

FORM 6-K

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

**Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

Date of Report November 10, 1998

NOVATEL INC.

Commission File No. 0-29004

1120 - 68th Avenue N.E., Calgary, Alberta, Canada T2E 8S5
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-N/A.

A copy of the Registrant's Quarterly Report (including financial statements) for the three and six months ended July 4, 1998 is furnished herewith and is incorporated by reference into the following Registration Statements:

- Registration Statement on Form S-8 #333-6500
- Registration Statement on Form S-8 #333-6502
- Registration Statement on Form S-8 #333-9216

As of November 10, 1998, there were 7,674,040 Common Shares outstanding.

This Report Consists of 24 Sequentially Numbered Pages

Exhibit Index Appears on Page 4

EXHIBITS

The following exhibit is filed as part of this Form 6-K:

- (1) the Quarterly Report (including financial statements) of NovAtel Inc. for the three and nine months ended October 3, 1998.

SIGNATURES

Pursuant to the requirements 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.

NOVATEL INC.

Date: November 10, 1998

By: /s/ RANDY MABBOTT _____

Name: Randy Mabbott

Title: Senior Vice President
Corporate Affairs

EXHIBITS

<u>Exhibit No.</u>	<u>Document</u>	<u>Page No.</u>
1.	the Quarterly Report (including financial statements) of NovAtel Inc. for the three and nine months ended October 3, 1998.	5



NOVATEL INC.

Quarterly Report

For the Three and Nine Months Ended October 3, 1998

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6496 on October 27, 1998), and are presented in accordance with accounting principles generally accepted in Canada. To the Company's knowledge there is no material difference between Canadian and U.S. generally accepted accounting principles ("GAAP") which would bear upon its financial statements and, more particularly, income applicable to equity share and retained earnings, except as disclosed in Note 24 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 1997 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 10 of Notes to Consolidated Financial Statements contained in this report.

Certain statements in this report constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward looking statements. Such factors include, but are not limited to, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market and other competitive factors and maintaining technological leadership, together with the other risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in the Company's other filings with the United States Securities and Exchange Commission.

NOVATEL INC.

CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	<u>October 3, 1998</u>	<u>December 31, 1997</u>
ASSETS		
(Note 1)		
Current assets:		
Cash and short term investments	\$ 5,700	\$10,732
Accounts receivable	7,317	4,892
Inventories (Note 2)	3,026	2,066
Prepaid expenses and deposits	<u>469</u>	<u>131</u>
Total current assets	16,512	17,821
Capital assets	11,709	10,610
Intangible assets (Note 7)	3,526	3,948
Deferred development costs (Note 3)	<u>335</u>	<u>---</u>
Total assets	<u>\$32,082</u>	<u>\$32,379</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
(Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities	\$5,563	\$7,246
Provision for future warranty costs	94	60
Deferred gain on sale/leaseback of capital assets – current portion	42	---
Capital lease obligation – current portion (Note 6)	<u>338</u>	<u>---</u>
Total current liabilities	6,037	7,306
Deferred gain on sale/leaseback of capital assets – long term portion.....	91	---
Capital lease obligation – long term portion (Note 6)	<u>1,018</u>	<u>---</u>
Total liabilities	<u>7,146</u>	<u>7,306</u>
Shareholders' equity:		
Capital stock (Note 4)	35,602	35,559
Deficit	<u>(10,666)</u>	<u>(10,486)</u>
Total shareholders' equity	<u>24,936</u>	<u>25,073</u>
Total liabilities and shareholders' equity	<u>\$32,082</u>	<u>\$32,379</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share data)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Oct. 3,</u> <u>1998</u>	<u>Sept. 27,</u> <u>1997</u>	<u>Oct. 3,</u> <u>1998</u>	<u>Sept. 27,</u> <u>1997</u>
Revenues.....	6,683	7,405	17,192	19,470
Cost of sales	<u>2,162</u>	<u>2,150</u>	<u>6,820</u>	<u>5,874</u>
Gross profit	<u>4,521</u>	<u>5,255</u>	<u>10,372</u>	<u>13,596</u>
Operating expenses:				
Research and development.....	2,186	1,613	6,173	4,478
Selling and marketing.....	1,329	838	3,317	2,349
General and administration	952	933	2,776	2,735
Total operating expenses	<u>4,467</u>	<u>3,384</u>	<u>12,266</u>	<u>9,562</u>
Operating income (loss).....	54	1,871	(1,894)	4,034
Interest income	44	42	169	115
Other income (expense).....	<u>211</u>	<u>(13)</u>	<u>250</u>	<u>62</u>
Income (loss) from continuing operations.....	309	1,900	(1,475)	4,211
Income from discontinued operations (Note 8).....	68	19	1,295	52
Income (loss).....	<u>\$ 377</u>	<u>\$ 1,919</u>	<u>\$ (180)</u>	<u>\$ 4,263</u>
Income (loss) per share (basic) (Note 10)				
Continuing operations.....	\$0.04	\$0.25	\$(0.19)	\$ 0.57
Discontinued operations	0.01	0.00	0.17	0.01
Income (loss) per share.....	<u>\$0.05</u>	<u>\$0.25</u>	<u>\$(0.02)</u>	<u>\$ 0.58</u>
Weighted average shares outstanding (basic) (Note 4)	<u>7,674</u>	<u>7,670</u>	<u>7,673</u>	<u>7,332</u>
Income (loss) per share (fully diluted) (Note 10)				
Continuing operations.....	\$0.04	\$0.23	\$(0.19)	\$ 0.55
Discontinued operations	0.01	0.00	0.17	0.00
Income (loss) per share.....	<u>\$0.05</u>	<u>\$0.23</u>	<u>\$(0.02)</u>	<u>\$ 0.55</u>
Weighted average shares outstanding (fully diluted) (Note 4)	<u>8,518</u>	<u>8,508</u>	<u>8,500</u>	<u>7,951</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands)

	<u>Common Shares</u>		<u>Deficit</u>	<u>Total Shareholders' Equity</u>
	<u>Number</u>	<u>Amount</u>		
Balance December 31, 1997...	7,670	\$35,559	\$(10,486)	\$25,073
Common Shares issued.....	4	43	---	43
Loss	<u>---</u>	<u>---</u>	<u>(180)</u>	<u>(180)</u>
Balance October 3, 1998.....	<u>7,674</u>	<u>\$35,602</u>	<u>\$(10,666)</u>	<u>\$24,936</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended	
	October 3, 1998	September 27, 1997
Operating activities:		
Income (loss) from continuing operations.....	\$ (1,475)	\$ 4,211
Income from discontinued operations.....	1,295	52
Add charges and credits to operations not involving an outlay of cash:		
Amortization	1,744	986
(Gain)/loss on disposal of capital assets	(185)	241
Deferred gain on sale/leaseback of capital assets	133	---
Gain on divestitures.....	(710)	(483)
Net change in non-cash working capital related to operations (Note 5)..	<u>(5,372)</u>	<u>(3,617)</u>
Cash (used in) provided by operating activities.....	<u>(4,570)</u>	<u>1,390</u>
Financing activities:		
Proceeds from initial public offering	---	22,058
Issuance of shares (Note 4)	43	---
Decrease in bank advances.....	---	(9,610)
Increase (decrease) in capital lease obligations	1,356	(60)
Decrease in deferred charges.....	---	707
Decrease in mortgage payable.....	<u>---</u>	<u>(88)</u>
Cash provided by financing activities.....	<u>1,399</u>	<u>13,007</u>
(Decrease) increase in cash before investing activities	<u>(3,171)</u>	<u>14,397</u>
Investing activities:		
Purchase of capital and intangible assets	(3,941)	(7,518)
Proceeds on disposal of capital assets.....	1,705	334
Proceeds on divestitures.....	710	483
Deferred development costs	<u>(335)</u>	<u>---</u>
Cash used in investing activities.....	<u>(1,861)</u>	<u>(6,701)</u>
(Decrease) increase in cash and short term investments.....	(5,032)	7,696
Cash and short term investments, beginning of period.....	<u>10,732</u>	<u>61</u>
Cash and short term investments, end of period	<u>\$ 5,700</u>	<u>\$ 7,757</u>
Cash and short term investments consisted of:		
Cash.....	\$ 1,950	\$ 2,257
Cash equivalents (short term investments with original maturities of 90 days or less).....	<u>1,000</u>	<u>1,000</u>
Cash and cash equivalents.....	2,950	3,257
Short term investments (original maturities greater than 90 days)...	<u>2,750</u>	<u>4,500</u>
	<u>\$ 5,700</u>	<u>\$ 7,757</u>

See accompanying notes to the consolidated financial statements

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, in thousands, except per share data)

Note 1 Basis of Presentation

The consolidated financial statements for the three and nine month periods ended October 3, 1998 and September 27, 1997 presented in this Quarterly Report are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), are stated in Canadian dollars and are unaudited. The financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. The adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 1997 filed on Form 20-F with the Securities and Exchange Commission.

Note 2 Inventories

	<u>October 3, 1998</u>	<u>December 31, 1997</u>
Raw materials and components....	\$ 963	\$ 465
Work-in-progress.....	28	57
Finished goods.....	<u>2,035</u>	<u>1,544</u>
	<u>\$ 3,026</u>	<u>\$ 2,066</u>

Note 3 Deferred Development Costs

In the nine month period ended October 3, 1998, the Company deferred \$335 of development costs, related to the development of a certified aviation GPS receiver, in accordance with Canadian generally accepted accounting principles. No development costs were deferred during 1997 (see Note 10).

Note 4 Capital Stock

	<u>October 3, 1998</u>		<u>December 31, 1997</u>
	<u>Number</u>	<u>Number</u>	<u>Number</u>
	<u>Authorized</u>	<u>Issued</u>	<u>Authorized</u>
			<u>Number</u>
			<u>Issued</u>
Common Shares	Unlimited	7,674	Unlimited
			7,670

Under the Company's Employee Stock Option Plan and Directors Stock Option Plan, the following options were outstanding as of October 3, 1998:

Option Plan	Date of Grant	Number of Options	Exercise Price (US \$)	Vesting Period	% Vested per Year	Expiry Date
Employee	Feb. 7, 1997	504	\$7.50	3 years	40/30/30	Feb. 6, 2007
Employee	July 1, 1997	105	\$7.50	4 years	25/25/25/25	June 30, 2007
Employee	Aug. 12, 1997	5	\$7.50	3 years	40/30/30	Aug. 11, 2007
Employee	Oct. 2, 1997	7	\$10.75	4 years	25/25/25/25	Oct. 1, 2007
Employee	Oct. 6, 1997	5	\$11.25	4 years	25/25/25/25	Oct. 5, 2007
Employee	Jan. 19, 1998	99	\$8.00	4 years	25/25/25/25	Jan. 18, 2008
Employee	Jan. 21, 1998	10	\$8.156	3 years	36/32/32	Jan. 20, 2008
Employee	Mar. 16, 1998	5	\$9.125	4 years	25/25/25/25	Mar. 15, 2008
Employee	Sept. 15, 1998	95	\$7.50	4 years	25/25/25/25	Sept. 14, 2008
Employee	Sept. 15, 1998	<u>2</u>	\$8.00	4 years	25/25/25/25	Sept. 14, 2008
		837				
Directors	Feb. 7, 1997	7	\$7.50	4 years	25/25/25/25	Feb. 6, 2007
Directors	Mar. 20, 1997	33	\$7.50	4 years	25/25/25/25	Mar. 19, 2007
Directors	May 29, 1998	<u>40</u>	\$7.50	4 years	25/25/25/25	May 28, 2008
Total options		<u>917</u>				

During the three month period ended October 3, 1998, the Company cancelled approximately 131 options that had previously been granted to the Company's former President and Chief Executive Officer.

Note 5 Consolidated Statements of Cash Flows

The net changes in non-cash working capital related to operations include:

	<u>Nine Months Ended</u>	
	<u>October 3, 1998</u>	<u>September 27, 1997</u>
Increase in accounts receivable	\$ (2,425)	\$ (930)
Increase in inventories	(960)	(60)
Increase in prepaid expenses and deposits	(338)	(2)
Decrease in accounts payable and accrued liabilities	(1,683)	(4,168)
Increase in customer deposits	---	1,532
Increase in provision for future warranty costs	<u>34</u>	<u>11</u>
Net change in non-cash working capital related to operations	<u>\$ (5,372)</u>	<u>\$ (3,617)</u>

Note 6 Commitments and Contingencies

a) On January 30, 1998, the Company entered into sale/leaseback arrangements in which capital assets, comprised mainly of furniture and computer equipment, were sold to the Hongkong Bank of Canada for proceeds of \$1,664 resulting in a gain of \$175. At the same time, the Company entered into lease agreements with terms of between 39 and 65 months and with aggregate lease payments of \$1,929. The leases are

accounted for as capital leases. The gain on the original sale was deferred and is being amortized over the terms of the respective leases.

b) In April 1998, Telexel, a former major shareholder of the Company, paid approximately \$5,500 to the Province of Alberta as deferred consideration for the May 1992 acquisition of the Company. As a result, the Company's only continuing obligations to the Province of Alberta relate to providing information in the Company's possession that may be required to support certain litigation affecting the Company that is the responsibility of the Province of Alberta.

c) On November 3, 1995, the Company sold its Wireless Access Products division and its manufacturing operations in Calgary to Harris Canada, Inc. (Harris). The Company believes that the net gain on the divestiture is expected to be approximately \$1,700, after consulting fees and restructuring costs, subject to post-closing adjustments, warranties and indemnification provisions. The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. Harris has claimed a purchase price adjustment of \$3,320. As there can be no assurance as to how this matter will be resolved, the Company has provided for Harris' claim.

d) The Company is subject to legal proceedings and other claims which arise in the ordinary course of its business. The Company has sought legal advice on these matters. In the opinion of management, adequate provisions have been established as required; therefore the ultimate liability with respect to the resolution of these actions is not expected to materially affect the financial position or results of operations of the Company.

Note 7 Change of Control

On April 6, 1998, Telexel and Deutsche Effekten-und Wechsel-Beteiligungsgesellschaft AG reached agreement to sell 4,475 shares to Canadian Marconi Company (Canadian Marconi). The transaction, which closed on April 17, 1998, gave Canadian Marconi approximately 58.3% of the outstanding common shares of the Company. The Company believes that Canadian Marconi's share acquisition will not have a material effect on the Company's financial position or reported results of operations as at October 3, 1998, with the possible exception of the following:

a) Income taxes

The Company has determined that Canadian Marconi's acquisition of a majority of the common shares of the Company would constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation. Further, the net operating loss carryforwards for U.S. tax purposes will be subject to limitations due to the Canadian Marconi share acquisition. As the Company has not recognized the income tax benefit of the above-noted items, there would be no differences in the Company's financial position or reported results of operations for the period ended October 3, 1998, should availability of these items be subject to limitation.

b) Intangible assets

As at October 3, 1998, intangible assets included \$1,078 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted thereunder, including licenses, should the Company undergo a change in control. The share acquisition by Canadian Marconi Company would constitute a change of control for purposes of the settlement agreement. However, the Company has received no notice of termination from Trimble and believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has determined that there has been no impairment of these intangible assets as a result of this transaction.

Note 8 Discontinued Operations

The discontinued operations include the results for the Wireless Access Products (WAP) division and its manufacturing operations and the Personal Communications Products (PCP) division. The income from discontinued operations for the following periods is as set forth below.

	Discontinued Operations			
	Three months ended		Nine months ended	
	Oct. 3, 1998	Sept. 27, 1997	Oct. 3, 1998	Sept. 27, 1997
Revenues.....	\$ ---	\$ ---	\$ 512	\$ ---
Cost of sales	---	---	---	---
Research and development expense	---	---	---	---
Selling and marketing expense.....	(68)	---	(75)	---
General and administration expense.....	---	(4)	2	(4)
Other income (expense).....	---	2	---	(248)
Income (loss) before gain on divestiture	68	6	585	(244)
Gain on divestiture.....	---	13	710	296
Income from discontinued operations	<u>\$ 68</u>	<u>\$ 19</u>	<u>\$ 1,295</u>	<u>\$ 52</u>

The income from discontinued operations of \$1,295 for the nine month period ended October 3, 1998 relates primarily to the sale of residual inventory, which had been held until a third party initiated production of a new product, and to the recognition of the final installment payment of US\$500 paid by the purchaser of the Company's former PCP division.

Note 9 Uncertainty Due to the Year 2000 Issue

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. The Company is addressing this issue, however, given the nature of the risk, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company and those with whom it deals such as customers, suppliers or other third parties, will be fully resolved without adverse impact on the Company's operations.

Note 10 Difference Between Canadian and United States Generally Accepted Accounting Principles

As described in Note 24 to the Consolidated Financial Statements for the year ended December 31, 1997, filed on Form 20-F with the Securities and Exchange Commission, there are potentially significant differences between Canadian and United States generally accepted accounting principles that may affect the financial position and results of operations reported by the Company. During the period ended October 3, 1998, there were no differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP) which would have a material effect on the amounts reported in the accompanying financial statements, with the exception of \$335 of development costs which have been capitalized under Canadian GAAP, but which would have been expensed under U.S. GAAP.

In June 1998, the FASB issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities" effective beginning in the first quarter of 2000. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting under FAS 133. The Company is currently evaluating the impact of FAS 133 on its financial position and results of operations as disclosed in accordance with U.S. GAAP.

Income (loss) per share as computed under Canadian and U.S. principles for the following periods is as set forth below:

Three Months Ended	Income (loss) per Share			
	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	Oct. 3, 1998	Sept. 27, 1997	Oct. 3, 1998	Sept. 27, 1997
Continuing operations	\$0.04	\$0.25	\$0.01	\$0.25
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Income per share	<u>\$0.05</u>	<u>\$0.25</u>	<u>\$0.02</u>	<u>\$0.25</u>
	Fully Diluted		Diluted	
	Oct. 3, 1998	Sept. 27, 1997	Oct. 3, 1998	Sept. 27, 1997
Continuing operations	\$0.04	\$0.23	\$0.01	\$0.25
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Income per share	<u>\$0.05</u>	<u>\$0.23</u>	<u>\$0.02</u>	<u>\$0.25</u>
Nine Months Ended				
	Basic		Basic	
	Oct. 3, 1998	Sept. 27, 1997	Oct. 3, 1998	Sept. 27, 1997
Continuing operations	\$(0.19)	\$0.57	\$(0.24)	\$0.57
Discontinued operations	<u>0.17</u>	<u>0.01</u>	<u>0.17</u>	<u>0.01</u>
Income (loss) per share	<u>\$(0.02)</u>	<u>\$0.58</u>	<u>\$(0.07)</u>	<u>\$0.58</u>
	Fully Diluted		Diluted	
	Oct. 3, 1998	Sept. 27, 1997	Oct. 3, 1998	Sept. 27, 1997
Continuing operations	\$(0.19)	\$0.55	\$(0.24)	\$0.57
Discontinued operations	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>	<u>0.01</u>
Income (loss) per share	<u>\$(0.02)</u>	<u>\$0.55</u>	<u>\$(0.07)</u>	<u>\$0.58</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS DATA (1)
(unaudited, in **Canadian \$** thousands, except per share data)

	<u>Three Months Ended</u>			<u>Nine Months Ended</u>		
	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>% Change</u>	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>% Change</u>
Revenues	6,683	7,405	(10%)	17,192	19,470	(12%)
Cost of sales	<u>2,162</u>	<u>2,150</u>	<u>1%</u>	<u>6,820</u>	<u>5,874</u>	<u>16%</u>
Gross profit.....	<u>4,521</u>	<u>5,255</u>	<u>(14%)</u>	<u>10,372</u>	<u>13,596</u>	<u>(24%)</u>
Operating expenses:						
Research and development.....	2,186	1,613	36%	6,173	4,478	38%
Selling and marketing	1,329	838	59%	3,317	2,349	41%
General and administration	<u>952</u>	<u>933</u>	<u>2%</u>	<u>2,776</u>	<u>2,735</u>	<u>2%</u>
Total operating expenses.....	<u>4,467</u>	<u>3,384</u>	<u>32%</u>	<u>12,266</u>	<u>9,562</u>	<u>28%</u>
Operating income (loss)	54	1,871	(97%)	(1,894)	4,034	N/A
Interest income	44	42	5%	169	115	47%
Other income (expense)	<u>211</u>	<u>(13)</u>	<u>N/A</u>	<u>250</u>	<u>62</u>	<u>>100%</u>
Income (loss) from continuing operations.....	309	1,900	(84%)	(1,475)	4,211	N/A
Income from discontinued operations	<u>68</u>	<u>19</u>	<u>>100%</u>	<u>1,295</u>	<u>52</u>	<u>>100%</u>
Income (loss)	<u>\$ 377</u>	<u>\$1,919</u>	<u>(80%)</u>	<u>\$ (180)</u>	<u>\$4,263</u>	<u>N/A</u>
Income (loss) per share (basic)						
Continuing operations	\$ 0.04	\$ 0.25		\$(0.19)	\$ 0.57	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.17</u>	<u>0.01</u>	
Income (loss) per share	<u>\$ 0.05</u>	<u>\$ 0.25</u>		<u>\$(0.02)</u>	<u>\$ 0.58</u>	
Weighted average shares outstanding (basic)	<u>7,674</u>	<u>7,670</u>		<u>7,673</u>	<u>7,332</u>	
Income (loss) per share (fully diluted)						
Continuing operations	\$ 0.04	\$ 0.23		\$(0.19)	\$ 0.55	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.17</u>	<u>0.00</u>	
Income (loss) per share	<u>\$ 0.05</u>	<u>\$ 0.23</u>		<u>\$(0.02)</u>	<u>\$ 0.55</u>	
Weighted average shares outstanding (fully diluted) ...	<u>8,518</u>	<u>8,508</u>		<u>8,500</u>	<u>7,951</u>	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS DATA (1)
(unaudited, in U.S. \$ thousands, except per share data)

	Three Months Ended			Nine Months Ended		
	Oct. 3, 1998	Sept. 27, 1997	% Change	Oct. 3, 1998	Sept. 27, 1997	% Change
Revenues	4,341	4,810	(10%)	11,167	12,647	(12%)
Cost of sales	<u>1,404</u>	<u>1,397</u>	<u>1%</u>	<u>4,430</u>	<u>3,816</u>	<u>16%</u>
Gross profit.....	<u>2,937</u>	<u>3,413</u>	<u>(14%)</u>	<u>6,737</u>	<u>8,831</u>	<u>(24%)</u>
Operating expenses:						
Research and development.....	1,420	1,048	36%	4,010	2,909	38%
Selling and marketing	863	544	59%	2,154	1,526	41%
General and administration	<u>619</u>	<u>606</u>	<u>2%</u>	<u>1,803</u>	<u>1,776</u>	<u>2%</u>
Total operating expenses.....	<u>2,902</u>	<u>2,198</u>	<u>32%</u>	<u>7,967</u>	<u>6,211</u>	<u>28%</u>
Operating income (loss)	35	1,215	(97%)	(1,230)	2,620	N/A
Interest income (expense).....	29	27	5%	110	75	47%
Other income	<u>137</u>	<u>(8)</u>	<u>N/A</u>	<u>162</u>	<u>40</u>	<u>>100%</u>
Income (loss) from continuing operations.....	201	1,234	(84%)	(958)	2,735	N/A
Income from discontinued operations	<u>44</u>	<u>13</u>	<u>>100%</u>	<u>841</u>	<u>34</u>	<u>>100%</u>
Income (loss)	<u>\$ 245</u>	<u>\$1,247</u>	<u>(80%)</u>	<u>\$ (117)</u>	<u>\$2,769</u>	<u>N/A</u>
Income (loss) per share (basic)						
Continuing operations.....	\$ 0.03	\$ 0.16		\$(0.12)	\$ 0.37	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.11</u>	<u>0.01</u>	
Income (loss) per share.....	<u>\$ 0.03</u>	<u>\$ 0.16</u>		<u>\$(0.01)</u>	<u>\$ 0.38</u>	
Weighted average shares outstanding (basic)	<u>7,674</u>	<u>7,670</u>		<u>7,673</u>	<u>7,332</u>	
Income (loss) per share (fully diluted)						
Continuing operations.....	\$ 0.03	\$ 0.15		\$(0.12)	\$ 0.36	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.11</u>	<u>0.00</u>	
Income (loss) per share.....	<u>\$ 0.03</u>	<u>\$ 0.15</u>		<u>\$(0.01)</u>	<u>\$ 0.36</u>	
Weighted average shares outstanding (fully diluted) ...	<u>8,518</u>	<u>8,508</u>		<u>8,500</u>	<u>7,951</u>	

	<u>December 31, 1997</u>	<u>October 3, 1998</u>	<u>US \$ Equivalent October 3, 1998(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital	\$ 10,515	\$ 10,475	\$ 6,805
Total assets	32,379	32,082	20,840
Long-term liabilities	---	1,109	720
Total shareholders' equity	25,073	24,936	16,198

- (1) i) Based upon the Company's accounting policies, a reconciliation of the selected consolidated financial data with U.S. GAAP produces no differences from the selected consolidated financial data prepared in accordance with Canadian GAAP except that \$335 of development costs, which have been deferred under Canadian GAAP, would have been expensed under U.S. GAAP. Income (loss) per share as computed under Canadian and U.S. principles is as set forth below:

Three Months Ended	Income (loss) per Share			
	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Basic		Basic	
	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>
Continuing operations	\$0.04	\$0.25	\$0.01	\$0.25
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Income per share	<u>\$0.05</u>	<u>\$0.25</u>	<u>\$0.02</u>	<u>\$0.25</u>
	Fully Diluted		Diluted	
	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>
Continuing operations	\$0.04	\$0.23	\$0.01	\$0.25
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Income (loss) per share	<u>\$0.05</u>	<u>\$0.23</u>	<u>\$0.02</u>	<u>\$0.25</u>
Nine Months Ended	Basic		Basic	
	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>
Continuing operations	\$(0.19)	\$0.57	\$(0.24)	\$0.57
Discontinued operations	<u>0.17</u>	<u>0.01</u>	<u>0.17</u>	<u>0.01</u>
Income (loss) per share	<u>\$(0.02)</u>	<u>\$0.58</u>	<u>\$(0.07)</u>	<u>\$0.58</u>
	Fully Diluted		Diluted	
	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>	<u>Oct. 3, 1998</u>	<u>Sept. 27, 1997</u>
Continuing operations	\$(0.19)	\$0.55	\$(0.24)	\$0.57
Discontinued operations	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>	<u>0.01</u>

Income (loss) per share	<u>\$(0.02)</u>	<u>\$0.55</u>	<u>\$(0.07)</u>	<u>\$0.58</u>
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ii) In the future, additional differences may occur between the Company's application of Canadian GAAP and an application under U.S. GAAP.

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US \$0.6496 per CDN \$1.00 which was the exchange rate as of October 27, 1998. These translations are not necessarily representative of the amounts that would have been reported if the Company had historically reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time.

Revenues. Revenues include product sales and non-recurring engineering ("NRE") fees. Product sales revenues consist primarily of sales of original equipment manufacturer ("OEM") boards, end-user products, software, software upgrades and Wide Area Augmentation System ("WAAS") receivers. Revenues for continuing operations for the three month and nine month periods ended October 3, 1998 were \$6.7 million and \$17.2 million respectively compared to \$7.4 million and \$19.5 million in the comparable periods in the prior year. This represents a decrease of 10% for the third quarter 1998 over the third quarter 1997 and a decrease of 12% for the first nine months 1998 over the first nine months 1997.

The decline in revenues for the third quarter can be attributed to several factors. Sales to OEM customers were \$1.1 million in the third quarter 1998 compared to \$1.9 million in the third quarter 1997, a decrease of 40%. Graham Purves was recently appointed Vice President Sales & Marketing and is reviewing the current product portfolio and marketing strategy for all market segments. The Company introduced three new products at the recent Institute of Navigation conference: the MiLLennium®-WAAS receiver, the MiLLennium GLONASS receiver and a DL (data logging) Series GPS receiver. These products are aimed at the aviation, surveying and geographical information systems markets providing increased accuracy, flexibility and ease of use.

Survey/mapping sales were \$2.0 million for the third quarter 1998 compared to \$2.1 million for the third quarter 1997, a decrease of 3%. Despite the small decrease, survey/mapping sales to Nikon Inc. ("Nikon U.S.") and Nikon Corporation ("Nikon Japan") were strong this quarter.

Aviation revenues in the third quarter 1998 were \$3.3 million compared to \$3.4 million in the third quarter 1997, a decrease of 3%. The Company announced that it has received a purchase order of \$3.2 million to supply 24 Multi-Functional Transport Satellite (MTSAT) based Augmentation System (MSAS) receivers subsystems and 2 Navigation Earth Station (NES) receiver subsystems for the Japanese MSAS program. Subsequently, orders were received for an additional \$0.5 million of MSAS related product for the third quarter. The MSAS program is the equivalent of the WAAS program initially fielded by the FAA in the United States. MSAS and NES receivers are substantially the same as those supplied by NovAtel to the WAAS program. The receiver subsystems have been delivered through NovAtel's Japanese dealer, DX Antenna Co., Ltd. located in Tokyo, Japan. DX Antenna will provide local support and translation services to NEC Corporation, the prime contractor for the MSAS program. MSAS related deliveries were \$0.6 million in the second quarter 1998 and \$3.1 million in the third quarter 1998. These deliveries are the first part of a multi-stage program for the MSAS network. The Company currently has commitments to deliver another \$1.3 million of product for the MSAS program in the fourth quarter 1998 but has no commitments beyond 1998. However, the Company anticipates continued involvement in the MSAS program as it evolves. Further, the Company currently has no commitments for future sales of its products in any further implementations of the WAAS program.

The decrease in revenues for the comparable nine month period is attributable to fewer OEM and survey/mapping sales. Sales to OEM customers were \$4.6 million in the first nine months of 1998 compared to \$6.4 million in the first nine months of 1997, a decrease of 29%. Survey/mapping sales were \$5.4 million in the first nine months of 1998 compared to \$7.1 million in the first nine months of 1997, a decrease of 24%. Year to date sales to Zeiss were 87% lower in 1998 compared to 1997. In addition, year

to date sales to Nikon U.S. were 50% below the level a year ago, a time when Nikon U.S. was fulfilling minimum purchase obligations to fill its distribution pipeline. There has been quarterly sequential growth to Nikon U.S. in 1998 and new sales to Nikon Japan during the third quarter 1998. Aviation revenues were \$5.8 million in the first nine months of 1998 compared with \$6.0 million in the first nine months of 1997, a decrease of 3%.

In the third quarter of 1998, the Company derived approximately 65% of its total revenues from the sale of its products to countries outside the United States and Canada, compared with 36% for the third quarter 1997. Sales to Asia and Australia accounted for 55% of total revenues in the third quarter 1998.

The Company expects factors such as the Asian economic situation, fewer WAAS/MSAS sales and a slower OEM business to impair revenues, and therefore profitability, for the fourth quarter 1998. The Company is refocusing its sales and marketing activities during the fourth quarter 1998 and believes that the benefits of the exercise should show by the first quarter 1999. The Company expects to complete a review of expenses with the intent of bringing them into line with revenues during the fourth quarter 1998. The benefits of this review will not be fully realized until the first quarter 1999.

Gross Profit. Gross profit as a percentage of total revenues decreased from 71% in the third quarter 1997 to 68% in the third quarter 1998 and decreased to 60% for the first nine months 1998 from 70% for the first nine months 1997. The decreases were due primarily to two factors: the first being the sale of \$1.5 million of manufacturing components to the Company's subcontract manufacturers in the first nine months 1998, at minimal margin, and the second being the impact of relatively fixed test, integration and procurement costs on a lower revenue base. Excluding these two factors, gross profit on regular product shipments in the first nine months of 1998 would have been 66%. Gross profit significantly improved from 59% in the second quarter 1998 to 68% in the third quarter 1998, the increase being attributable to a higher proportion of aviation sales which contribute above average gross margins and also to the sale of fewer manufacturing components at minimal margin. The Company believes that the increasing percentage of revenues derived from sales of end user products and competitive price pressure increases in the market will continue to adversely affect gross margins.

Research and Development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and allocated facility and computer support costs. Research and development expenses increased 36% from \$1.6 million in the third quarter 1997 to \$2.2 million in the third quarter 1998 and increased as a percentage of total revenues from 22% to 33%. The nine month trends are similar with research and development expenses increasing 38% to \$6.2 million in the first nine months of 1998 from \$4.5 million in the first nine months of 1997 and increasing as a percentage of revenues to 36% from 23%. These increased costs are primarily related to an increased number of personnel required for new product development initiatives. To December 31, 1997, the Company had charged all research and development costs to operations as incurred. In the nine month period ended October 3, 1998, the Company deferred development costs of \$335,000 related to the development of a certified aviation GPS receiver. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business. Research and development expenses have increased marginally over the second quarter of this year. The Company is currently reviewing research and development projects with a view to maintain technological leadership but bringing spending into line with the decline in revenues experienced in the first nine months 1998.

Selling and Marketing. Selling and marketing expenses consist primarily of personnel related costs as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sales of the Company's products. Selling and marketing expenses increased 59% from \$838,000 in the third quarter of 1997 to \$1.3 million in the third quarter of 1998 and increased as a percentage of total revenues from 11% to 20%. Sales and marketing expenses for the first nine months of 1998 increased to \$3.3 million compared to \$2.3 million for the first nine months of 1997 and increased as a percentage of revenues to 19% from 12%. These increased costs reflect an increased number of personnel, the opening of offices in the United States and Europe and greater product promotional efforts. The Company is also currently reviewing selling and marketing expenses to ensure they are commensurate with revenues. Sales

and marketing efforts are being refocused with the recent appointment of Graham Purves as Vice President, Sales and Marketing.

General and Administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administrative expenses increased by 2% from \$933,000 in the third quarter 1997 to \$952,000 in the third quarter 1998 and increased as a percentage of total revenues from 13% to 14% due to lower revenues. These expenses remained relatively constant between the first nine months of 1998 and the first nine months of 1997. General and administration expenses are flat from the second quarter 1998 to the third quarter 1998. As with the other expenses, general and administration expenses are being reviewed.

Interest Income. The Company earned a net interest income of \$44,000 in the third quarter 1998, compared with \$42,000 in the third quarter 1997, an increase of 5%. Net interest income increased to \$169,000 for the first nine months of 1998 compared with \$115,000 for the first nine months of 1997. The Company's cash deposits not required for operations are invested in short term interest bearing instruments.

Other Income. Other income consists primarily of foreign currency exchange income and miscellaneous items. Other income increased to \$211,000 in the third quarter 1998 from an expense of \$13,000 in the third quarter 1997 and increased to \$250,000 in the first nine months 1998 from \$62,000 in the first nine months 1997. The increase in other income for the third quarter and on a year to date basis is primarily due to a gain in foreign exchange on U.S. dollar denominated net assets held by the Company. During 1998 the U.S. dollar strengthened relative to the Canadian dollar.

Discontinued Operations. The Company had a gain from discontinued operations of \$1.3 million in the first nine months of 1998. The gain arose primarily from the sale of \$0.5 million of residual inventory which had been held until a third party initiated production of a new product and the recognition of US\$0.5 million of the final installment payment paid by the purchaser of the Company's former Personal Communications Products (PCP) division.

TAXES

The Company has not recorded a provision for income taxes due to previously incurred losses, credits and costs. As of October 3, 1998, losses which can be carried forward, investment tax credits, depreciation and research and development costs, may be available to reduce future taxable income. The Company has determined that Canadian Marconi's acquisition of a majority of the Common Shares of the Company would constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and developments costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation. Further, the net operating loss carryforwards available for U.S. tax purposes will be subject to limitations due to the Canadian Marconi acquisition. The ultimate availability and amount of these losses, credits and costs may be dependent upon the final resolution of future Revenue Canada, Taxation and Internal Revenue Service audits.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended October 3, 1998, cash used in operations was \$4.6 million, compared to cash provided by operations of \$1.4 million in the same period of 1997. In the nine months ended October 3, 1998, cash used in operations consisted primarily of an increase in non-cash working capital of \$5.4 million, a \$1.5 million loss from continuing operations partially offset by the \$1.3 million income from discontinued operations and \$1.7 million in amortization.

The factors contributing to the \$5.4 million increase in working capital are as follows: 1) a \$2.4 million increase in accounts receivable due to higher days outstanding and the fact that at December 31, 1997, a portion of the WAAS shipments had been prepaid, thereby reducing receivables at that time; 2) a \$1.0 million increase in inventory resulting primarily from the purchase of raw materials from Harris upon the termination of the contract manufacturing relationship, the stocking of higher levels of finished goods to

improve customer order fulfillment time and a greater number of field test/demonstration units; and 3) a \$1.7 million reduction of payables related to the payment for purchased technology in the first quarter of this year.

For the first nine months of 1998, cash provided by financing activities was \$1.4 million compared to \$13.0 million in the prior year. On January 30, 1998, the Company entered into sale/leaseback arrangements in which capital assets, comprised mainly of furniture and computer equipment, were sold to the Hongkong Bank of Canada for proceeds of \$1.7 million resulting in a gain of \$175,000. At the same time, the Company entered into lease agreements with terms of between 39 and 65 months and with aggregate lease payments of \$1.9 million. The leases are accounted for as capital leases. The balance of the cash provided by financing activities arose from the exercise of stock options.

In February 1997, the Company raised \$22.1 million, net of offering costs, from its initial public offering of 2,470,000 Common Shares. The Company repaid all advances and borrowings under its lines of credit with the Hongkong Bank of Canada using proceeds of the public offering and operating cash. The Company intends to use the remaining proceeds for general corporate purposes, including additions to working capital and future acquisitions. The Company has no present plans, agreements or commitments, and is not currently engaged in any negotiations with respect to future acquisitions, however, the Company is considering and reviewing certain opportunities that could result in an acquisition.

In the first nine months of 1998, the Company used \$1.9 million cash in investing activities mainly on net expenditures of capital assets partially offset by the receipt of US\$0.5 million as the final installment payment from the purchaser of the Company's former PCP division. Cash used in investing activities in the first nine months 1997 was \$6.7 million.

As of October 3, 1998, the Company had cash and cash equivalents of \$5.7 million. The Company has a credit agreement with the Hongkong Bank of Canada whereby the Company can borrow up to \$1.0 million for day-to-day operating requirements and US \$1.0 million to support the margin requirement related to the purchase of foreign exchange contracts. On June 23, 1998, the Company entered into a second credit arrangement with The Toronto Dominion Bank under which the Company can borrow up to \$650,000 for day to day operations. The credit line also supports the margin requirement related to the purchase of up to US\$2.5 million of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets.

The Company believes that its existing cash, cash equivalents, short term investments, available line of credit and anticipated cash generated from operations will be sufficient to satisfy its anticipated cash requirements for at least the next twelve months.

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (over 95% in the nine months of 1998) are earned in currencies other than the Canadian dollar, principally the US dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the US dollar and other foreign currencies and the Canadian dollar could materially affect the Company's results of operations. The Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the US dollar. In January 1998, the Company purchased foreign currency options to sell US\$5.0 million between October 30 and December 31, 1998 at a rate of \$0.6993. In September 1998, the Company purchased foreign currency options and forward foreign currency contracts to sell US \$8.0 million between January 1 and September 30, 1999 at rates between \$0.6616 and \$0.6711. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

OTHER RISK FACTORS

NovAtel operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. A discussion of some of these risks and the possible impact of these

factors on future results from operations can be found in the Risk Factors section part of Form 20-F for the fiscal year ended December 31, 1997 filed with the Securities and Exchange Commission.

OTHER INFORMATION

Year 2000 and GPS Week Rollover

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This situation could result in a system failure or miscalculations causing disruptions to operations, including, among other things, possible systems failures causing disruptions to normal business activities. GPS suppliers are experiencing a similar issue arising from GPS week rollover. The GPS system contains a field called a week number. At the end of each GPS cycle the receiver is required to reset the week number to zero to navigate and correctly display and use time. This reset will next occur on August 21, 1999. GPS receivers were not designed to automatically reset the week number to zero. For purposes of the following discussion, GPS week rollover shall be included in references to Year 2000 issues.

State of Readiness. Beginning in early 1998, the Company began an overall assessment of its Year 2000 readiness. A Year 2000 program plan has been prepared and is being implemented. The initial focus was product compliance to Year 2000. The Company published a product compliance statement on its web page in July 1998. A program known as Syteline is used by the Company for its business system. A certificate of compliance has been obtained from the vendor and internal tests have been completed confirming compliance. An inventory and assessment of Year 2000 issues within the Company's other computer systems and applications is underway and expected to be completed by first quarter 1999. No material compliance or remediation issues have been identified to date. The Company's Year 2000 Plan has been independently reviewed by Canadian Marconi Company and Deloitte Touche Ross.

The Company has begun the process of initiating formal communications with significant suppliers and customers to determine the extent to which the Company may be vulnerable to a failure by any of these parties to remediate their own Year 2000 issues. The Company relies upon governmental agencies, utility companies, telecommunication service companies and other service providers outside the Company's control. There can be no assurance that the Company's suppliers, customers, governmental agencies or other third parties will not suffer a Year 2000 business disruption that could have a material adverse effect on the Company's business, financial condition and operating results.

Costs to Address the Year 2000 Issues. To date the Company has incurred no incremental costs addressing the Year 2000 issues. The Company has no separate budget and none is planned for Year 2000 issues. There is no guarantee that the Company will continue to achieve no incremental costs and actual costs could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, supplier or customer compliance and contingency actions and similar uncertainties.

Risks Presented by the Year 2000 Issues. As the Company completes the implementation of its Year 2000 plan it may identify areas that present a Year 2000 risk. In addition, if any third parties who provide goods or services essential to the Company's business activities fail to address appropriately their Year 2000 issues, such failures could have a material adverse effect on the Company's business, financial condition and operating results.

Contingency Plans. The Company's Year 2000 plan includes the development of contingency plans to mitigate the effects of a Year 2000 disruption. The Company expects to conclude the development of contingency plans by the end of the second quarter of 1999.

President and Chief Executive Officer

The Company recently announced that Doug Reid, formerly Executive Vice President and Chief Operating Officer, has been appointed President and Chief Executive Officer, replacing Pascal E. Spothelfer who resigned from the Company to pursue other career opportunities.

Board of Directors

In September 1998, Pascal E. Spothelfer resigned from the Board of Directors and James Close and Doug Reid were appointed to the Board of Directors.