. Promptly upon receipt thereof, a copy of any other material report or "management letter" submitted by independent accountants to any Consolidated Party in connection with any annual, interim or special audit of the books of such Person.

(f) Reports. Promptly upon transmission or receipt thereof, (i) copies of any filings and registrations with, and reports to or from, the Securities and Exchange Commission, or any successor agency, and copies of all financial statements, proxy statements, notices and reports as any Consolidated Party shall send to its shareholders or to

a holder of any Indebtedness owed by any Consolidated Party in its capacity as such a holder and (ii) upon the request of the Agent, all reports and written information to and from the United States Environmental Protection Agency, or any state or local agency responsible for environmental matters, the United States Occupational Health and Safety Administration, or any state or local agency responsible for health and safety matters, or any successor agencies or authorities concerning environmental, health or safety matters.

(g) Notices. Upon obtaining knowledge thereof, the Borrower will give written notice to the Agent (i) promptly of the occurrence of an event or condition consisting of a Default or Event of Default, specifying the nature and existence thereof and what action the Credit Parties propose to take with respect thereto, and (ii) within ten Business Days of the occurrence of any of the following with respect to any Consolidated Party (A) the commencement of any litigation, arbitral or governmental proceeding against such Person which if adversely determined is likely to have a Material Adverse Effect, (B) the institution of any proceedings against such Person with respect to, or the receipt of notice by such Person of potential liability or responsibility for violation, or alleged violation of any federal, state or local law, rule or regulation, including but not limited to, Environmental Laws, the violation of which could have a Material Adverse Effect, or (C) any notice or determination concerning the imposition of any withdrawal liability by a Multiemployer Plan against such Person or any ERISA Affiliate, the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA or the termination of any Plan.

(h) ERISA. Upon obtaining knowledge thereof, the Borrower will give written notice to the Agent promptly (and in any event within ten Business Days) of: (i) of any event or condition, including, but not limited to, any Reportable Event, that constitutes, or might reasonably lead to, an ERISA Event; (ii) with respect to any Multiemployer Plan, the receipt of notice as prescribed in ERISA or otherwise of any withdrawal liability assessed against the Borrower or any of its ERISA Affiliates, or of a determination that any Multiemployer Plan is in reorganization or insolvent (both within the meaning of Title IV of ERISA); (iii) the failure to make full payment on or before the due date (including extensions) thereof of all amounts which any Consolidated Party or any ERISA Affiliate is required to contribute to each Plan pursuant to its terms and as required to meet the minimum funding standard set forth in ERISA and the Code with respect thereto; or (iv) any change in the funding status of any Plan that could have a Material Adverse Effect, together with a description of any such event or condition or a copy of any such notice and a statement by the chief financial officer of the Borrower briefly setting forth the details regarding such event, condition, or notice, and the action, if any, which has been or is being taken or is proposed to be taken by the Credit Parties with respect thereto. Promptly upon request, the Credit

Parties shall furnish the Agent and the Lenders with such additional information concerning any Plan as may be reasonably requested, including, but not limited to, copies of each annual report/return (Form 5500 series), as well as all schedules and attachments thereto required to be filed with the Department of Labor and/or the Internal

Revenue Service pursuant to ERISA and the Code, respectively, for each "plan year" (within the meaning of Section 3(39) of ERISA).

(i) Environmental.The Consolidated Parties will conduct and complete all investigations, studies, sampling, and testing and all remedial, removal, and other actions reasonably necessary to address all Materials of Environmental Concern on , from or affecting any of the Properties to the extent necessary to be in compliance with all Environmental Laws and with the validly issued orders and directives of all Governmental Authorities with jurisdiction over such Properties to the extent any failure could have a Material Adverse Effect.

(j) Permitted Customer Financing Transactions. Contemporaneously with the furnishing of the annual and quarterly financial statements described in clauses (a) and (b) above, a schedule setting forth in detail reasonably satisfactory to the Agent, all outstanding Customer Financing Transactions (including extensions of credit under the Conxus Credit Agreement), the principal and interest balances of each such transaction and the date and amounts of each payment default with respect to each such transaction.

(k) Other Information. With reasonable promptness upon any such request, such other information regarding the business, properties or financial condition of any Consolidated Party as the Agent or the Required Lenders may reasonably request.

7.2 Preservation of Existence and Franchises.

Except as a result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4 or Section 8.5, each Credit Party will, and will cause each of its Subsidiaries to, do all things necessary to preserve and keep in full force and effect its existence, rights, franchises and authority unless the failure to do so could not have a Material Adverse Effect.

7.3 Books and Records.

Each Credit Party will, and will cause each of its Subsidiaries to, keep complete and accurate books and records of its transactions in accordance with good accounting practices on the basis of GAAP (including the establishment and maintenance of appropriate reserves) (unless such is not permitted by the applicable Governmental Authority).

7.4 Compliance with Law.

Each Credit Party will, and will cause each of its Subsidiaries to, comply in all material respects with all applicable laws, rules, regulations and orders and all applicable restrictions imposed by all Governmental Authorities, applicable to it and its Property if noncompliance with any such law, rule, regulation, order or restriction could have a Material Adverse Effect.

7.5 Payment of Taxes and Other Indebtedness.

Each Credit Party will, and will cause each of its Subsidiaries to, pay and discharge (a) all material taxes, assessments and governmental charges or levies imposed upon it, or upon its income or profits, or upon any of its properties, before they shall become delinquent, (b) all lawful material claims (including claims for labor, materials and supplies) which, if unpaid, might give rise to a Lien upon any of its properties, and (c) except as prohibited hereunder, all of its other Indebtedness as it shall become due; provided, however, that no Consolidated Party shall be required to pay any such tax, assessment, charge, levy, claim or Indebtedness which is being contested in good faith by appropriate proceedings and as to which adequate reserves therefor have been established in accordance with GAAP, unless the failure to make any such payment (i) could give rise to an immediate right to foreclose on a Lien

securing such amounts or (ii) could reasonably be expected to have a Material Adverse Effect.

7.6 Insurance.

Each Credit Party will, and will cause each of its Subsidiaries (excluding Inactive Subsidiaries) to, at all times maintain in full force and effect insurance (including worker's compensation insurance, liability insurance, casualty insurance and business interruption insurance) in such amounts, covering such risks and liabilities and with such deductibles or self-insurance retentions as are in accordance with normal industry practice.

7.7 Maintenance of Property.

Each Credit Party will, and will cause each of its Subsidiaries (except Inactive Subsidiaries) to, maintain and preserve its properties and equipment material to the conduct of its business in reasonably good repair, working order and condition, taken as a whole, normal wear and tear and casualty and condemnation excepted, and will make, or cause to be made, in such properties and equipment from time to time all repairs, renewals, replacements, extensions, additions, betterments and improvements thereto as may be needed or proper, to the extent and in the manner customary for companies in similar businesses.

7.8 Performance of Obligations.

Each Credit Party will, and will cause each of its Subsidiaries to, perform in all material respects all of its obligations under the terms of all material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or by which it is bound, the failure of which to perform could have a Material Adverse Effect.

7.9 Use of Proceeds.

The Borrower will use the proceeds of the Loans and will use the Letters of Credit solely for the purposes set forth in Section 6.15.

7.10 Audits/Inspections.

Upon reasonable notice and during normal business hours, each Credit Party will, and will cause each of its Subsidiaries to, permit representatives appointed by the Agent (including, without limitation, independent accountants, agents, attorneys, and appraisers) to visit and inspect its property, including its books and records, its accounts receivable and inventory, its facilities and its other business assets, and to make photocopies or photographs thereof and to write down and record any information such representative obtains and shall permit the Agent or its representatives to investigate and verify the accuracy of information provided to the Lenders and to discuss all such matters with the officers, employees and representatives of such Person.

7.11 Financial Covenants.

(a) Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio, as of the last day of each fiscal quarter of the Consolidated Parties, shall be greater than 1.0 to 1.0.

(b) Leverage Ratio. The Leverage Ratio, as of the last day of each fiscal quarter of the Consolidated Parties, shall be less than or equal to 1.5:1.0.

(c) Consolidated Net Worth. At all times the Consolidated Net Worth shall be greater than or equal to 90% of Consolidated Net Worth as of June 30, 1998, increased on a cumulative basis as of the end of each fiscal quarter of the Consolidated Parties, commencing with the fiscal quarter ending September 30, 1998 by (i) an amount equal to 50% of Consolidated Net Income, to the extent positive for the fiscal quarter then ended and (ii) an amount equal to 100% of the Net Proceeds of any Equity Issuances.

7.12 Additional Credit Parties.

As soon as practicable and in any event within 30 days after any Person becomes a Subsidiary (other than an Inactive Subsidiary) of any Credit Party, the Borrower shall provide the Agent with written notice thereof setting forth information in reasonable detail describing all of the assets of such Person and shall (a) if such Person is a Domestic Subsidiary of a Credit Party, cause such Person to execute a Joinder Agreement in substantially the same form as Exhibit

7.12 and (b) cause such Person to deliver such other documentation as the Agent may reasonably request in connection with the foregoing, including, without limitation, certified resolutions and other organizational and authorizing documents of such Person, favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to above) and other items of the types required to be delivered pursuant to Section 5.1, all in form, content and scope reasonably satisfactory to the Agent.

7.13 Funded Debt Reduction.

The Borrower shall reduce the outstanding principal balance of all Loans to $0 for one consecutive 30-day period during the term of this Credit Agreement. For the purpose of this Section 7.13, all Cash-on-Hand and all Cash Equivalents maturing within such 30-day period of the Borrower shall be treated as reducing the outstanding principal balance of said Loans.

7.14 Year 2000 Compliance.

The Borrower will promptly notify the Agent in the event any Consolidated Party discovers or determines that any computer application (including those of its suppliers, vendors and customers) that is material to its or any of its Subsidiaries' business and operations will not be Year 2000 Compliant, except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect.

SECTION 8

NEGATIVE COVENANTS

Each Credit Party hereby covenants and agrees that, so long as this Credit Agreement is in effect or any amounts payable hereunder or under any other Credit Document shall remain outstanding, and until all of the Commitments hereunder shall have terminated:

8.1 Indebtedness.

The Credit Parties will not permit any Consolidated Party to contract, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness arising under this Credit Agreement and the other Credit Documents;

(b) Indebtedness of the Consolidated Parties set forth in Schedule 8.1 (and renewals, refinancings and extensions thereof on terms and conditions no less favorable to such Person than such existing Indebtedness);

(c) purchase money Indebtedness and Capital Leases (excluding Capital Leases entered into in connection with any Sale and Leaseback Transaction permitted pursuant to Section 8.13) hereafter incurred by the Consolidated Parties to finance the purchase of fixed assets provided that (i) the total of all such Indebtedness shall not exceed an aggregate principal amount of $5,000,000 at any one time outstanding (including any such Indebtedness referred to in subsection (b) above); (ii) such Indebtedness when incurred shall not exceed the purchase price of the asset(s) financed; and (iii) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing;

(d) obligations of the Consolidated Parties in respect of Hedging Agreements entered into in order to manage existing or anticipated interest rate or exchange rate risks and not for speculative purposes;

(e) intercompany Indebtedness arising out of loans and advances permitted under Section 8.6;

(f) obligations of the Consolidated Parties in connection with any Permitted Receivables Financing, to the extent such obligations constitute Indebtedness;

(g) Indebtedness incurred in connection with any Sale and Leaseback Transaction or Synthetic Lease involving the Canadian Property provided that (i) the total of all such Indebtedness shall not exceed an aggregate principal amount of $35,000,000 at any one time outstanding; (ii) such Indebtedness when incurred shall not exceed the fair market value as evidenced by an appraisal (in a form reasonably satisfactory to the Agent) of the asset(s) financed; and (iii) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing;

(h) in addition to the Indebtedness otherwise permitted by this Section 8.1, other unsecured Indebtedness hereafter incurred by the Consolidated Parties provided that (A) the loan documentation with respect to such Indebtedness shall not contain covenants or default provisions relating to any Consolidated Party that are more restrictive than the covenants and default provisions contained in the Credit Documents, (B) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to the incurrence of such Indebtedness and to the concurrent retirement of any other Indebtedness of any Consolidated Party, no Default or Event of Default would exist hereunder and (C) the aggregate principal amount of such Indebtedness shall not exceed $20,000,000 at any time.

8.2 Liens.

The Credit Parties will not permit any Consolidated Party to contract, create, incur, assume or permit to exist any Lien with respect to any of its Property, whether now owned or after acquired, except for Permitted Liens.

8.3 Nature of Business.

The Credit Parties will not permit any Consolidated Party to substantively alter the character or conduct of the business conducted by such Person as of the Closing Date or reasonable extensions thereof.

8.4 Consolidation, Merger, Dissolution, etc.

Except in connection with an Asset Disposition permitted by the terms of Section 8.5, the Credit Parties will not permit any Consolidated Party to enter into any transaction of merger or consolidation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution) without obtaining the prior written consent of the Required Lenders; provided that, notwithstanding the foregoing provisions of this Section 8.4, (a) the Borrower may merge or consolidate with any of its Subsidiaries provided that (i) the Borrower shall be the continuing or surviving corporation, (ii) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist, (iii) the representations and warranties contained in Section 6 are true immediately prior to and after giving effect to such transaction and (iv) no Default or Event of Default exists or will exist after giving effect to such transaction, (b) any Credit Party may merge or consolidate with any other Credit Party provided that (i) neither the Parent nor the Borrower may merge or consolidate with one another, (ii) in the case of a merger or consolidation involving the Parent or the Borrower, the Parent or the Borrower, as the case may be, shall be the continuing or surviving corporation, (iii) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist, (iv) the representations and warranties contained in Section 6 are true immediately prior to and after giving effect to such transaction and (v) no Default or Event of Default exists or will exist after giving effect to such transaction, (c) any Consolidated Party which is not a Credit Party may be merged or consolidated with or into any Credit Party provided that (i) such Credit Party shall be the continuing or surviving corporation and (ii) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist, (iii) the representations and warranties contained in Section 6 are true immediately prior to and after giving effect to such transaction and (iv) no Default or Event of Default exists or will exist after giving effect to such transaction, (d) any Consolidated Party which is not a Credit Party may be merged or consolidated with or into any other Consolidated Party which is not a Credit Party provided (i) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist, (ii) the

representations and warranties contained in Section 6 are true immediately prior to and after giving effect to such transaction and (iii) no Default or Event of Default exists or will exist after giving effect to such transaction, (e) a Consolidated Party (other than the Parent) may merge with any Person other than a Consolidated Party in connection with a Permitted Acquisition if (i) such Consolidated Party shall be the continuing or surviving corporation and (ii) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist, (iii) the representations and warranties contained in Section 6 are true immediately prior to and after giving effect to such transaction and (iv) no Default or Event of Default exists or will exist after giving effect to such transaction, and (f) any Wholly-Owned Subsidiary (including Inactive Subsidiaries) of the Borrower or the Parent (excluding the Borrower) may dissolve, liquidate or wind up its affairs at any time. The consideration for any transaction permitted by this Section 8.4 shall not exceed $50,000,000, and

the aggregate consideration for all transactions permitted hereby shall not exceed $100,000,000 during the term of this Credit Agreement.

8.5 Asset Dispositions.

The Credit Parties will not permit any Consolidated Party (other than an Inactive Subsidiary) to make any Asset Disposition (including, without limitation, any Sale and Leaseback Transaction) other than Excluded Asset Dispositions unless (a) the consideration paid in connection therewith is cash or Cash Equivalents, (b) if such transaction is a Sale and Leaseback Transaction, such transaction is permitted by the terms of Section 8.13, (c) such transaction does not involve the sale or other disposition of a minority equity interest in any Consolidated Party, (d) the aggregate net book value of all of the assets sold or otherwise disposed of by the Consolidated Parties in all such transactions (including, without limitation, Sale and Leaseback Transactions) after the Closing Date (excluding (i) the sale of Western Multiplex Corporation and Glenayre OPTIONS Corp. and (ii) Sale and Leaseback Transactions and Synthetic Leases involving the Canadian Property) shall not exceed $15,000,000, (e) the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist hereunder, and (f) no later than 15 days prior to such Asset Disposition, the Agent and the Lenders shall have received a certificate of an officer of the Borrower specifying the anticipated or actual date of such Asset Disposition, briefly describing the assets to be sold or otherwise disposed of and setting forth the net book value of such assets, the aggregate consideration and the Net Cash Proceeds to be received for such assets in connection with such Asset Disposition, and thereafter the Borrower shall, within the period of 12 months following the consummation of such Asset Disposition (with respect to any such Asset Disposition, the "Application Period"), apply (or cause to be applied) an amount equal to the Net Cash Proceeds of such Asset Disposition to (i) the purchase, acquisition or, in the case of improvements to real property, construction of Eligible Assets or (ii) to the prepayment of any outstanding Loans in accordance with the terms of Section 3.3(b)(iii).

Upon a sale of assets or the sale of Capital Stock of a Consolidated Party permitted by this Section 8.5, the Agent shall (to the extent applicable) deliver to the Borrower, upon the Borrower's request and at the Borrower's expense, such documentation as is reasonably necessary to evidence the release of such Consolidated Party from all of its obligations, if any, under the Credit Documents.

8.6 Investments.

The Credit Parties will not permit any Consolidated Party to make Investments in or to any Person, except for Permitted Investments.

8.7 Restricted Payments.

The Credit Parties will not permit any Consolidated Party to, directly or indirectly, declare, order, make or set apart any sum for or pay any Restricted Payment, except (a) to make dividends

payable solely in the same class of Capital Stock of such Person, (b) to make

dividends or other distributions payable to any Credit Party (directly or indirectly through Subsidiaries), (c) as permitted by Section 8.8 and (d) other Restricted Payments provided that the Borrower shall have delivered to the Agent a Pro Forma Compliance Certificate demonstrating that, upon giving effect on a Pro Forma Basis to such transaction, no Default or Event of Default would exist.

8.8 Prepayments of Indebtedness, etc..

The Credit Parties will not permit any Consolidated Party to, if any Default or Event of Default has occurred and is continuing or would be directly or indirectly caused as a result thereof, (a) after the issuance thereof, amend or modify (or permit the amendment or modification of) any of the terms of any Indebtedness if such amendment or modification would add or change any terms in a manner adverse to the issuer of such Indebtedness, or shorten the final maturity or average life to maturity or require any payment to be made sooner than originally scheduled or increase the interest rate applicable thereto or change any subordination provision thereof, or (b) make (or give any notice with respect thereto) any voluntary or optional payment or prepayment or redemption or acquisition for value of (including without limitation, by way of depositing money or securities with the trustee with respect thereto before due for the purpose of paying when due), refund, refinance or exchange of any other Indebtedness.

8.9 Transactions with Affiliates.

The Credit Parties will not permit any Consolidated Party to enter into or permit to exist any transaction or series of transactions with any officer, director, shareholder, Subsidiary or Affiliate of such Person other than (a) advances of working capital to any Credit Party, (b) transfers of cash and assets to any Credit Party, (c) transactions permitted by Section 8.1, Section 8.4, Section 8.5, Section 8.6, or Section 8.7, (d) normal compensation and reimbursement of expenses of officers and directors and (e) except as otherwise specifically limited in this Credit Agreement, other transactions which are entered into in the ordinary course of such Person's business on terms and conditions substantially as favorable to such Person as would be obtainable by it in a comparable arms-length transaction with a Person other than an officer, director, shareholder, Subsidiary or Affiliate.

8.10 Fiscal Year; Organizational Documents.

The Credit Parties will not permit any Consolidated Party to change its fiscal year or amend, modify or change its articles of incorporation (or corporate charter or other similar organizational document) or bylaws (or other similar document) without the prior written consent of the Required Lenders except as may be permitted or required pursuant to a transaction permitted by Section 8.4.

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8.11 Limitation on Restricted Actions.

The Credit Parties will not permit any Consolidated Party to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Person to (a) pay dividends or make any other distributions to any Credit Party on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, (b) pay any Indebtedness or other obligation owed to any Credit Party, (c) make loans or advances to any Credit Party, (d) sell, lease or transfer any of its properties or assets to any Credit Party, (e) act as a Guarantor and pledge its assets pursuant to the Credit Documents or any renewals, refinancings, exchanges, refundings or extension thereof, except (in respect of any of the matters referred to in clauses (a)-(d) above) for such encumbrances or restrictions existing under or by reason of (i) this Credit Agreement and the other Credit Documents, (ii) the documents executed in connection with any Permitted Receivables Financing (but only to the extent that the related encumbrance or restriction pertains to the applicable Transferred Assets actually sold, contributed, financed or otherwise conveyed or pledged pursuant to such Permitted Receivables Financing), (iii) applicable law or (iv) any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien.

8.12 Ownership of Subsidiaries.

Notwithstanding any other provisions of this Credit Agreement to the contrary, the Credit Parties will not permit any Consolidated Party to (i) permit any Person (other than the Parent, the Borrower or any other Wholly-Owned

Subsidiary of the Parent which is a Credit Party) to own any Capital Stock of any Subsidiary of the Borrower; provided, however, Glenayre Electronics (UK) Limited shall be permitted to own 100% of the Capital Stock of Glenayre Electronics (Korea) Limited, (ii) permit any Subsidiary of the Borrower to issue Capital Stock (except to the Parent, the Borrower or any other Wholly-Owned Subsidiary of the Parent which is a Credit Party), (iii) permit, create, incur, assume or suffer to exist any Lien thereon, in each case (A) except to qualify directors where required by applicable law or to satisfy other requirements of applicable law with respect to the ownership of Capital Stock of Foreign Subsidiaries, (B) except as a result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4 or Section 8.5 or (C) except for Permitted Liens and (iv) notwithstanding anything to the contrary contained in clause (ii) above, permit any Subsidiary of the Borrower to issue any shares of preferred Capital Stock.

8.13 Sale and Leasebacks and Synthetic Leases.

(a) Other than Sale and Leaseback Transactions involving the Canadian Property permitted under Section 8.1(g), the Credit Parties will not permit any Consolidated Party to, directly or indirectly, become or remain liable as lessee or as guarantor or other surety with respect to any lease, whether an Operating Lease or a Capital Lease, of any Property (whether real or personal or mixed), whether now owned or hereafter acquired, (a) which such Consolidated Party has sold or transferred or is to sell or transfer to a Person

which is not a Consolidated Party or (b) which such Consolidated Party intends to use for substantially the same purpose as any other Property which has been sold or is to be sold or transferred by such Consolidated Party to another Person which is not a Consolidated Party in connection with such lease.

(b) The Credit Parties will not permit any Consolidated Party to enter into any Synthetic Lease other than with respect to the Canadian Property to the extent permitted under Section 8.1(g).

8.14 No Further Negative Pledges.

The Credit Parties will not permit any Consolidated Party to enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its Property, whether now owned or hereafter acquired, or requiring the grant of any security for such obligation if security is given for some other obligation except (a) pursuant to this Credit Agreement and the other Credit Documents, (b) pursuant to the documents executed in connection with any Permitted Receivables Financing (but only (i) to the extent that the related prohibitions against other encumbrances pertain to the applicable Transferred Assets actually sold, contributed, financed or otherwise conveyed or pledged pursuant to such Permitted Receivables Financing and (ii) as required in connection with the Non-Notification Factoring Agreement to be executed by NationsBanc Commercial Corporation and a Credit Party (other than the Parent)), and (c) in connection with any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien.

8.15 Operating Lease Obligations.

The Credit Parties will not permit any Consolidated Party to enter into, assume or permit to exist any obligations for the payment of rental under Operating Leases which in the aggregate for all such Persons would exceed $10,000,000 in any fiscal year (without duplication as to the Consolidated Parties).

8.16 Customer Financing Transactions.

The Credit Parties will not permit any Consolidated Party to engage in any Customer Financing Transactions except for Permitted Customer Financing Transactions. For the purpose of determining compliance with this Section 8.16, all extensions of credit by the Borrower pursuant to the Conxus Credit Agreement shall be deemed within the scope of transactions governed by the Customer Financing Policy.

SECTION 9

EVENTS OF DEFAULT

9.1 Events of Default.

An Event of Default shall exist upon the occurrence of any of the following specified events (each an "Event of Default"):

(a) Payment. Any Credit Party shall

(i) default in the payment when due of any principal of any of the Loans or of any reimbursement obligations arising from drawings under Letters of Credit, or

(ii) default, and such default shall continue for three (3) or more Business Days, in the payment when due of any interest on the Loans or on any reimbursement obligations arising from drawings under Letters of Credit, or of any Fees or other amounts owing hereunder, under any of the other Credit Documents or in connection herewith or therewith; or

(b) Representations. Any representation, warranty or statement made or deemed to be made by any Credit Party herein, in any of the other Credit Documents, or in any statement or certificate delivered or required to be delivered pursuant hereto or thereto shall prove untrue in any material respect on the date as of which it was deemed to have been made; or

(c) Covenants. Any Credit Party shall

(i) default in the due performance or observance of any term, covenant or agreement contained in Sections 7.2, 7.9, 7.11, 7.12, 7.13 or 8.1 through 8.16, inclusive;

(ii) default in the due performance or observance of any term, covenant or agreement contained in Sections 7.1(a), (b) or (c) and such default shall continue unremedied for a period of at least 5 Business Days after the earlier of a responsible officer of a Credit Party becoming aware of such default or notice thereof by the Agent; or

(iii) default in the due performance or observance by it of any term, covenant or agreement (other than those referred to in subsections (a), (b), (c)(i) or (c)(ii) of this Section 9.1) contained in this Credit Agreement and such default shall continue unremedied for a period of at least 45 days after the earlier of a responsible

officer of a Credit Party becoming aware of such default or written notice thereof by the Agent; or

(d) Other Credit Documents. (i) Any Credit Party shall default in the due performance or observance of any term, covenant or agreement in any of the other Credit Documents (subject to applicable grace or cure periods, if any), or (ii) except as a result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4 or Section 8.5, any Credit Document shall fail to be in full force and effect or to give the Agent and/or the Lenders the rights, powers and privileges purported to be created thereby, or any Credit Party shall so state in writing; or

(e) Guaranties. Except as the result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4 or Section 8.5, the guaranty given by any Guarantor hereunder (including any Additional Credit Party) or any provision thereof shall cease to be in full force and effect, or any Guarantor (including any Additional Credit Party) hereunder or any Person acting by or on behalf of such Guarantor shall deny or disaffirm such Guarantor's obligations under such guaranty, or any Guarantor shall default in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to any guaranty; or

(f) Bankruptcy, etc. Any Bankruptcy Event shall occur with

respect to any Consolidated Party; or

(g) Defaults under Other Agreements.

(i) Any Consolidated Party shall default in the performance or observance (beyond the applicable grace period with respect thereto, if any) or any material obligation or condition of any contract or lease material to the Consolidated Parties taken as a whole; or

(ii) With respect to any Indebtedness (other than Indebtedness outstanding under this Credit Agreement) in excess of $5,000,000 in the aggregate for the Consolidated Parties taken as a whole, (A) any Consolidated Party shall (1) default in any payment (beyond the applicable grace period with respect thereto, if any) with respect to any such Indebtedness, or (2) the occurrence and continuance of a default in the observance or performance relating to such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event or condition shall occur or condition exist, the effect of which default or other event or condition is to cause, or permit, the holder or holders of such Indebtedness (or trustee or agent on behalf of such holders) to cause (determined without regard to whether any notice or lapse of time is required), any such Indebtedness to become due prior to its stated maturity; or (B) any such Indebtedness shall be declared due and payable, or required to be prepaid other

than by a regularly scheduled required prepayment, prior to the stated maturity thereof; or

(h) Judgments. One or more judgments or decrees shall be entered against one or more of the Consolidated Parties involving a liability of $10,000,000 or more in the aggregate (to the extent not paid or fully covered by insurance provided by a carrier who has acknowledged coverage and has the ability to perform) and any such judgments or decrees shall not have been vacated, discharged or stayed or bonded pending appeal within 30 days from the entry thereof; or

(i) ERISA. Any of the following events or conditions, if such event or condition could have a Material Adverse Effect: (i) any "accumulated funding deficiency," as such term is defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, shall exist with respect to any Plan, or any lien shall arise on the assets of any Consolidated Party or any ERISA Affiliate in favor of the PBGC or a Plan; (ii) an ERISA Event shall occur with respect to a Single Employer Plan, which is, in the reasonable opinion of the Agent, likely to result in the termination of such Plan for purposes of Title IV of ERISA; (iii) an ERISA Event shall occur with respect to a Multiemployer Plan or Multiple Employer Plan, which is, in the reasonable opinion of the Agent, likely to result in (A) the termination of such Plan for purposes of Title IV of ERISA, or (B) any Consolidated Party or any ERISA Affiliate incurring any liability in connection with a withdrawal from, reorganization of (within the meaning of Section 4241 of ERISA), or insolvency or (within the meaning of Section 4245 of ERISA) such Plan; or (iv) any prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or breach of fiduciary responsibility shall occur which may subject any Consolidated Party or any ERISA Affiliate to any liability under Sections 406, 409, 502(i), or 502(l) of ERISA or Section 4975 of the Code, or under any agreement or other instrument pursuant to which any Consolidated Party or any ERISA Affiliate has agreed or is required to indemnify any person against any such liability; or

(j) Defaults under Permitted Customer Financing Transactions. During any fiscal year of the Borrower, the aggregate amount of payment defaults occurring with respect to principal and interest payments owed to the Consolidated Parties pursuant to Permitted Customer Financing Transactions (including extensions of credit pursuant to the Conxus Credit Agreement) shall exceed $15,000,000.

(k) Ownership. There shall occur a Change of Control.

9.2 Acceleration; Remedies.

Upon the occurrence of an Event of Default, and at any time thereafter

unless and until such Event of Default has been waived by the requisite Lenders (pursuant to the voting requirements of Section 11.6) or cured to the satisfaction of the requisite Lenders (pursuant to the voting procedures

in Section 11.6), the Agent shall, upon the request and direction of the Required Lenders, by written notice to the Credit Parties take any of the following actions:

(a) Termination of Commitments. Declare the Commitments terminated whereupon the Commitments shall be immediately terminated.

(b) Acceleration. Declare the unpaid principal of and any accrued interest in respect of all Loans, any reimbursement obligations arising from drawings under Letters of Credit and any and all other indebtedness or obligations of any and every kind owing by the Borrower to the Agent and/or any of the Lenders hereunder to be due whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

(c) Cash Collateral. Direct the Borrower to pay (and the Borrower agrees that upon receipt of such notice, or upon the occurrence of an Event of Default under Section 9.1(f), it will immediately pay) to the Agent additional cash, to be held by the Agent, for the benefit of the Lenders, in a cash collateral account as additional security for the LOC Obligations in respect of subsequent drawings under all then outstanding Letters of Credit in an amount equal to the maximum aggregate amount which may be drawn under all Letters of Credits then outstanding.

(d) Enforcement of Rights. Enforce any and all rights and interests created and existing under the Credit Documents and all rights and remedies available at law or in equity.

Notwithstanding the foregoing, if an Event of Default specified in Section 9.1(f) shall occur, then the Commitments shall automatically terminate and all Loans, all reimbursement obligations arising from drawings under Letters of Credit, all accrued interest in respect thereof, all accrued and unpaid Fees and other indebtedness or obligations owing to the Agent and/or any of the Lenders hereunder automatically shall immediately become due and payable without the giving of any notice or other action by the Agent or the Lenders.

SECTION 10

AGENCY PROVISIONS

10.1 Appointment, Powers and Immunities.

Each Lender hereby irrevocably appoints and authorizes the Agent to act as its agent under this Credit Agreement and the other Credit Documents with such powers and discretion as are specifically delegated to the Agent by the terms of this Credit Agreement and the other Credit Documents, together with such other powers as are reasonably incidental thereto. The Agent (which term as used in this sentence and in Section 10.5 and the first sentence of Section 10.6

hereof shall include its Affiliates and its own and its Affiliates' officers, directors, employees, and agents): (a) shall not have any duties or responsibilities except those expressly set forth in this Credit Agreement and shall not be a trustee or fiduciary for any Lender; (b) shall not be responsible to the Lenders for any recital, statement, representation, or warranty (whether written or oral) made in or in connection with any Credit Document or any certificate or other document referred to or provided for in, or received by any of them under, any Credit Document, or for the value, validity, effectiveness, genuineness, enforceability, or sufficiency of any Credit Document, or any other document referred to or provided for therein or for any failure by any Credit Party or any other Person to perform any of its obligations thereunder; (c) shall not be responsible for or have any duty to ascertain, inquire into, or verify the performance or observance of any covenants or agreements by any Credit Party or the satisfaction of any condition or to inspect the property (including the books and records) of any Credit Party or any of its Subsidiaries or Affiliates; (d) shall not be required to initiate or conduct any litigation or collection proceedings under any Credit Document; and (e) shall not be

responsible for any action taken or omitted to be taken by it under or in connection with any Credit Document, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care.

10.2 Reliance by Agent.

The Agent shall be entitled to rely upon any certification, notice, instrument, writing, or other communication (including, without limitation, any thereof by telephone or telecopy) believed by it to be genuine and correct and to have been signed, sent or made by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel (including counsel for any Credit Party), independent accountants, and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until the Agent receives and accepts an Assignment and Acceptance executed in accordance with Section 11.3(b) hereof. As to any matters not expressly provided for by this Credit Agreement, the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding on all of the Lenders; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to any Credit Document or applicable law or unless it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking any such action.

10.3 Defaults.

The Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or Event of Default unless the Agent has received written notice from a Lender or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or

Event of Default, the Agent shall give prompt notice thereof to the Lenders. The Agent shall (subject to Section 10.2 hereof) take such action with respect to such Default or Event of Default as shall reasonably be directed by the Required Lenders, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders.

10.4 Rights as a Lender.

With respect to its Commitment and the Loans made by it, NationsBank (and any successor acting as Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Agent in its individual capacity. NationsBank (and any successor acting as Agent) and its Affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in, provide services to, and generally engage in any kind of lending, trust, or other business with any Credit Party or any of its Subsidiaries or Affiliates as if it were not acting as Agent, and NationsBank (and any successor acting as Agent) and its Affiliates may accept fees and other consideration from any Credit Party or any of its Subsidiaries or Affiliates for services in connection with this Credit Agreement or otherwise without having to account for the same to the Lenders.

10.5 Indemnification.

The Lenders agree to indemnify the Agent (to the extent not reimbursed under Section 11.5 hereof) ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' fees), or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Agent (including by any Lender) in any way relating to or arising out of any Credit Document or the transactions contemplated thereby or any action taken or omitted by the Agent under any Credit Document; provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Person to be indemnified. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any costs or expenses payable by the Borrower under Section 11.5, to

the extent that the Agent is not promptly reimbursed for such costs and expenses by the Borrower. The agreements in this Section 10.5 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

10.6 Non-Reliance on Agent and Other Lenders.

Each Lender agrees that it has, independently and without reliance on the Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Credit Parties and their Subsidiaries and decision to enter into this

Credit Agreement and that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under the Credit Documents. Except for notices, reports, and other documents and information expressly required to be furnished to the Lenders by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition, or business of any Credit Party or any of its Subsidiaries or Affiliates that may come into the possession of the Agent or any of its Affiliates.

10.7 Successor Agent.

The Agent may resign at any time by giving notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Agent with the prior written consent of the Borrower (such consent not to be unreasonably withheld). If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may with the prior written consent of the Borrower (such consent not to be unreasonably withheld), on behalf of the Lenders, appoint a successor Agent which shall be a commercial bank organized under the laws of the United States of America having combined capital and surplus of at least $100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor, such successor shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges, and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

SECTION 11

MISCELLANEOUS

11.1 Notices.

Except as otherwise expressly provided herein, all notices and other communications shall have been duly given and shall be effective (a) when delivered, (b) when transmitted via telecopy (or other facsimile device) to the number set out below, (c) the Business Day following the day on which the same has been delivered prepaid to a reputable national overnight air courier service, or (d) the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address, in the case of the Borrower, Guarantors and the Agent, set forth below, and, in the case of the Lenders, set forth on Schedule 2.1(a), or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower or the Guarantors:

Glenayre Electronics, Inc.
5935 Carnegie Boulevard
Charlotte, NC 28209
Attn: Treasury Department
Telephone: (704)553-0038
Telecopy: (704)553-9338

with a copy to:

Glenayre Technologies, Inc.
5935 Carnegie Boulevard
Charlotte, NC 28209
Attn: Eugene C. Pridgen, Esq.
Telephone: (704)553-0038
Telecopy: (704) 553-7878

if to the Agent:

NationsBank, N. A.
901 Main Street
Dallas, TX 75202
Attn: Agency Services/Mickey McLean
Telephone: (214) 508-3076
Telecopy: (214) 508-2515

with a copy to:

NationsBank, N. A.
901 Main Street, 64th Floor
Dallas, TX 75202
Attn: Pam Kurtzman
Telephone: (214) 508-0997
Telecopy: (214) 508-9390

11.2 Right of Set-Off; Adjustments.

Upon the occurrence and during the continuance of any Event of Default, each Lender (and each of its Affiliates) is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender (or any of its Affiliates) to or for the credit or the account of any Credit Party against any

and all of the obligations of such Person now or hereafter existing under this Credit Agreement, under the Notes, under any other Credit Document or otherwise, irrespective of whether such Lender shall have made any demand under hereunder or thereunder and although such obligations may be unmatured. Each Lender agrees promptly to notify any affected Credit Party after any such set-off and application made by such Lender. The rights of each Lender under this Section 11.2 are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

11.3 Benefit of Agreement.

(a) This Credit Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided that none of the Credit Parties may assign or transfer any of its interests and obligations without prior written consent of the Lenders; provided further that the rights of each Lender to transfer, assign or grant participations in its rights and/or obligations hereunder shall be limited as set forth in this Section 11.3.

(b) Each Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Credit Agreement (including, without limitation, all or a portion of its Loans, its Notes, and its Commitment); provided, however, that

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender or an assignment of all of a Lender's rights and obligations under this Credit Agreement, any such partial assignment shall be in an amount at least equal to $5,000,000 (or, if less, the remaining amount of the Commitment being assigned by such Lender) or an integral multiple of $1,000,000 in excess thereof;

(iii) each such assignment by a Lender shall be of a constant, and not varying, percentage of all of its rights and obligations under this Credit Agreement and the Notes; and

(iv) the parties to such assignment shall execute and deliver to the Agent for its acceptance an Assignment and Acceptance in the form of Exhibit 11.3(b) hereto, together with any Note subject to such assignment and a processing fee of $3,500.

Upon execution, delivery, and acceptance of such Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Credit Agreement. Upon the consummation of any assignment pursuant to this Section 11.3(b), the assignor, the Agent and the Borrower shall make appropriate

arrangements so that, if required, new Notes are issued to the assignor and the assignee. If the assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Borrower and the Agent certification as to exemption from deduction or withholding of Taxes in accordance with Section 3.11. The Credit Parties shall not be liable for any fees or expenses of the Agent, any Lender or any Eligible Assignee incurred in connection with such assignment.

(c) The Agent shall maintain at its address referred to in Section 11.1 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit 11.3(b) hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto.

(e) Each Lender may sell participations to one or more Persons in all or a portion of its rights, obligations or rights and obligations under this Credit Agreement (including all or a portion of its Commitment and its Loans); provided, however, that (i) such Lender's obligations under this Credit Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participant shall be entitled to the benefit of the yield protection provisions contained in Sections 3.7 through 3.12, inclusive, and the right of set-off contained in Section 11.2, and (iv) the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Credit Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to its Loans and its Notes and to approve any amendment, modification, or waiver of any provision of this Credit Agreement (other than amendments, modifications, or waivers decreasing the amount of principal of or the rate at which interest is payable on such Loans or Notes, extending any scheduled principal payment date or date fixed for the payment of interest on such Loans or Notes, or extending its Commitment). The Credit Parties shall not be liable for any fees or expenses of the Agent, any Lender or any Eligible Assignee incurred in connection with such assignment.

(f) Notwithstanding any other provision set forth in this Credit Agreement, any Lender may at any time assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Bank as

collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder. The Credit Parties shall not be liable for any fees or expenses of the Agent, any Lender or any Eligible Assignee incurred in connection with such assignment.

(g) Any Lender may furnish any information concerning the Borrower or any of its Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of Section 11.14 hereof.

11.4 No Waiver; Remedies Cumulative.

No failure or delay on the part of the Agent or any Lender in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Agent or any Lender and any of the Credit Parties shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies which the Agent or any Lender would otherwise have. No notice to or demand on any Credit Party in any case shall entitle the Borrower or any other Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent or the Lenders to any other or further action in any circumstances without notice or demand.

11.5 Expenses; Indemnification.

(a) The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the syndication, preparation, execution, delivery, modification, and amendment of this Credit Agreement, the other Credit Documents, and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under the Credit Documents. The Borrower further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable attorneys' fees and expenses and the cost of internal counsel), in connection with the enforcement (whether through negotiations, legal proceedings, or otherwise) of the Credit Documents and the other documents to be delivered hereunder.

(b) The Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their Affiliates and their respective officers, directors, employees, agents, and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses,

liabilities, costs, and expenses (including, without limitation, reasonable attorneys' fees) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any litigation, or proceeding or preparation of defense in connection therewith) the Credit Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loans, except to the extent such claim, damage, loss, liability, cost, or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 11.5 applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Credit Parties and the Lenders, including the Agent, agree not to assert any claim against the other, any of such other's Affiliates, or any of such other's respective directors, officers, employees, attorneys, agents, and advisers, on any theory of liability, for special, indirect, consequential, or punitive damages arising out of or otherwise relating to the Credit Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loans.

(c) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower and the Lenders contained in this Section 11.5 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the

termination of the Commitments hereunder.

11.6 Amendments, Waivers and Consents.

Neither this Credit Agreement nor any other Credit Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing entered into by, or approved in writing by, the Required Lenders and the Borrower; provided, however, that:

(a) the consent of each Lender affected thereby is required to

(i) extend the final maturity of any Loan or of any reimbursement obligation, or any portion thereof, arising from drawings under Letters of Credit,

(ii) reduce the rate or extend the time of payment of interest (other than as a result of waiving the applicability of any post-default increase in interest rates) thereon or Fees hereunder,

(iii) reduce or waive the principal amount of any Loan or of any reimbursement obligation, or any portion thereof, arising from drawings under Letters of Credit,

(iv) increase the Commitment of a Lender over the amount thereof in effect (it being understood and agreed that a waiver of any Default or Event of Default or mandatory reduction in the Commitments shall not constitute a change in the terms of any Commitment of any Lender),

(v) except as the result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4, release the Borrower or substantially all of the other Credit Parties from its or their obligations under the Credit Documents,

(vi) except, amend, modify or waive any provision of this Section 11.6 or Section 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 9.1(a), 11.2, 11.3, 11.5 or 11.9,

(vii) reduce any percentage specified in, or otherwise modify, the definition of Required Lenders, or

(viii) consent to the assignment or transfer by the Borrower (or another Credit Party) of any of its rights and obligations under (or in respect of) the Credit Documents except as permitted thereby;

(b) without the consent of the Agent, no provision of Section 10 may be amended;

(c) without the consent of the Issuing Lender, no provision of Section 2.2 may be amended.

Notwithstanding the fact that the consent of all the Lenders is required in certain circumstances as set forth above, (x) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code supersedes the unanimous consent provisions set forth herein and (y) the Required Lenders may consent to allow a Credit Party to use cash collateral in the context of a bankruptcy or insolvency proceeding.

11.7 Counterparts.

This Credit Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Credit Agreement to produce or account for more than one such counterpart for each of the parties hereto. Delivery by facsimile by any of the parties hereto of an executed counterpart of this Credit Agreement shall be as effective as an original executed counterpart hereof and shall be deemed a representation that an original executed counterpart hereof will be delivered.

11.8 Headings.

The headings of the sections and subsections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Credit Agreement.

11.9 Survival.

All indemnities set forth herein, including, without limitation, in Section 2.2(i), 3.11, 3.12, 10.5 or 11.5 shall survive the execution and delivery of this Credit Agreement, the making of the Loans, the issuance of the Letters of Credit, the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder, and all representations and warranties made by the Credit Parties herein shall survive delivery of the Notes and the making of the Loans hereunder.

11.10 Governing Law; Submission to Jurisdiction; Venue.

(a) THIS CREDIT AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA WITHOUT REFERENCE TO THE CONFLICT OR CHOICE OF LAW PRINCIPLES THEREOF. Any legal action or proceeding with respect to this Credit Agreement or any other Credit Document may be brought in the courts of the State of North Carolina in Mecklenburg County, or of the United States for the Western District of North Carolina, and, by execution and delivery of this Credit Agreement, each of the Credit Parties hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the nonexclusive jurisdiction of such courts. Each of the Credit Parties further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address set out for notices pursuant to Section 11.1, such service to become effective three (3) Business Days after such mailing. Nothing herein shall affect the right of the Agent or any Lender to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against any Credit Party in any other jurisdiction.

(b) Each of the Credit Parties hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Credit Agreement or any other Credit Document brought in the courts referred to in subsection (a) above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has

been brought in an inconvenient forum.

(c) TO THE EXTENT PERMITTED BY LAW, EACH OF THE AGENT, THE LENDERS, THE BORROWER AND THE CREDIT PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS CREDIT AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.11 Severability.

If any provision of any of the Credit Documents is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

11.12 Entirety.

This Credit Agreement together with the other Credit Documents represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Credit Documents or the transactions contemplated herein and therein.

11.13 Binding Effect; Termination.

(a) This Credit Agreement shall become effective at such time on or after the Closing Date when it shall have been executed by the Credit Parties and the Agent, and the Agent shall have received copies hereof (telefaxed or otherwise) which, when taken together, bear the signatures of each Lender, and thereafter this Credit Agreement shall be binding upon and inure to the benefit of the Credit Parties, the Agent and each Lender and their respective successors and assigns.

(b) The term of this Credit Agreement shall be until no Loans, LOC Obligations or any other amounts payable hereunder or under any of the other Credit Documents shall remain outstanding, no Letters of Credit shall be outstanding, all of the Credit Party Obligations have been irrevocably satisfied in full and all of the Commitments hereunder shall have expired or been terminated.

11.14 Confidentiality.

The Agent and each Lender (each, a "Lending Party") agree to keep confidential any information furnished or made available to it by the Borrower pursuant to this Credit Agreement that is (i) marked confidential or (ii) otherwise identified as confidential at the time of disclosure and confirmed as confidential in a writing delivered by the Borrower to the applicable Lending Parties within ten Business Days following the disclosure of such information; provided that nothing herein shall prevent any Lending Party from disclosing such information (a) to any other

Lending Party or any Affiliate of any Lending Party, or any officer, director, employee, agent, or advisor of any Lending Party or Affiliate of any Lending Party, (b) to any other Person if reasonably incidental to the administration of the credit facility provided herein, provided that such Person agrees to be bound by confidentiality obligations which are no less protective as those contained herein, (c) as required by any law, rule, regulation or judicial decree (d) upon the order of any court or administrative agency, (e) upon the request or demand of any regulatory agency or authority, (f) that is or becomes available to the public or that is or becomes available to any Lending Party other than as a result of a disclosure by any Lending Party prohibited by this Credit Agreement, (g) in connection with any litigation that is related to the transactions contemplated hereby to which such Lending Party or any of its Affiliates may be a party, (h) to the extent necessary in connection with the exercise of any remedy under this Credit Agreement or any other Credit Document, and (i) subject to written provisions substantially similar to those contained in this Section 11.14, to any actual or proposed participant or assignee.

11.15 Conflict.

To the extent that there is a conflict or inconsistency between any provision hereof, on the one hand, and any provision of any Credit Document, on the other hand, this Credit Agreement shall control.

11.16 Limitation on Attorneys' Fees.

Notwithstanding anything to the contrary herein or in any other Credit Document, attorneys' fees due in connection with the Credit Documents shall be reasonable and calculated without regard to any statutory presumption and determined based on the standard hourly rates of the attorneys and paralegals performing the work.

[Signature Pages to Follow]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Credit Agreement to be duly executed and delivered as of the date first above written.

BORROWER: Glenayre electronics, Inc.
a Colorado corporation

By: _____
Stanley Ciepcielinski
Chief Operating Officer

GUARANTORS: GLENAYRE TECHNOLOGIES, INC.
a Delaware corporation

By:_____
Stanley Ciepcielinski
Chief Operating Officer

WESTERN MULTIPLEX CORPORATION
a California corporation

By: _____
Stanley Ciepcielinski
Chief Financial Officer and
Treasurer

GLENAYRE OPTIONS CORP.
a Texas corporation

By: _____
Stanley Ciepcielinski
Treasurer

OPEN DEVELOPMENT CORPORATION
a Delaware corporation

By: _____
Stanley Ciepcielinski
Treasurer

WIRELESS ACCESS, INC.
a California corporation

By: _____
Stanley Ciepcielinski
Chief Financial Officer and
Treasurer

GLENAYRE DIGITAL SYSTEMS, INC.
a North Carolina corporation

By: _____
Stanley Ciepcielinski
Executive Vice President
and Chief Financial Officer

GLENAYRE ELECTRONICS CAPITAL
CORPORATION
a North Carolina corporation

By: _____
Samuel A. Washington
President and Chief Executive
Officer

GTI ACQUISITION CORP.
a Delaware corporation

By: _____
Samuel A. Washington
Vice President and Treasurer

Credit Agreement - Glenayre Electronics, Inc.

LENDERS: NATIONSBANK, N. A.,
individually in its capacity as a
Lender and in its capacity as Agent

By:_____
Name:_____
Title:_____

Credit Agreement - Glenayre Electronics, Inc.
ABN AMRO BANK N.V.

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

Credit Agreement - Glenayre Electronics, Inc.

FIRST UNION NATIONAL BANK

By:_____
Name:_____
Title:_____

Schedule 1.1A

INVESTMENTS

CONXUS Convertible Senior Subordinated Notes and Warrants

Investments in Glenayre entities. See Schedule 6.13.

Schedule 1.1B

LIENS

None.

Schedule 2.1(a)

LENDERS

<TABLE>
<CAPTION>

Lender	Commitment Percentage	Commitment
<S>	<C>	<C>

NationsBank, N.A.	40%	$20,000,000.00
First Union National Bank 301 South Tryon Street, M-2 2nd Floor Charlotte, NC 28288 Attn: David Trotter	30%	$15,000,000.00
ABN Amro Bank N.V. One Ravinia Drive Suite 1200 Atlanta, GA 30346 Attn: Jerry Sneiderman	30%	$15,000,000.00
Total	100%	$50,000,000.00

</TABLE>

Schedule 6.4

REQUIRED CONSENTS, AUTHORIZATIONS, NOTICES AND FILINGS

The Credit Agreement will be filed with the Securities and Exchange Commission.

Schedule 6.9

LITIGATION
As of 10-30-98

<TABLE>
<CAPTION>

Case Name	Parties	Description
<S>	<C>	<C>
Access Global et al v. Open Development Corporation et al. Superior Court, Middlesex County, (Massachusetts) No. 97-3834 [Complaint Filed 8/1/97 - dismissed 11/4/97] [Arbitration Demand Filed 5/22/98]	Plaintiffs: Access Global Telecom, Inc. And Sunnet Telecom, Inc. Defendants: Open Development Corp., Matthew Kay and Joseph Moriarity	Breach of contract, fraud & negligent misrepresentation claim brought by plaintiffs who allege a switching/ database platform they purchased from ODC failed to perform functions critical to their business. ODC denies the allegations and asserts plaintiff's outdated and poorly maintained equipment was the primary cause of any problems experienced. It is anticipated arbitration will be scheduled for May 1999.
In Re Glenayre Technologies, Inc., Securities Litigation US District Court, Southern District of New York, (NY) 96 Civ. 8252 (HB) [2nd Amended Complaint filed 12/19/97]	Plaintiffs: LLM (a partnership) and Robin Kwalbrun, Edmond Franco, and Harris Weinstein (individuals), on behalf of themselves and all similarly situated. Defendants: Glenayre Technologies, Inc., Ramon D. Ardizzone, John J. Hurley, Billy C. Layton, Stanley Ciepcielinski,	Securities class action lawsuit alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the SEC. Plaintiffs contend that between 2/6/96 and 9/13/96 defendants sold Glenayre stock while in possession of material, adverse, non-public information about Glenayre (such as the pending FCC license freeze and its impact on Glenayre) and while under a duty to disclose such information or abstain from trading.

	Gerald B. Cramer, Edward J. Rosenthal, Barry W. Gray, Gary B. Smith, Thomas C. Israel, Clarke H. Bailey, Alma M. McDonnell, Cramer Rosenthal McGlynn, Inc. and A.C. Israel Enterprises.	The defendants filed a motion to dismiss this lawsuit on January 23, 1998 and are awaiting the Judge's decision on that motion.
Jerry Krim v. Richard D. Ardizzone, et. al. and Glenayre Technologies, Inc., U.S. District Court Southern District of New York, (NY) 96 Civ. 1163 [Filed 2/20/97]	Plaintiff: Jerry Krim Defendants: "Richard" (Ramon) D. Ardizzone (sic), Barry W. Gray, Edward J. Rosenthal, Clarke H. Bailey, Gerald B. Cramer, Thomas E. Skidmore, John J. Hurley and Thomas C. Israel (defendants) and Glenayre Technologies, Inc. (nominal defendant).	"Derivative" action brought by plaintiff Krim as a companion suit to the securities class action claim. The complaint seeks declaratory relief and damages resulting from alleged breaches of trust and fiduciary duty owed by the named defendants to Glenayre and its shareholders. Plaintiff contends breaches subjected Glenayre to the securities class action litigation. This action has been stayed pending the Judge's decision on the motion to dismiss the securities class action lawsuit.
Mountain Meadows Patio/Terrace Maintenance Association, v. Nu-West, Inc. et al. U.S. District Court, Central District of California, (Cal.) No. 93-7450 [Filed 6/19/93]	Plaintiff: Mountain Meadows Patio/Terrace Maintenance Association. Defendants: Mountain Meadows I, Nu-West, Inc., Mountain Meadows Development Co., Inc., Western Savings and Loan Association, Western Property Service Corporation, and DOES 1 through 500 inclusive	Negligence, breach of implied and express warranties, negligent misrepresentations & strict liability claim brought by a homeowners association in Pomona, California known as "Mountain Meadows" in connection with the design and construction of a development. The complaint alleges Nu-West (GEI) is/was a general partner of Mountain Meadows. GEI has never been served with the complaint. As Plaintiff has already settled with most of the co-defendants, it is anticipated the court may mark the entire matter dismissed within the next few months.

See also Schedule 6.17.
</TABLE>

Schedule 6.12

ERISA

The Plans of Western Multiplex Corporation and Glenayre OPTIONS Corp. (fka CNET, Inc.) have previously been merged into the Plans maintained by Glenayre Technologies, Inc. or Glenayre Electronics, Inc. The Plans of Wireless Access, Inc. and Open Development Corporation either have been or will be merged into the Plans maintained by Glenayre Technologies, Inc. or Glenayre Electronics, Inc.

Schedule 6.13

SUBSIDIARIES

Glenayre Technologies, Inc. (Delaware)
- Glenayre Electronics, Inc. (Colorado) -100%
  - Glenayre Administracion, S.A. de C.V. (Mexico) - 100%
  - Glenayre de Mexico S.A. de C.V. (Mexico) - 100%
  - Glenayre Electronics South America Ltda (Brazil) - 100%
  - Glenayre Digital Systems, Inc. (North Carolina) - 100%
  - Glenayre Electronics Capital Corporation (North Carolina) - 100%
  - Glenayre Electronics (UK) Ltd. (England) - 100%
    - Glenayre Electronics (Korea) Limited (Korea) - 100%
  - Glenayre Electronics Europe b.v. (Netherlands) - 100%
  - Glenayre Electronics Middle East LLC (Dubai, UAE) - 49%
  - Glenayre Electronics (Proprietary) Limited (South Africa) - 100%
  - Glenayre Electronics Singapore PTE Ltd. (Singapore) - 100%
  - Glenayre Electronics Philippines Inc. (Philippines) - 100%
  - Glenayre (India) Private Ltd. (India) - 100%
  - Nihon Glenayre Electronics K.K. (Japan) - 100%
  - Glenayre Electronics (Hong Kong) Ltd. (Hong Kong) - 100%
  - Glenayre Electronics Export Sales Corporation (Barbados) - 100%
- GTI Acquisition Corp. (Delaware) - 100%
  - Western Multiplex Corporation (California) - 100%
    - Western Multiplex International Sales Corporation (California) - inactive
- Wireless Access, Inc. (California) - 100%
  - Wireless Access, Inc. (Delaware) - inactive
- Open Development Corporation (Delaware) - 100%
- Glenayre Services Ltd. (Canada) - 100%
- Glenayre OPTIONS Corp. (Texas) - 100%
  - CNET GmbH (Germany) - 100%
- Glenayre R & D Inc. (Canada) - 100%
- Glenayre Manufacturing Ltd. (Canada) - 100%
  - Sunway Financial Services, Inc. - inactive
    - Sunway Management, Inc. - inactive

CERTAIN RIGHTS IN CAPITAL STOCK

Certain conversion and redemption rights that Glenayre Electronics, Inc. has as a shareholder in certain of the Foreign Subsidiaries, including rights as the owner of preferred shares.

Stock which has been and will be issued from time to time pursuant to stock option plans (including employee stock purchase plan) maintained as of the Closing Date by Glenayre Technologies, Inc.

Schedule 6.16

ENVIRONMENTAL DISCLOSURES

None.

Schedule 6.17

INTELLECTUAL PROPERTY CLAIMS AGAINST
GLENAYRE TECHNOLOGIES, INC. AND ITS SUBSIDIARIES
October 30, 1998

<TABLE>

<CAPTION>

COJK File No.	Parties	Description
<S>	<C>	<C>
5-14032	Open Development Corporation and First Data Resources Inc.	Open Development Corporation ("ODC") has been approached by at least one of its customers regarding the possibility that ODC's product(s) may infringe one or more of 44 U.S. patents listing Ronald A. Katz as inventor (the "Katz patents").
5-14990	Freedom Wireless, Inc. v. Open Development Corporation	Freedom Wireless has claimed infringement of and has offered to license ODC under U.S.P. 5,722,067 (the "Fougnies patent") relating to the provision of prepaid cellular services.
5-14344	Lemelson Foundation Limited Partnership v. Glenayre Technologies, Inc.	Lemelson has notified Glenayre of infringement of numerous U.S. patents relating to various manufacturing methods and systems, including automatic identification operations such as bar code identification, electronic assembly operations, integrated circuit manufacturing operations, and flexible manufacturing systems, and has offered a license thereunder.
7-10056	Glenayre OPTIONS Corp. (formerly Cnet) v. US WEST New Vector Group, Inc.	Claims by both Glenayre and US WEST for breach of a Software Purchase and License Agreement dated 1/31/95 and relating to the BOS and WINGS products.

<CAPTION>

File No.	Current Status
<S>	<C>
5-14032	COJK is conducting an in depth validity and infringement investigation of the Katz patents, pertaining to the ODC, MVP and GL3000 platforms. A number of the patents are of interest with respect to the noted products.
5-14990	COJK's preliminary infringement investigation indicates that the Fougnies patent is of interest with respect to the ODC and MVP platforms. Further investigations are being conducted.
5-14344	COJK has completed a preliminary infringement review of the Lemelson patents, and has determined that some of the patents are of interest with respect to Glenayre's manufacturing methods and systems, primarily by reason of Glenayre's use of machines manufactured and sold to Glenayre by others. Glenayre has notified its vendors of these machines of the claims, and requested indemnification therefrom. COJK has had one negotiation meeting with the attorneys for Lemelson to determine the license terms available. Glenayre's exposure under the proposed license terms is currently being determined by Glenayre and COJK.
7-10056	The parties are discussing a settlement proposal for termination of the Agreement.

</TABLE>

Schedule 8.1

INDEBTEDNESS

A letter of credit issued by a Consolidated Party in the amount of 50,000 Canadian dollars with the Royal Bank of Canada for the City of Vancouver to build a turning lane after the new Vancouver building is completed.

Standby letters of credit issued by a Consolidated Party from time to time in the ordinary course of business of the Consolidated Parties.

Preferred Capital Stock owned in various Foreign Subsidiaries by a Credit Party.

Exhibit 2.1(b)(i)

FORM OF NOTICE OF BORROWING

NationsBank, N. A.,
as Agent for the Lenders
101 N. Tryon Street
Independence Center, 15th Floor
NC1-001-15-04
Charlotte, North Carolina 28255
Attention: Agency Services

Ladies and Gentlemen:

The undersigned, GLENAYRE ELECTRONICS, INC. (the "Borrower"), refers to the Credit Agreement dated as of October 30, 1998 (as amended, modified, extended or restated from time to time, the "Credit Agreement"), among the Borrower, the Guarantors, the Lenders and NationsBank, N. A., as Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The Borrower hereby gives notice pursuant to Section 2.1 of the Credit Agreement that it requests a Loan advance under the Credit Agreement, and in connection therewith sets forth below the terms on which such Loan advance is requested to be made:

(A) Date of Borrowing (which is a Business Day) _____

(B) Principal Amount of Borrowing _____

(C) Interest rate basis _____

(D) Interest Period and the last day thereof _____

In accordance with the requirements of Section 5.2, the Borrower hereby reaffirms the representations and warranties set forth in the Credit Agreement as provided in subsection (b) of such Section, and confirms that the matters referenced in subsections (c), (d), (e) and (f) of such Section, are true and correct.

Glenayre electronics, Inc.

By:_____
Name:_____
Title:_____

Exhibit 2.1(e)

FORM OF REVOLVING NOTE

$_____ October 30, 1998

FOR VALUE RECEIVED, GLENAYRE ELECTRONICS, INC., a Colorado corporation (the "Borrower"), hereby promises to pay to the order of _____, its successors and assigns (the "Lender"), at the office of NationsBank, N. A., as Agent (the "Agent"), at 101 N. Tryon Street, Independence Center, NC1-001-15-04, Charlotte, North Carolina 28255 (or at such other place or places as the holder hereof may designate), at the times set forth in the 364-Day Credit Agreement dated as of the date hereof among the Borrower, the Guarantors, the Lenders and the Agent (as it may be amended, modified, extended or restated from time to time, the "Credit Agreement"; all capitalized terms not otherwise defined herein shall have the meanings set forth in the Credit Agreement), but in no event later than the Maturity Date, in Dollars and in immediately available funds, the principal amount of _____ DOLLARS ($_____) or, if less than such principal amount, the aggregate unpaid principal amount of all Loans made by the Lender to the Borrower pursuant to the Credit Agreement, and to pay interest from the date hereof on the unpaid principal amount hereof, in like money, at said office, on the dates and at the rates selected in accordance with Section 2.1(d) of the Credit Agreement.

Upon the occurrence and during the continuance of an Event of Default, the balance outstanding hereunder shall bear interest as provided in Section 3.1 of the Credit Agreement. Further, in the event the payment of all sums due hereunder is accelerated under the terms of the Credit Agreement, this Note, and all other indebtedness of the Borrower to the Lender pursuant to the Credit Agreement shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Borrower.

In the event this Note is not paid when due at any stated or accelerated maturity, the Borrower agrees to pay, in addition to the principal and interest, all costs of collection, including reasonable attorneys' fees limited as set forth in the Credit Agreement.

This Note and the Loans evidenced hereby may be transferred in whole or in part only by registration of such transfer on the Register maintained by or on behalf of the Borrower as provided in Section 11.3(c) of the Credit Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed by its duly authorized officer as of the day and year first above written.

GLENAYRE ELECTRONICS, INC.

By:_____
Name:_____
Title:_____

Exhibit 3.2

FORM OF NOTICE OF EXTENSION/CONVERSION

NationsBank, N. A.,
as Agent for the Lenders
101 N. Tryon Street
Independence Center, 15th Floor
NC1-001-15-04
Charlotte, North Carolina 28255

Attention: Agency Services

Ladies and Gentlemen:

The undersigned, GLENAYRE ELECTRONICS, INC. (the "Borrower"), refers to the Credit Agreement dated as of October 30, 1998 (as amended, modified, extended or restated from time to time, the "Credit Agreement"), among the Borrower, the Guarantors, the Lenders and NationsBank, N. A., as Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The Borrower hereby gives notice pursuant to Section 3.2 of the Credit Agreement that it requests an extension or conversion of a Loan outstanding under the Credit Agreement, and in connection therewith sets forth below the terms on which such extension or conversion is requested to be made:

(A) Date of Extension or Conversion (which is the last day of the the applicable Interest Period) _____

(B) Principal Amount of Extension or Conversion _____

(C) Interest rate basis _____

(D) Interest Period and the last day thereof _____

In accordance with the requirements of Section 5.2, the Borrower hereby reaffirms the representations and warranties set forth in the Credit Agreement as provided in subsection (b) of such Section, and confirms that the matters referenced in subsections (c), (d), (e) and (f) of such Section, are true and correct.

GLENAYRE ELECTRONICS, INC.

By:_____
Name:_____
Title:_____

Exhibit 7.1(c)

FORM OF OFFICER'S COMPLIANCE CERTIFICATE

For the fiscal quarter ended _____, 19___.

I, _____, [Title] of GLENAYRE ELECTRONICS, INC. (the "Borrower") hereby certify that, to the best of my knowledge and belief, with respect to that certain Credit Agreement dated as of October 30, 1998 (as amended, modified, extended or restated from time to time, the "Credit Agreement"; all of the defined terms in the Credit Agreement are incorporated herein by reference) among the Borrower, the other Credit Parties party thereto, the Lenders party thereto and NationsBank, N. A., as Agent:

a. The company-prepared financial statements which accompany this certificate are true and correct in all material respects and have been prepared in accordance with GAAP applied on a consistent basis, subject to changes resulting from normal year-end audit adjustments; and

b. Since _____ (the date of the last similar certification, or, if none, the Closing Date) no Default or Event of Default has occurred and is continuing under the Credit Agreement.

Delivered herewith are detailed calculations demonstrating compliance by the Credit Parties with the financial covenants contained in Section 7.11 of the Credit Agreement as of the end of the fiscal period referred to above.

This _____ day of _____, 19__.

Glenayre electronics, Inc.

By:_____
Name:_____
Title:_____

Attachment to Officer's Certificate

Computation of Financial Covenants

Exhibit 7.12

FORM OF JOINDER AGREEMENT

THIS JOINDER AGREEMENT (the "Agreement"), dated as of _____, 19__, is by and between _____, a _____ (the "Domestic Subsidiary"), and NATIONSBANK, N. A., in its capacity as Agent under that certain Credit Agreement (as it may be amended, modified, extended or restated from time to time, the "Credit Agreement"), dated as of October 30, 1998, by and among Glenayre electronics, Inc., a Colorado corporation (the "Borrower"), the other Credit Parties party thereto, the Lenders party thereto and NationsBank, N. A., as Agent. All of the defined terms in the Credit Agreement are incorporated herein by reference.

The Domestic Subsidiary is an Additional Credit Party, and, consequently, the Credit Parties are required by Section 7.12 of the Credit Agreement to cause the Domestic Subsidiary to become a "Guarantor".

Accordingly, the Domestic Subsidiary hereby agrees as follows with the Agent, for the benefit of the Lenders:

1. The Domestic Subsidiary hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the Domestic Subsidiary will be deemed to be a party to the Credit Agreement and a "Guarantor" for all purposes of the Credit Agreement, and shall have all of the obligations of a Guarantor thereunder as if it had executed the Credit Agreement. The Domestic Subsidiary hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions applicable to the Guarantors contained in the Credit Agreement. Without limiting the generality of the foregoing terms of this paragraph 1, the Domestic Subsidiary hereby jointly and severally together with the other Guarantors, guarantees to each Lender and the Agent, as provided in Section 4 of the Credit Agreement, the prompt payment and performance of the Credit Party Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise) strictly in accordance with the terms thereof.

2. The address of the Domestic Subsidiary for purposes of all notices and other communications is _____, _____, Attention of _____ (Facsimile No. _____).

3. The Domestic Subsidiary hereby waives acceptance by the Agent and the Lenders of the guaranty by the Domestic Subsidiary under Section 4 of the Credit Agreement upon the execution of this Agreement by the Domestic Subsidiary.

4. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute one contract.

5. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of North Carolina without reference to the conflicts or choice of law principles thereof.

IN WITNESS WHEREOF, the Domestic Subsidiary has caused this Joinder Agreement to be duly executed by its authorized officers, and the Agent, for the benefit of the Lenders, has caused the same to be accepted by its authorized officer, as of the day and year first above written.

[DOMESTIC SUBSIDIARY]

By:_____
Name:_____
Title:_____

Acknowledged and accepted:

NATIONSBANK, N. A., as Agent

By:_____
Name:_____
Title:_____

Exhibit 11.3(b)

FORM OF ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of October 30, 1998, as amended and modified from time to time thereafter (the "Credit Agreement") among GLENAYRE ELECTRONICS, INC., the other Credit Parties party thereto, the Lenders party thereto and NationsBank, N. A., as Agent. Terms defined in the Credit Agreement are used herein with the same meanings.

The "Assignor" and the "Assignee" referred to on Schedule 1 agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, without recourse and without representation or warranty except as expressly set forth herein, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement and the other Credit Documents as of the date hereof equal to the percentage interest specified on Schedule 1 of all outstanding rights and obligations under the Credit Agreement and the other Credit Documents. After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Loans owing to the Assignee will be as set forth on Schedule 1.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Documents or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Credit Party or the performance or observance by any Credit Party of any of its obligations under the Credit Documents or any other instrument or document furnished pursuant thereto; and (iv) attaches the Notes held by the Assignor and requests that the Agent exchange such Notes for new Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and to the Assignor in an amount equal to the Commitment retained by the Assignor, if any, as specified on Schedule 1.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 7.1 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service or other forms required under Section 3.11.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of North Carolina without regard to the conflicts or choice of law principles thereof.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date hereof.

_____, as Assignor

By: _____
Name: _____
Title: _____

_____, as Assignee

By: _____
Name: _____
Title: _____

Notice address of Assignee:

[Assignee]
==========
Attn: _____
Telephone: (___) _____
Telecopy: (___) _____

CONSENTED TO:

NATIONSBANK, N. A., *
as Agent

By:_____
Name:_____
Title:_____

Glenayre ELECTRONICS, Inc.*

By:_____
Name:_____
Title:_____

---

* Required if the Assignee is an Eligible Assignee solely by reason of clause (iii) of the definition of "Eligible Assignee."

* Required if the Assignee is an Eligible Assignee solely by reason of clause (iii) of the definition of "Eligible Assignee."

SCHEDULE 1
to
ASSIGNMENT AND ACCEPTANCE

<TABLE>

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(a)	Date of Assignment:	

(b) Legal Name of Assignor:

(c) Legal Name of Assignee:

(d) Effective Date of Assignment* :

(e) Commitment Percentage Assigned
(expressed as a percentage set forth to at least 8 decimals) %

(f) Commitment Percentage of Assignee
after giving effect to this Assignment and Acceptance
as of the Effective Date (set forth to at least 8 decimals) %

(g) Commitment Percentage of Assignor
after giving effect to this Assignment and Acceptance
as of the Effective Date (set forth to at least 8 decimals) %

(h) Committed Amount as of Effective Date $_____

(i) Dollar Amount of Assignor's Commitment
Percentage as of the Effective Date (the amount set
forth in (h) multiplied by the percentage set forth in (g)) $_____

(j) Dollar Amount of Assignee's Commitment
Percentage as of the Effective Date (the amount set
forth in (h) multiplied by the percentage set forth in (f)) $_____

</TABLE>

---

* This date should be no earlier than five Business Days after delivery of this Assignment and Acceptance to the Agent.

EXHIBIT 21

SUBSIDIARIES OF GLENAYRE

The following subsidiaries are wholly-owned, directly or indirectly, by Glenayre as of March 1999.

Name of Subsidiary	Jurisdiction of Incorporation
Glenayre Electronics, Inc.	Colorado, U.S.A.
Glenayre Manufacturing Ltd.	Canada
Glenayre Electronics Singapore PTE Ltd.	Singapore
Glenayre Electronics (UK) Limited	United Kingdom
Glenayre Digital Systems, Inc.	North Carolina, U.S.A.
Glenayre Electronics Capital Corporation.	North Carolina, U.S.A.
Glenayre de Mexico S.A. de C.V.	Mexico
Glenayre Administracion, S.A. de C.V.	Mexico
Glenayre Electronics South America Ltda.	Brazil
Glenayre Electronics Europe B.V.	Netherlands
Glenayre Electronics (Hong Kong) Limited	Hong Kong
Glenayre Electronics Philippines, Inc.	Philippines
Glenayre Electronics (Korea) Limited	Korea
Glenayre Electronics Middle East LLC	United Arab Emirates
Glenaye Electronics Export Sales Corporation	Barbados
Glenayre (India) Private Limited	India
Nihon Glenayre Electronics K.K.	Japan
GTI Acquisition Corp.	Delaware, U.S.A.
Western Multiplex Corporation	California, U.S.A
Open Development Corporation	Delaware, U.S.A.
Wireless Access, Inc.	California, U.S.A.

The names of other subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Glenayre Technologies, Inc.'s Registration Statements No. 33-43797 on Form S-8, No. 33-68766 on Form S-8, No. 33-80464 on Form S-8, No. 33-88818 on Form S-4, as amended by Post-Effective Amendment No. 1 on Form S-8, No. 333-04635 on Form S-8, No. 333-15845 on Form S-4, as amended by Post-Effective Amendment No. 1 on Form S-8, Registration Statement No. 333-38169 and Registration Statement No. 333-39717 of our report dated February 15, 1999, with respect to the consolidated financial statements and schedules of Glenayre Technologies, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

Charlotte, North Carolina
March 23, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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EXHIBIT 99

CAUTIONARY STATEMENT UNDER SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Glenayre Technologies, Inc. ("Glenayre" or the "Company"), from time to time, makes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the expectations of management of the Company at the time such statements are made. Glenayre is filing this cautionary statement to identify important factors that could cause Glenayre's actual results to differ materially from those in any forward-looking statements made by or on behalf of Glenayre.

POTENTIAL MARKET CHANGES RESULTING FROM RAPID TECHNOLOGICAL ADVANCES

Glenayre's business is primarily focused on paging and is subject to competition from alternative forms of communication. In addition, Glenayre's business is also focused on the wireless telecommunications industry. The wireless telecommunications industry is characterized by rapid technological change, including digital cellular telephone systems, which compete, directly or indirectly, with Glenayre's products or the services provided by the Company's customers. While the introduction of more advanced forms of telecommunication may provide opportunities to Glenayre for the development of new products, these advanced forms of telecommunication may reduce the demand for pagers and thus the type of paging systems and related software designed and sold by Glenayre.

ACCEPTANCE OF TWO-WAY PAGING COMMUNICATION PRODUCTS

While certain of Glenayre's customers have installed Glenayre's products used to provide two-way communications services, these services are available only in certain areas. The growth and installation of two-way paging systems by Glenayre's paging service provider customers may be delayed depending upon delays in installation, difficulties in initial operation of two-way systems, the availability of financing for its paging service provider customers and the market acceptance of two-way paging by the customers of such paging service providers. The development of the two-way market will also be affected by other technological changes in wireless messaging services, regulatory developments and general economic conditions.

COMPETITION

The Company currently faces competition from a number of other equipment manufacturers, certain of which are larger and have significantly greater resources than the Company. The Company also faces indirect competition from alternative wireless telecommunications technologies, including cellular telephone services, mobile satellite systems, specialized and private mobile radio systems, digital cellular telephone systems and broadband personal communications services. Although these technologies are generally higher priced than traditional paging services, technological improvements could result in

increased capacity and efficiency for wireless two-way communication and could result in increased competition for the Company.

VARIABILITY OF QUARTERLY RESULTS

The Company's financial results in any single quarter are highly dependent upon the timing and size of customer orders and the shipment of products for large orders. Large orders from customers can account for a significant portion of products shipped in any quarter. Sales to a single customer, which has a significant United States market presence, totaled approximately 10%, 11% and 15% of 1998, 1997 and 1996 fiscal year net sales, respectively. An additional US customer accounted for 12% of net sales in 1998. Beyond 1998, the customers with whom the Company does the largest amount of business are expected to vary from year to year as a result of the timing for development and expansion of customers' paging systems, the expansion into international markets and changes in the proportion of revenues generated by the products and services of Glenayre's newly acquired companies. Furthermore, if a customer delays or accelerates its delivery requirements or a product's completion is delayed or accelerated, revenues expected in a given quarter may be deferred or accelerated into subsequent or earlier quarters.

Therefore, annual financial results are more indicative of the Company's performance than quarterly results, and results of operations in any quarterly period may not be indicative of results likely to be realized in the following quarterly periods.

VOLATILITY OF STOCK PRICE

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

LIMITS ON PROTECTION OF PROPRIETARY TECHNOLOGY

Glenayre owns or licenses numerous patents used in its operations. Glenayre believes that while these patents are useful to Glenayre, they are not critical or valuable on an individual basis. The collective value of the intellectual property of Glenayre is comprised of its patents, blueprints, specifications, technical processes and cumulative employee knowledge. Although Glenayre attempts to protect its proprietary technology through a combination of trade secrets, patent law, nondisclosure agreements and technical measures, such

protection may not preclude competitors from developing products with features similar to Glenayre's products. The laws of certain foreign countries in which Glenayre sells or may sell its products, including The Republic of Korea, The People's Republic of China, Saudi Arabia, Thailand, Dubai, India and Brazil, do not protect Glenayre's proprietary rights in the products to the same extent as do the laws of the United States.

POTENTIAL CHANGES IN GOVERNMENT REGULATION

Many of Glenayre's products operate on radio frequencies. Radio frequency transmissions and emissions, and certain equipment used in connection therewith, are regulated in the United States, Canada and internationally. Regulatory approvals generally must be obtained by Glenayre in connection with the manufacture and sale of its products, and by Glenayre's paging service provider and other wireless customers to operate Glenayre's products. The enactment by federal, state, local or international governments of new laws or regulations or a change in the interpretation of existing regulations could affect the market for Glenayre's products. Although recent deregulation of international telecommunications industries along with recent radio frequency spectrum allocations made by the Federal Communications Commission ("FCC") in the United States have increased the demand for Glenayre's products by providing users of those products with opportunities to establish new paging and other wireless personal communications services, the trend toward deregulation and current regulatory developments favorable to the promotion of new and expanded personal communications services may not continue and future regulatory changes may not have a positive impact on Glenayre. The issuance of paging system licenses stimulates demand for the Company's products, however, delays in the issuance of licenses may adversely affect sales and the timing of sales of the Company's products.

FINANCING CUSTOMER PURCHASES FOR DEVELOPMENT OF THE TWO-WAY COMMUNICATIONS MARKET

The Company finances customer purchases of its products for development of the two-way communications market for the build-out of two-way networks by its customers who acquired two-way licenses auctioned by the FCC (the "Two-Way License Holders"). Many of the Two-Way License Holders with whom the Company has or expects to enter into customer financing arrangements have limited operating histories, significant debt related to the acquisition of their two-way licenses and start-up expenses, negative cash flows from operations and some have never generated an operating profit. The Company generally retains a security interest in equipment for which it provides financing.

INTERNATIONAL BUSINESS RISKS

Approximately 37% of 1998 fiscal year net sales were generated in markets outside of the United States. International sales are subject to the customary risks associated with international transactions, including political

risks, local laws and taxes, the potential imposition of trade or currency exchange restrictions, tariff increases, transportation delays, difficulties or delays in collecting accounts receivable, exchange rate fluctuations and the effects of prolonged currency destabilization in major international markets. Although a substantial portion of the international sales of the Company's products and services for fiscal year 1998 was negotiated in United States dollars, the Company may not be able to maintain such a high percentage of United States dollar denominated international sales. The Company seeks to mitigate its currency exchange fluctuation risk by entering into currency hedging transactions. The Company also acts to mitigate certain risks associated with international transactions through the purchase of political risk insurance and the use of letters of credit.