

UNITY WIRELESS CORP
Form 10QSB
August 06, 2004

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended **June 30, 2004**

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

For the transition period from _____ to _____

Commission file number **0-30620**

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

DELAWARE

(State or other jurisdiction of incorporation or organization)

91-1940650

(I.R.S. Employer Identification
Number)

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

(800) 337-6642

(Issuer's Telephone Number)

not applicable

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

Number of shares of common stock outstanding at July 30, 2004: 76,860,957

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

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

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

76,860,957 common shares outstanding as at July 30, 2004

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Financial Statements

(Expressed in United States dollars)

UNITY WIRELESS CORPORATION

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

UNITY WIRELESS CORPORATION

Consolidated Balance Sheets

(Expressed in United States dollars)

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

	December 31,	
	June 30, 2004	2003
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,006	\$ 58,057
Restricted cash	-	95,210
Accounts receivable (less allowance for doubtful accounts of \$11,122 (December 31, 2003 - \$11,503))	1,285,411	194,657
Inventory (note 3)	786,953	359,448
Prepaid expenses and deposits	44,779	50,134
	2,161,149	757,506
Equipment, net	208,813	155,364
Patents	2,836	4,254
Goodwill	741,596	741,596
	\$ 3,114,394	\$ 1,658,720
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness	\$ -	\$ 112,561
Accounts payable and accrued liabilities (note 4)	1,728,379	957,221
Loans payable (note 5)	172,586	25,119
Product warranty (note 9(c))	36,828	38,084
	1,937,793	1,132,985
Stockholders' equity:		
Common stock, \$0.001 par value 150,000,000 authorized, 76,807,856 (2003 - 63,578,953) issued and outstanding	76,807	63,579
Additional paid-in capital	20,891,358	18,831,807
Accumulated deficit	(19,923,805)	(18,503,080)

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Accumulated other comprehensive income:

Cumulative translation adjustments	132,241	133,429
	1,176,601	525,735
	\$ 3,114,394	\$ 1,658,720

Commitments (note 8)

Contingent liabilities (note 9)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Operations and Deficit

(Unaudited)

(Expressed in United States dollars)

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

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net sales	\$ 2,063,198	\$ 1,701,021	\$ 2,823,580	\$ 2,047,888
Cost of goods sold (3 month data includes stock-based compensation expense of \$8,201 in 2004 and nil in 2003; 6 month data includes stock-based compensation expense of \$9,120 in 2004 and nil in 2003; and excludes depreciation and amortization shown separately below)	1,846,469	989,425	2,339,811	1,370,744
	216,729	711,596	483,769	677,144
Expenses:				
Research and development (3 month data includes stock-based compensation expense of \$14,769 in 2004 and \$3,251 in 2003; 6 month data includes stock-based compensation (recovery) of \$21,573 in 2004 and \$(13,986) in 2003)	395,732	96,997	648,105	296,921
Government grant (note 9(b)(ii))	-	(98,069)	-	(171,442)
Royalty payments for government grant (note 9(b) (ii))	30,948	-	42,354	-
Sales and marketing (3 month data includes stock-based compensation expense of \$21,862 in 2004 and \$2,235 in 2003; 6 month data includes stock-based compensation (recovery) of \$47,446 in 2004 and \$(17,571) in 2003)	142,857	68,884	277,264	160,303
Depreciation and amortization	14,216	13,253	26,562	31,392
Exchange (gain) loss	(15,682)	31,509	(1,349)	20,578
Interest expense	3,699	70,160	17,796	85,180
	403,136	286,460	873,775	438,159

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

General and administrative (3 month data includes stock-based compensation expense of \$138,413 in 2004 and \$6,060 in 2003; 6 month data includes stock-based compensation (recovery) of \$399,129 in 2004 and \$(22,980) in 2003)

	974,906	469,194	1,884,507	861,091
Operating earnings (loss) for the period	(758,177)	242,402	(1,400,738)	(183,947)
Interest income	354	-	3,273	-
Accretion of interest and debt settlement	-	(38,136)	(37,393)	(67,197)
Other income	-	1,304	14,133	35,360
Earnings (loss) for the period	(757,823)	205,570	(1,420,725)	(215,784)
Deficit, beginning of period	(19,165,982)	(15,916,484)	(18,503,080)	(15,495,130)
Deficit, end of period	(19,923,805)	(15,710,914)	(19,923,805)	(15,710,914)
Basic income (loss) per common share (note 6(b))	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)
Diluted income (loss) per common share	(0.01)	0.01	(0.02)	(0.01)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in United States dollars)

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

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2004	2003	2004	2003
Operations:				
Earnings (loss) for the period	\$ (757,823)	\$ 205,571	\$ (1,420,725)	\$ (215,784)
Adjustments to reconcile net loss to net cash used in operating activities:				
Accretion of interest and debt settlement	-	38,136	37,393	67,197
Depreciation and amortization	14,216	13,253	26,562	31,392
Stock-based compensation	183,245	11,546	477,268	(54,537)
Changes in non-cash working capital relating to operations:				
Accounts receivable	(699,969)	(392,173)	(1,112,775)	(261,140)
Government grant receivable	-	12,514	-	31,651
Inventory	(77,567)	(75,831)	(445,608)	(219,645)
Prepaid expenses	1,278	(5,155)	3,754	(7,433)
Accounts payable and accrued liabilities	603,198	134,766	816,406	176,297
	(733,422)	(57,373)	(1,617,725)	(452,002)
Investments:				
Acquisition of equipment	(60,150)	-	(78,593)	-
Disposition of equipment	-	-	-	2,582
Restricted cash	96,298	535	93,379	5,608
	36,148	535	14,786	8,190
Financing:				
Increase (decrease) in bank indebtedness	(95,747)	84,161	(110,397)	99,662
Loans payable	9,113	(28,232)	150,403	(90,874)
Cash proceeds on issuance of common shares	860,319	12,903	1,627,892	12,903

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Share issue costs	(23,777)	(16)	(72,035)	(1,880)
	749,908	68,816	1,595,863	19,811
Effect of foreign exchange rate changes on cash and cash equivalents	(16,216)	(8,462)	(6,975)	92,138
Increase (decrease) in cash	36,418	3,516	(14,051)	(331,863)
Cash, beginning of period	7,588	439	58,057	335,818
Cash, End of period	\$ 44,006	\$ 3,955	\$ 44,006	\$ 3,955

Supplementary information (note 10)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

1.

Basis of presentation:

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for a complete set of annual consolidated financial statements. In the opinion of management, all adjustments (consisting solely of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ending June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004 or for any other period.

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

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been significantly financed by long-term debt and equity transactions. At June 30, 2004, the Corporation requires additional financing to continue to operate at current levels throughout the year. Accordingly, the Corporation's future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that the Corporation will be successful. If it is not, the Corporation will be required to reduce operations or liquidate assets. The Corporation will continue to evaluate its projected expenditures relative to its available cash and to seek additional means of financing in order to satisfy its working capital and other cash requirements. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern.

2.

Significant accounting policies:

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

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

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

(a)

Stock-based compensation:

On January 1, 2004, the Corporation adopted FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, using the modified prospective method. Under the modified prospective method of adoption selected by the Corporation, the employee stock-based compensation expense recognized in the three and six month periods ended June 30, 2004 are the same as that which would have been recognized for the current three and six month periods had the recognition provision of SFAS No. 123, *Accounting for Stock-based Compensation*, been applied from its original effective date. Results for prior periods have not been restated.

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

	Three months ended June 30, 2003 (unaudited)	Six months ended June 30, 2003 (unaudited)
Earnings (loss) for the period, as reported	\$ 205,570	\$ (215,784)
Add: employee stock-based compensation recognized	-	-
Less: additional stock-based employee compensation expense determined under fair value based method for all awards	(208,331)	(247,455)
Proforma loss	\$ (2,761)	\$ (463,239)

1.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

2.

Significant accounting policies (continued):

(a) Stock-based compensation (continued):

	Three months ended June 30, 2003 (unaudited)	Six months ended June 30, 2003 (unaudited)
Basic and diluted income (loss) per common share:		
As reported		
Basic	\$ 0.01	\$ (0.01)
Diluted	0.01	(0.01)
Pro forma		
Basic	\$ 0.00	\$ (0.01)
Diluted	0.00	(0.01)

The fair value of each option granted in 2004 and 2003 was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 175% (2003 - 144%); risk-free interest rate of 3.25% (2003 3.25%) and an expected life of four years.

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

	Shares available under options	Outstanding options Number of common shares issuable	Weighted average exercise price
Balance, December 31, 2003	7,589,707	5,126,083	0.19
Options granted	(2,020,000)	2,020,000	0.47
Options expired	272,000	(272,000)	0.38
Options exercised	-	(219,917)	0.16

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Increase in reserved for issuance	2,865,698	-	-
Balance, June 30, 2004	8,707,405	6,654,166	\$ 0.26

(b)

Comparative figures:

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

3. Inventory:

	June 30, 2004 (Unaudited)	December 31, 2003
Raw materials	\$ 699,898	\$ 345,172
Finished goods	87,055	14,276
	\$ 786,953	\$ 359,448

4. Accounts payable and accrued liabilities:

	June 30, 2004 (Unaudited)	December 31, 2003
Trade accounts payable	\$ 1,469,516	\$ 788,298
Accrued liabilities	258,863	168,923
	\$ 1,728,379	\$ 957,221

5.

Loans payable:

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

June 30, 2004 December 31,
2003

(Unaudited)

Promissory notes	\$	172,586	\$	25,119
------------------	----	---------	----	--------

As at June 30, 2004, the Corporation was indebted to three parties for an aggregate of \$172,586 cash by way of promissory notes at interest rates ranging from 0% to 12% per annum. The promissory notes are repayable on demand.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

6.

Common stock:

(a)

Issued and outstanding

During the six month period ended June 30, 2004, the Corporation issued 113,405 common shares in settlement of \$27,262 of accounts payable, 11,879,476 common shares upon exercise of warrants for cash proceeds of \$1,440,702, 219,917 common shares upon exercise of options for cash proceeds of \$34,774, 1,016,105 common shares upon private placement for cash proceeds of \$152,416.

(b)

Loss per share:

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

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2004	2003	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator:				
Earnings/(loss) available to common stockholder Basic	\$ (757,823)	\$ 205,570	\$ (1,420,725)	\$ (215,784)
Interest on convertible debt	-	53,274	-	-
Earnings/(loss) available to common stockholder Diluted	\$ (757,823)	\$ 258,844	\$ (1,420,725)	\$ (215,784)
Denominator:				
Weighted average number of shares outstanding Basic	76,382,124	35,952,913	72,132,017	35,702,170
Incremental shares on debt conversion	-	10,092,367	-	-
Weighted average number of shares outstanding Diluted	76,382,124	46,045,280	72,132,017	35,702,170
Basic income (loss) per common share	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)
Diluted income (loss) per common share	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)

For the three and six month periods ended June 30, 2004 and 2003, all of the Corporation's common shares issuable upon the exercise of outstanding stock options and warrants were excluded from the determination of dilutive loss per share as their effect would be anti-dilutive.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

6.

Common stock (continued):

(c)

Warrants:

The following non-transferable share purchase warrants were outstanding at June 30, 2004:

Expiry date	Exercise price	Number
	per share	of shares
July 15, 2005	\$US 0.10	1,666,666
August 7, 2005	\$US 0.26	416,667
October 1, 2007	\$US 0.20	100,000
October 1, 2008	\$US 0.25	150,000
January 15, 2006	\$US 0.15	1,028,433
December 31, 2005	\$US 0.30	508,053
March 31, 2006	\$US 0.50	2,585,192

7.

Segmented information:

(a)

Segment information:

During the three and six month periods ended June 30, 2003 and 2002, the Corporation was operating only in the RF power amplifier segment.

(b)

Geographic information:

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

Three months ended		Six months ended	
June 30,	June 30,	June 30,	June 30,
2004	2003	2004	2003

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Korea	\$ -	\$ -	\$ -	\$ 93
China	1,633	520	1,833	518
Sweden	-	134	-	165
United States	367	907	895	1,113
Israel	33	29	36	38
Canada	30	111	60	115
Other	-	-	-	6
Total Sales	2,063	1,701	2,824	2,048

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

7.

Segmented information (continued):

(c)

Major customers:

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

	Six months ended	
	June 30, 2004 (unaudited)	June 30, 2003 (unaudited)
Customer A	\$ 1,833	\$ 452
Customer B	17	963
Customer C	486	58
Customer D	290	Nil

8.

Commitments:

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

2004	\$ 37,000
2005	76,000
2006	78,000
2007	78,000
2008	78,000
Thereafter	39,000
	\$ 386,000

9.

Contingent liabilities:

(a)

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

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

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

9.

Contingent liabilities (continued):

(b)

Contingent liability on sale of products:

(i)

Under a certain license agreement, the Corporation is committed to royalty payments based on the sales of products using certain technologies. Royalties are paid at rates between 6% to 7% of sales of licensed products sold integrating the XNN Technology into various products to a minimum of \$150,000 within twelve months subsequent to the first commercial sales of the integrated product.

(ii)

Under an agreement with the Government's National Research Council Canada IRAP (IRAP) program, the Corporation received conditionally repayable government assistance amounting to \$356,000 (CDN\$483,491) to support the development of a multi-carrier linear power amplifier. Under the terms of the agreement, an amount up to a maximum of \$534,000 (CDN\$725,236) is to be repaid at a rate of 1.5% of quarterly gross revenue commencing on September 1, 2003, on a quarterly basis. For the six months ended June 30, 2004, the Corporation recorded \$42,354 (CDN\$56,696) as royalties and nil in 2003.

(iii)

Under an agreement with the Canada Israel Industrial Research & Development Foundation, the Corporation is eligible to receive conditionally repayable government assistance amounting to \$256,744 (CDN\$350,000) to support the development of a multi-carrier linear power amplifier. To date, the Corporation claimed gross proceeds of nil in 2004 and \$163,456 (CDN\$233,333), in 2003, which have been recorded as government grant income. Under the terms of the agreement, commencing with the first commercial transaction, the assistance is repayable to the extent of 2.5% of yearly gross sales until 100% of the grant has been repaid.

The Corporation recognizes royalty obligations as determinable in accordance with agreement terms.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and six months ended June 30, 2004 and 2003 (unaudited)

Year ended December 31, 2003

9.**Contingent liabilities (continued):**

(c)

Product warranties:

The Corporation provides for estimated warranty costs at the time of product sale. Warranty expense accruals are based on best estimate with reference to historical claims experience. Since warranty estimates are based on forecasts, actual claim costs may differ from amounts provided. An analysis of changes in liability for product warranties follows:

Balance, January 1, 2004	\$	38,084
Provision increase		4,309
Expenditures		(4,753)
Balance, March 31, 2004	\$	37,640
Provision increase		17,514
Expenditures		(18,326)
Balance, June 30, 2004 (unaudited)	\$	36,828

10.**Supplementary information:**

	Three months ended		Six months ended	
	June 30, 2004 (unaudited)	June 30, 2003 (unaudited)	June 30, 2004 (unaudited)	June 30, 2003 (unaudited)
Cash paid for:				
Interest	\$ 1,099	\$ 2,044	\$ 15,196	\$ 3,694
Non-cash financing and investing activities:				
Issuance of common shares in settlement of accounts payable	\$ -	\$ 152,174	\$ 27,762	\$ 212,553

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Non-cash financing costs included in accrued liabilities	25,000	-	25,000	-
---	--------	---	--------	---

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion of the financial condition, changes in financial condition, and results of operations of Unity Wireless Corporation should be read in conjunction with our most recent financial statements and notes appearing: (1) in this Form 10-QSB; (2) our Form 10-QSB for the first quarter ended March 31, 2004 filed May 17, 2004; (3) our Form SB-2/A filed May 13, 2004; and (4) the Form 10-KSB for the year ended December 31, 2003 filed on March 29, 2004.

The financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by borrowing and equity transactions. Our future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that we will be successful. If we are not, we will be required to reduce operations or liquidate assets. We will continue to evaluate our projected expenditures relative to our available cash and to seek additional means of financing in order to satisfy our working capital and other cash requirements. The auditors' report on the audited consolidated financial statements for the fiscal year ended December 31, 2003 contained in the 10-KSB filed on March 29, 2004, includes an explanatory paragraph that states that as we have suffered recurring losses from operations, substantial doubt exists about our ability to continue as a going concern. The audited consolidated financial statements or the interim quarterly unaudited consolidated financial statements included with this quarterly report do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

Forward-Looking Statements

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to "CDN\$" refer to Canadian dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our", and "Unity" mean Unity Wireless Corporation, unless otherwise indicated.

General

We are in the business of designing, developing and manufacturing RF (radio frequency) subsystems including high power linear RF amplifiers and specialized integrated communications products targeting both the cellular and fixed wireless markets, referred to as wireless local loop. Wireless local loop networks are sometimes referred to as "the last mile" solution - unlike cellular phone systems which are mobile wireless networks, wireless local loop is designed to deliver voice and high speed data (e.g., Internet) services to fixed locations such as homes and small offices without the need for special wiring via wireless communication devices. Most of our products are high power amplifiers, defined as single and multi-channel power amplifiers used for sending signals from a network to a terminal such as a cell phone. Our products are used in base stations and repeaters that are used to extend coverage in cellular telephone networks. Some products are also used in base station equipment.

Results of Operations

Three months Ended June 30, 2004 and June 30, 2003

Sales

Net sales in the second quarter of 2004 increased by 21% or \$362,177, to \$2,063,198 from \$1,701,021 in the second quarter of 2003. This increase was due to the result of the realization of projects in our customer base and a general improvement in the telecommunications industry.

Cost of Goods Sold and Operating Expenses

Cost of goods sold during the second quarter of 2004 increased by 87%, or \$857,044, to \$1,846,469 from \$989,425 in the second quarter of 2003. As a percentage of revenue, cost of goods sold increased from the second quarter of 2003 to the second quarter of 2004, primarily due to production tooling and various ramp-up, expediting and additional period costs associated with initiating volume manufacturing capabilities for a Chinese customer. Cost of goods sold includes stock-based compensation expense (recovery) of \$8,201 in 2004 versus \$nil in 2003.

The gross margin of \$216,729, or 11% of net sales, for the second quarter of 2004 represented a decrease from a gross margin of \$711,596, or 42% of net sales, for the second quarter of 2003. This was again was due to production tooling and various ramp-up, expediting and additional period costs associated with initiating volume manufacturing capabilities for a customer in China.

Research and development expenses in the second quarter of 2004 increased by 308%, or \$298,735, to \$395,732 from \$96,997 in the second quarter of 2003. Net of stock-based compensation, research and development expenses increased by \$287,217. This increase was primarily due to increased research and development projects and related expenditures resulting in additional engineering personnel on staff during the second quarter of 2004 versus the second quarter of 2003. Research and development expenses include stock-based compensation expense (recovery) of \$14,769 in 2004 versus \$3,251 in 2003.

Government Grant expenses were \$nil for the second quarter 2004, a decrease of \$98,069 over (\$98,069) for the same period in 2003. The decrease was due to a lack of receivables or expenses due to the Company under any government sponsored programs in the second quarter 2004.

Royalty payments for government grants increased by \$30,948 to \$30,948 in the second quarter 2004 as compared to \$nil for the same period in 2003. The increase was due to repayable government grants becoming due in the second quarter 2004.

Sales and marketing expenses in the second quarter of 2004 increased by 107%, or \$73,973, to \$142,857 from \$68,884 in the second quarter of 2003. Net of stock-based compensation, sales and marketing expenses increased by \$54,346. The increase was primarily due to additional sales initiatives which include additional sales personnel on

staff and increased travel expenses to visit new customers. Sales and marketing expenses include stock-based compensation expense (recovery) of \$21,862 in 2004 versus \$2,235 in 2003.

Exchange (gain) loss in the second quarter of 2004 increased by \$(47,191), to an exchange gain of \$(15,682) from an exchange loss of 31,509 in the second quarter of 2003 due to fluctuations in the currency exchange rate between the U.S. and Canada. Our company's revenues are received in U.S. dollars, while the majority of expenses are incurred in Canadian dollars. Interest expense for the second quarter 2004 decreased by \$66,461 to \$3,699 from \$71,160 in the second quarter 2003. The decrease was primarily due to no interest payable to note holders of the convertible debenture issued in quarter 4 of Fiscal 2002 as it was converted in the fourth quarter 2003.

General and administrative expenses in the second quarter of 2004 increased by 41%, or \$116,676, to \$403,136 from \$286,460 in 2003. Net of stock-based compensation, general and administrative expenses decreased by \$15,677. General and administrative expenses include stock-based compensation expense (recovery) of \$138,413 in 2004 versus \$6,060 for 2003.

Accretion of interest and debt settlement for the second quarter 2004 decreased by \$38,136 to \$nil from (\$38,136) for the same period in 2003. The decrease was a result of less transactions occurring in the second quarter 2004 relating to interest accreted on convertible debentures issued and expense related to the settlement of promissory notes or other debts.

Loss in the second quarter of 2004 increased by \$963,393, to \$757,823, from earnings of \$205,570 in the second quarter of 2003. Net of stock-based compensation expense (recovery) of \$183,245 in 2004 versus \$11,546 in 2003, the loss for the 2004 period increased by \$791,694. The increase was largely the result of lower gross margins due to the manufacturing ramp-up, additional engineering personnel on staff and increased sales initiatives in the second quarter 2004 versus 2003.

Six months Ended June 30, 2004 and June 30, 2003

Sales

Net sales in the first half of 2004 increased by 38% or \$775,692, to \$2,823,580 from \$2,047,888 in the first half of 2003. This increase was due to the result of the realization of projects in our customer base and a general improvement in the telecommunications industry.

Cost of Goods Sold and Operating Expenses

Cost of goods sold during the first half of 2004 increased by 71%, or \$969,067, to \$2,339,811 from \$1,370,744 in the first half of 2003. As a percentage of revenue, cost of goods sold increased from the first half of 2003 to the first half of 2004, primarily due to production tooling and various ramp-up, expediting and additional costs associated with initiating volume manufacturing capabilities for a Chinese customer in the second quarter of 2004. Cost of goods sold includes stock-based compensation expense (recovery) of \$9,120 in 2004 versus \$nil in 2003.

The gross margin of \$483,769, or 17% of net sales, for the first half of 2004 represented a decrease from a gross margin of \$677,144, or 33% of net sales, for the first half of 2003. This was again was due to production tooling and various ramp-up, expediting and additional period costs associated with initiating volume manufacturing capabilities for a customer in China in the second quarter 2004.

Research and development expenses in the first half of 2004 increased by 118%, or \$351,184, to \$648,105 from \$296,921 in the first half of 2003. Net of stock-based compensation, research and development expenses increased by \$315,625. This increase was primarily due to increased research and development projects and related expenditures resulting in additional engineering personnel on staff during the first half of 2004 versus the first half of 2003.

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Research and development expenses include stock-based compensation expense (recovery) of \$21,573 in 2004 versus \$(13,986) in 2003.

Government Grant expenses were \$nil for the first half of 2004, a decrease of \$171,442 over (\$171,442) for the same period in 2003. The decrease was due to a lack of receivables or expenses due to the Company under any government sponsored programs in the first half of 2004.

Royalty payments for government grants increased by \$42,354 to \$42,354 in the second quarter 2004 as compared to \$nil for the same period in 2003. The increase was due to repayable government grants becoming due in the first half 2004.

Sales and marketing expenses in the first half of 2004 increased by 73%, or \$116,961, to \$277,264 from \$160,303 in the first half of 2003. Net of stock-based compensation, sales and marketing expenses increased by \$51,944. The increase was primarily due to additional sales initiatives which include additional sales personnel on staff, increased travel expenses to visit new customers and additional trade show exhibition expenses. Sales and marketing expenses include stock-based compensation expense (recovery) of \$47,446 in 2004 versus \$(17,571) in 2003.

Exchange (gain) loss in the first half of 2004 increased by \$(21,927), to an exchange gain of \$(1,349) from an exchange loss of 20,578 in the first half of 2003 due to fluctuations in the currency exchange rate between the U.S. and Canada. Our company's revenues are received in U.S. dollars, while the majority of expenses are incurred in Canadian dollars.

Interest expense for the first half of 2004 decreased by \$67,384 to \$17,796 from \$85,180 in the first half of 2003. The decrease was primarily due to no interest payable to note holders of the convertible debenture issued in quarter 4 of Fiscal 2002 as it was converted in the fourth quarter 2003.

General and administrative expenses in the first half of 2004 increased by 99%, or \$435,616, to \$873,775 from \$438,159 in 2003. Net of stock-based compensation, general and administrative expenses increased by \$13,507. General and administrative expenses include stock-based compensation expense (recovery) of \$399,129 in 2004 versus \$(22,980) for 2003.

Accretion of interest and debt settlement for the first half of 2004 decreased by \$29,804 to (\$37,393) from (\$67,197) for the same period in 2003. The decrease was a result of less transactions occurring in the first half of 2004 relating to interest accreted on convertible debentures issued and expense related to the settlement of promissory notes or other debts.

Loss in the first half of 2004 increased by 558%, or \$1,204,941, to \$1,420,725, from \$215,784 in the first half of 2003. Net of stock-based compensation expense (recovery) of \$477,268 in 2004 versus \$(54,537) in 2003, the loss for the 2004 period increased by \$673,136. The increase was largely the result of lower gross margins due to the manufacturing ramp-up, additional engineering personnel on staff and increased sales initiatives in the first half of 2004 versus 2003.

Liquidity and Capital Resources

Since our inception, we have been dependent on investment capital as our primary source of liquidity. We had an accumulated deficit at June 30, 2004 of \$(19,923,805). During the six months ended June 30, 2004, we incurred a net loss, including stock-based compensation expenses of \$477,268, of \$(1,420,725).

During the three and six month periods ended June 30, 2004, our cash position decreased slightly. The primary use of cash was for our continued operations with an increase in accounts receivable reflecting our receipt of cash from certain shareholders exercising warrants to purchase common shares of the Company. We currently are in various

stages of discussion with our suppliers regarding extended payment terms for their respective outstanding June 30, 2004 accounts payable balances.

During the three and six months periods ended June 30, 2004, we had no material investing activities.

During the three month period ended June 30, 2004, we issued 5,847,326 common shares upon exercise of warrants for cash proceeds of \$837,487 and 144,917 common shares upon exercise of options for cash proceeds of \$22,832.

During the six month period ended June 30, 2004, we issued 113,405 common shares in settlement of \$27,262 of accounts payable, 11,879,476 common shares upon exercise of warrants for cash proceeds of \$1,440,702, 219,917 common shares upon exercise of options for cash proceeds of \$34,774, 1,016,105 common shares upon private placement for cash proceeds of \$152,416.

Other than operating loan commitments and a commitment under existing leases for an aggregate of \$386,000 through 2009, we have no material commitments, including capital commitments, outstanding at June 30, 2004.

Our capital requirements are difficult to plan in light of our current strategy to expand our customer base and to develop new products and technologies. Our operations to date have been primarily financed by sales of our equity securities. As of June 30, 2004, we had working capital of \$223,356.

Our operations presently are generating negative cash flow, and we do not expect positive cash flow from operations in the near term. Our ability to continue as a going concern is dependent upon obtaining further financing, successful and sufficient market acceptance of our current products and any new product offerings that we may introduce, the continuing successful development of our products and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Inflation

We do not believe that inflation has had a significant impact on our consolidated results of operations or financial condition.

RISK FACTORS

For information on risk factors refer to Unity Wireless Corporation's SB-2/A registration statement filed May 13, 2004 and the Company's annual report on Form 10-KSB for the year ended December 31, 2003.

Item 3. Controls and Procedures

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Other than as set forth below, we know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

We, along with Sonic Systems Corporation and M&M Realty Incorporated, have been sued in the Supreme Court of British Columbia, Canada, by Integrated Global Financial Corporation. The lawsuit was commenced on January 5, 2001. Integrated Global alleges it has options to purchase 500,000 shares, with no expiry date, at an alleged exercise price of \$1.00 per share, plus unspecified damages. We dispute the allegations and are defending the claim. A trial date has been set in September 2004. No Examinations for Discovery have been conducted or have been scheduled. The matter is at a very preliminary stage. It is our view that the claim has little, if any, merit and we do not expect the proceeding to have any material adverse effect on us. It is our position that these options have expired and we have not included such options in our outstanding options at June 30, 2004.

Item 2. Changes in Securities

During the three month period ended June 30, 2004, we issued 5,847,326 common shares upon exercise of warrants for cash proceeds of \$837,487 and 144,917 common shares upon exercise of options for cash proceeds of \$22,832. An additional 2,585,192 share purchase warrants exercisable at \$0.50 were issued to certain warrant holders upon exercise of the warrants mentioned above.

On May 30, 2004, the stockholders of the Company approved an amendment to the Company's Certificate of Incorporation increasing the authorized common share capital from 100,000,000 to 150,000,000.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submissions of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Required by Item 601 of Regulation S-B

Exhibit
Number

Description

3.1*

Amended and Restated Certificate of Incorporation of Unity Wireless Corporation (1)

- 3.2*
- Amended and Restated Bylaws of Unity Wireless Corporation (2)
- 4.1*
- Consulting agreement among Mueller & Company, Inc., Ideas, Inc., Mark Mueller, Aaron Fertig and Unity Wireless Corporation dated January 1, 2001 (3)
- 4.2*
- Consulting agreement amendment among Mueller & company, Inc. and Unity Wireless Corporation dated November 15, 2001 (3)
- 4.3*
- Consulting agreement among Myer Bentob and Unity Wireless Corporation dated August 7, 2003 (12)
- 10.1*
- Asset Purchase Agreement dated October 6, 2000 among Unity Wireless Systems Corporation, a British Columbia, Canada, corporation, 568608 B.C. Ltd., a British Columbia, Canada corporation, Traffic Systems, L.L.C., an Arizona limited liability company, Traffic Safety Products, Inc., an Arizona corporation and James L. Hill (4)
- 10.2*
- Intellectual Property License Agreement, dated October 6, 2000, between Unity Systems Corporation, as licensor, and Traffic Systems, LLC, as licensee (4)
- 10.3*
- Share Purchase Agreement, dated November 16, 2000 among John Robertson, Mirza Kassam, Chris Neumann, Robert Fetherstonhaugh, Unity Wireless Corporation, Stirling Mercantile Corporation, Peter A. Scott Consulting Ltd., W. Hugh Notman (5)
- 10.4*
- Asset Purchase Agreement, dated for reference December 30, 2000, among Unity Wireless Integration Corporation as vendor, Lyma Sales & Management Corp. as purchaser and Unity Wireless Corporation (6)
- 10.5*
- Agreement to Redeem Membership Interest, Transfer Intellectual Property and Amend Asset Purchase Agreement, effective April 9, 2001, by and among Traffic Systems, L.L.C., Unity Wireless Systems Corporation, Traffic Safety Products, Inc. and Jim Hill (7)
- 10.6*
- 1999 Stock Option Plan, as amended (3)
- 10.7*

Recommended Stock Option Grant Policy for our company (3)

10.8*

Form of Private Placement Purchase Agreement, dated November 20, 2003, among Unity Wireless Corporation, Unity Wireless Systems Corporation, and each person or entity listed in 10.11 below. (8)

10.9*

General Security Agreement, dated for reference November 20, 2003, between each of the Investors listed in Schedule 1 to the Agreement, Unity Wireless Systems Corporation and Jeffrey Rubin, as Agent. (8)

10.10*

General Security Agreement, dated for reference, November 20, 2003, between each of the Investors listed in Schedule 1 to the Agreement, Unity Wireless Corporation and Jeffrey Rubin, as Agent. (8)

10.11* Form of Secured Convertible Note issued by Unity Wireless Corporation and Unity Wireless Systems Corporation in the aggregate principle amount of \$956,322.50 (8)

10.12*

Licence Agreement, dated April 23, 2003, between Unity Wireless Corporation and Paragon Communications. (8)

10.13*

Agreement, dated July 19, 2003, between Unity Wireless Corporation and Dekolink Wireless Ltd. (8)

10.14*

Manufacturing Agreement, dated July 10, 2003, between Unity Wireless Systems Corporation and Netro Corporation. (8)

10.15*

Strategic Supply Agreement, dated June 19, 2003, between Unity Wireless Systems Corporation and Avtec, AB. (8)

10.16*

Investor Relations Agreement, dated April 10, 2003, between Unity Wireless Corporation and Osprey Partners. (8)

10.17*

Amendment to Investor Relations Agreement, dated September 20, 2003, between Unity Wireless Corporation and Osprey Partners. (8)

10.18*

Form of Addendum to Secured Convertible Note between Unity Wireless Corporation, Unity Wireless Systems Corporation and each of the following: (9)

S. Heiman
Casey J. O'Byrne Professional Corporation
Moshe Rosner
Jeffrey Rubin
William N. Weidman
Chancellor Apartments LLC
Gabrielle Chaput
Desmonde Farruga
Shalom Torah Centers
Sid M. Tarrabain Professional Corporation
Mokhlis Y. Zaki

10.19* Form of warrants issued in June and July 2003 to holders of Secured Convertible Notes for an aggregate of 6,865,484 shares. (10)

10.20* Form of subscription agreement for shares of common stock and warrants issued to Myer Bentob, in a private placement, for an aggregate of 833,333 shares and 416,667 warrants.(11)

10.21* Form of warrants issued to Myer Bentob, in a private placement, for an aggregate of 416,667 shares.(11)

10.22* Form of warrants issued to Michael Mulshine for an aggregate of 100,000 shares (12)

10.23* Form of warrants issued to Michael Mulshine for an aggregate of 150,000 shares (12)

10.24* Form of agreement with Beth Med rash Govoha of Lakewood to convert promissory note into 1,806,666 shares and 1,666,666 warrants (12)

10.25* Form of warrants issued in January 2004 to previous holders of warrants issued in conjunction with Secured Convertible Notes for an aggregate of 6,032,150 shares (12)

10.26* Form of warrants issued in April 2004 to previous holders of warrants issued (13)

10.27** Certificate of Amendment of Certificate of Incorporation dated August 5, 2004

21.1

Subsidiaries of our company:

Unity Wireless Systems Corporation (British Columbia)
321373 B.C. Ltd. (British Columbia)

31.1**

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2**

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1**

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) under the Securities Exchange Act of 1934.

* Previously filed

** Filed herewith

(1)

Incorporated by reference to the company's Form SB-2 filed with the Securities and Exchange Commission on October 4, 2000.

(2)

Incorporated by reference to the company's Form SB-2 filed with the Securities and Exchange Commission on May 13, 2004.

(3)

Incorporated by reference to the company's Form 10-KSB filed with the Securities and Exchange Commission on April 2, 2001.

(4)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on October 23, 2000.

(5)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on December 4, 2000.

(6)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on January 16, 2001.

(7)

Incorporated by references to the company's Form SB-2A filed with the Securities and Exchange Commission on May 3, 2001.

(8)

Incorporated by reference to our Form 10-KSB filed with the Securities and Exchange Commission on April 3, 2003.

(9)

Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on May 2, 2003.

(10)

Incorporated by reference to our Form 10-QSB filed with the Securities and Exchange Commission on August 14, 2003.

(11)

Incorporated by reference to our Form 10-QSB filed with the Securities and Exchange Commission on Nov 14, 2003.

(12)

Incorporated by reference to our Form 10-KSB filed with the Securities and Exchange Commission on March 29, 2004.

(13)

Incorporated by reference to our Form SB-2/A filed with the Securities and Exchange Commission on May 13, 2004.

(b) Reports on form 8-K

During the quarter for which this report is filed, the Company furnished a current report on Form 8-K dated May 17, 2004 which reported the Company's first quarter results for fiscal 2004.

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.

UNITY WIRELESS CORPORATION

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer
(Principal Executive Officer)
August 6, 2004

/s/ Dallas Pretty

By: Dallas Pretty, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
August 6, 2004

Exhibit 10.27

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION

UNITY WIRELESS CORPORATION, a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware.

DOES HEREBY CERTIFY:

FIRST, The Board of Directors unanimously adopted a resolution authorizing an amendment to the Company's Certificate of Incorporation (the "Certificate") to increase the total number of Unity Wireless Corporation's authorized shares of Common Stock from 100,000,000 shares to 150,000,000 shares, \$0.001 par value.

RESOLVED, The proposed amendment will change the first paragraph of Article Fourth of the Certificate of Incorporation that ends with the words "per share (Preferred Stock)" to read as follows:

FOURTH: The total number of shares of stock which this corporation is authorized to issue is: 155,000,000 shares, which shall consist of 150,000,000 shares of common stock, \$.001 par value per share ("Common Stock") and 5,000,000 shares of preferred stock, \$.001 par value per share ("Preferred Stock").

SECOND, That thereafter, pursuant to resolution of its Board of Directors, an annual meeting of stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD, That the said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH, That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said UNITY WIRELESS CORPORATION has caused this certificate to be signed by ILAN KENIG, an Authorized Officer, this 5th day of August, 2004.

By:

/s/ Ilan Kenig _____

Title:

President & Chief Executive Officer

Name:

ILAN KENIG

Exhibit 31.1

CERTIFICATION

I, Ilan Kenig, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Unity Wireless Corporation;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

1.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c)

disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

a)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

/s/ Ilan Kenig

Ilan Kenig
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Dallas Pretty, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Unity Wireless Corporation;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

1.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c)

disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

a)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

/s/ Dallas Pretty

Dallas Pretty
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Quarterly Report of Unity Wireless Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Ilan Kenig, Chief Executive Officer, and Dallas Pretty, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1.

the Report fully complies with the requirements of section 13(a) or 15() of the Securities Exchange Act of 1934; and

2.

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer
August 6, 2004

/s/ Dallas Pretty

By: Dallas Pretty, Chief Financial Officer
August 6, 2004