GLENAYRE TECHNOLOGIES INC
Form 10-K
March 30, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal period ended December 31, 2006

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 0-15761
GLENAYRE TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**98-0085742**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
825 8th Avenue, 23rd FL, New York, New York	**10019**
(Address of principal executive offices)	(Zip Code)

(212) 333-8400

(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.02 par value	The NASDAQ Stock Market LLC
Rights to Purchase Series A Junior Participating Preferred Stock, $0.01 par value	

Securities registered pursuant to Section 12(g) of the Act: None
Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of Registrant, computed by reference to the closing price of the Registrant s common stock on June 30, 2006, was approximately $182 million. The number of shares of the Registrants common stock outstanding on March 28, 2007 was 69,548,782.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Location of Form
Proxy Statement for 2006 Annual Meeting of Stockholders	Part III

Glenayre Technologies, Inc. and Subsidiaries

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EXPLANATORY NOTE

In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2005, and the related consolidated statements of stockholders equity for the years ended December 31, 2005 and 2004.

This Form 10-K also reflects the restatement of Selected Consolidated Financial Data in Part I, Item 6 for the years ended December 31, 2003, and 2002.

We have not amended, and we do not intend to amend, any of our previously-filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this annual report on Form 10-K, and the financial statements and related financial information contained in previously-filed reports should no longer be relied upon.

Following shareholder derivative claims filed against Glenayre Technologies, Inc. (the Company) described elsewhere in this Form 10-K, the Company s Board of Directors appointed a Special Litigation Committee (the SLC), consisting of independent directors, to investigate the claims asserted and matters raised in the derivative actions. In conducting such investigation, the SLC evaluated the claims and determined whether the Company s practices with respect to the granting of stock options since 1993 have been in compliance with the Company s plans and policies and applicable law. The SLC engaged independent legal counsel and an independent accounting advisor to assist counsel by providing forensic accounting assistance in connection with the SLC s investigation.

As part of its investigation, the SLC conducted numerous interviews, including interviews of the named defendants in the derivative actions, certain current and former directors of the Company, certain current and former executive officers, and former Glenayre personnel involved in the administration of options. The SLC also reviewed over 82,000 hard copy documents, available emails and electronic documents, including the Company s SEC filings, corporate minutes, finance files (including all stock option agreements) and human resource files from January 1993 through December 2002. The SLC reviewed every option grant made and option agreement executed during that period of time (over 180 separate grant dates and 3,000 separate option agreements) and confirmed that the dates, prices and share amounts matched. The SLC further examined all 51 grants made to directors or officers of the Company during the period 1993 through 2004 in greater depth to determine whether the Company had used the proper measurement dates in accounting for those grants.

The SLC completed its investigation on February 27, 2007 and, with one possible exception concerning the May 31, 2000 option grant, the SLC did not identify evidence of backdating of options, spring-loading (awarding grants before the release of positive material information), or bullet-dodging (awarding grants after the release of materially damaging information). The investigation did, however, reveal a series of administrative issues that, in 14 of the 51 grants to executives and directors from 1993 through 2003, had potential accounting implications as a result of the recording of improper option grant dates. With regard to all of these grants, including the May 31, 2000 grant, the SLC has concluded that there is no conclusive or compelling evidence that any of the named defendants in the lawsuits breached the fiduciary duties of care or loyalty, or acted in bad faith with respect to their obligations to the Company or its shareholders, and further concluded that it would not be in the Company s best interest to pursue any claims with respect to these grants.

Based on the findings of the SLC and our internal review, we identified a number of occasions related to the 14 grants on which we used an incorrect measurement date for financial accounting and reporting purposes or applied incorrect accounting to modified grants. In accordance with Accounting Principles Board No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, with respect to the period from January 1, 1993 through December 31, 2003, we should have recorded compensation expense in an amount per share subject to each option to the extent that the fair market value of our stock on the correct measurement date exceeded the exercise price of the option. The errors identified in applying APB 25 include the following:

Improper Measurement Dates for Stock Option Grant

In connection with the Company s May 31, 2000 stock option grant to certain employees the exercise price was not set in accordance with APB 25. The exercise price was set as of May 31, 2000 based on a

subsequently executed written consent relating to the grant stating an effective date of May 31, 2000. May 31, 2000 was originally selected as the measurement date because it was consistent with the Company s policy of batching certain types of option grants during a month and approving them all at month end. However, after further review of the facts and circumstances surrounding the grant, the Company believes that the required Board committee approval of the grant most likely did not occur until June 2, 2000, the date on which the Board s Plan Administration Committee met relative to this grant. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $806,000 recognized over the applicable vesting periods.

In addition, with respect to the May 31, 2000 grant, the former CEO and a former employee of the Company were added to the stock option recipient list subsequent to the original grant date. After further review of the facts and circumstances surrounding the grants to these individuals, the Company believes that the final decisions with respect to the grants most likely did not occur until June 16, 2000 and therefore the measurement date for such options was subsequent to the original grant date. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $288,000 recognized over the applicable vesting periods.

Cancellation of Stock Option Grants

In addition to the measurement date issues identified above relative to the May 31, 2000 grant, 18 employees were removed from the stock option recipient list subsequent to the original grant date and, after further review of the facts and circumstances relating to their removal, the Company determined that such cancellations were not appropriately reflected in the Company s financial statements. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $60,000 recognized as of the date of the respective cancellations in June 2000.

Improper Measurement Date for New Hire Grant

In connection with the Company s new employee stock option grant to a former CFO in 2000, such grant was awarded on the date the employment agreement was signed, which was three days prior to the actual start date with the Company. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $130,000 recognized over the applicable vesting periods.

The SLC and management also identified one new employee stock option grant in 1993 to a former CFO with an improper measurement date because the grant was awarded on the date the employment agreement was signed, which was four days prior to the actual start date. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $53,000 recognized over the applicable vesting period.

Improper Measurement Dates for Director Anniversary Grants

The Company s 1996 Stock Option Plan provides that certain directors are to receive a stock option award on each successive three-year anniversary from the date such director was initially elected. In connection with the Company s stock option grants to two directors for their six-year anniversary in 2003, in each case, such grant was made two days prior to the director s actual anniversary date due to an administrative error in determining the actual six-year anniversary date. As a result, the Company has restated certain of its historical financial statements to increase stock-based compensation expense by approximately $13,000 recognized immediately as the grants were fully vested upon grant.

Management and the Company s Audit Committee have determined that the non-cash stock-based compensation expense for the items discussed above was material to certain of the Company s previously filed financial statements. Accordingly, on February 28, 2007, the Company determined that it was appropriate to restate its previously issued financial statements to reflect additional non-cash charges for stock-based compensation expense. As a result of the above, the Company has recorded additional non-cash stock-based compensation expense of approximately $1.4 million on stock option grants primarily related to fiscal years 2000 through 2003.

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The incremental stock-based compensation charge of approximately $1.4 million recorded by the Company resulted in no deferred income tax benefits as the Company maintained a full valuation allowance against its domestic deferred tax assets since 2001.
The incremental impact from recognizing stock-based compensation expense resulting from the investigation of past stock option grants is as follows (dollars in thousands):

Fiscal Year	**Expense**
1993	$ 44
1994	9
2000	807
2001	311
2002	130
2003	49
Total	$ 1,350

The determination by the SLC and management of the appropriate measurement dates for the stock option grants was based upon the best available information, as described above. However, because of the existence of incomplete documentation on certain of the 51 grants, where the stock option grant was approved pursuant to a unanimous written consent, but there was inconclusive additional evidence confirming the actual date of the consent, we have performed a sensitivity analysis on those grants where the selection of an alternative measurement date could have resulted in a compensation charge. When looking forward up to two weeks from the date of the unanimous written consent and applying the highest stock price during that period as the measurement date, the additional non-cash stock-based compensation charge would be approximately $1.5 million, with over $1.3 million of the charge falling in the periods 1996 through 1999. Two weeks represents longer than what is believed to be the longest period of time between the date on a unanimous written consent and the date such consent would have been fully executed.
For additional information regarding the restatement, see Note 2, Restatement of Consolidated Financial Statements, to the consolidated financial statements, Part I, Item 3, Legal Proceedings, Part I, Item 6, Selected Financial Data, and Part II, Item 9A, Controls and Procedures.

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We, from time to time, make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the expectations of management at the time such statements are made.
The reader can identify such forward-looking statements by the use of words such as may, will, should, expects, p anticipates, believes, estimates, predicts, intend(s), potential, continue, or the negative of such terms, or ot comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.
Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors below. All forward-looking statements included in this Report on Form 10-K are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

PART I

ITEM 1. BUSINESS

Overview

Glenayre Technologies, Inc. was incorporated in Delaware on September 21, 1987, and is the successor to a corporation organized on April 7, 1945. The principal executive offices are located in New York City at 825 8th Avenue, New York, New York, 10019. The Company s telephone number for investor relations is (212) 333-8400. In this Form 10-K, the terms we, us, our and Glenayre each refer to Glenayre Technologies, Inc. and its wholly-owned and controlled majority owned subsidiaries unless the context requires otherwise.
In past periods, including during fiscal year 2006, we had two reportable business segments: Entertainment Distribution Company (EDC) and Glenayre Messaging (Messaging). On December 31, 2006, we sold substantially all of the assets comprising the Messaging business. All prior period information has been restated to present the operations of this segment as discontinued operations.
EDC, our only continuing segment, is an industry leader in providing pre-recorded products and distribution services to the entertainment industry with operations serving the United States (U.S.), central Europe and the United Kingdom (UK). EDC was formed by the acquisition of the U.S. and central European CD and DVD manufacturing and distribution operations from Universal Music Group (Universal) in May 2005. As part of the transaction, we entered into supply agreements with Universal with initial terms of 10 years under which we became the exclusive manufacturer and distributor for Universal s CD and DVD manufacturing and distribution requirements for the U.S. and central Europe.
In July 2006, EDC s presence in the European market was expanded when we acquired a CD manufacturing operation in Blackburn, UK (Blackburn). Blackburn is the largest CD replicator in the UK. Its customer base includes Universal Music Group, its largest customer, as well as Demon Music Group, Sanctuary Records Group and Warner Music Group. This acquisition also allowed EDC to secure all of Universal s UK CD manufacturing business, a portion of which was scheduled to revert to EDC in 2007 as part of EDC s international supply agreement with Universal. Together these two acquisitions comprise EDC s operations. The results of our U.S., central European and UK operations have been included in the consolidated financial statements since their applicable acquisition dates.
Evolving retail trends have caused entertainment content owners to seek out opportunities to lower their costs and to shorten their supply chain. Our core competencies are CD and DVD replication and logistical service, and we are well positioned to participate in this supply chain evolution. As an independent service provider, with the world s largest music company as its primary customer, EDC will pursue opportunities to increase revenue by providing a wide range of physical, as well as digital, manufacturing, distribution and value added services to entertainment content owners and their customers. These opportunities consist of manufacturing and/or distribution services agreements with existing or new customers and the acquisition of physical assets from competitors. In evaluating acquisition opportunities and expansion of existing operations, we will consider the continued downward pressure on pre-recorded entertainment product pricing and the strong interest from the third party market for CD and DVD production and distribution services. We will also focus on implementing various strategic operational initiatives to increase capabilities and capacity and reduce costs over time.

Products

EDC s products include pre-recorded multimedia products including CDs, DVDs, jewel boxes and trays for the entertainment industry. We expect that file sharing and downloading, both legal and illegal, will continue to exert downward pressure on the demand for CDs. However, the CD is, and in the foreseeable future is expected to remain, the standard format for the music industry. Although piracy and illegal downloading of music through web sites have caused CD volumes to decline in prior years, we believe that recent actions taken by entertainment content owners have been successful in reducing these illegal activities.

As current technologies and delivery systems improve, the digital transfer and downloading of video files will likely become more widespread. As the speed and quality with which video files can be transferred and downloaded improves, file sharing and downloading may in the future exert significant downward pressure on the demand for DVDs. However, we believe the DVD format will continue to be a growth product in the industry. EDC is evaluating various initiatives to enter the digital distribution supply chain. It is uncertain if EDC will be successful in its efforts in digital.

Professional Services

EDC offers an array of professional services including:

Distribution Services: product delivery to mass merchants regional distribution centers and wholesalers, and when timing is crucial, we provide direct to retail distribution. With one German and three U.S. distribution centers, EDC is well positioned to deliver pre-recorded products throughout North America, Europe and the rest of the world. The services provided are an integral part of EDC s customers supply chain.

Printed Components and Packaging Services: purchase of printed components and assembly of shelf ready packages.

Value Added Services: custodial responsibilities for inventory storage and control, returns processing, fulfillment of promotional product, retail price stickering, product quality evaluations, logistics advice, claims administration and data interfaces.

Markets, Sales and Marketing

EDC provides CD and DVD manufacturing and distribution services to entertainment content providers in the U.S. and central Europe and manufacturing services in the UK. EDC s major customers are Universal Music Group, BMG Record Club, Universal Vivendi Intellectual Property, Universal Pictures International-Germany, Demon Music Group, Sanctuary Records Group and Warner Music Group. Universal Music Group comprised approximately 87% and 91% of EDC s 2006 and 2005 revenues, respectively.

In addition to its direct sales force located in the United States, EDC has sales personnel in Hanover, Germany and Blackburn, UK.

Competition

EDC s competitors include subsidiaries of media conglomerates that produce content while others, like EDC, are purely manufacturers and/or distributors. Our competitors include:

Manufacturing: AMI, Crest National, Disc Makers, Expedia Media, MPO, VDC, DocData and Optical Entertainment Media.

Distribution: Ditan, Handleman, Entertainment One, Source Interlink, Arvato, Alliance, Ingram, VPD, Baker & Taylor and Navarre.

Manufacturing and Distribution: Cinram, JVC America, Sonopress, Sony DADC/Sony Entertainment Distribution, Technicolor, Optical Disc Service and Media Motion.

Competition in the pre-recorded multimedia industry is intense and winning new customers, as well as maintaining existing customers, is based on a combination of price, capacity, reliability and the level of service and support. We believe that our competency in providing complete end-to-end manufacturing and distribution supply chain services differentiates us from many of our competitors.

Service and Support

EDC is an integral part of our customers supply chain, managing and delivering products to mass merchant regional distribution centers and wholesalers and when timing is crucial providing direct retail distribution. EDC coordinates the printed material and packaging functions and ships shelf ready packages world wide on demand. EDC generally does not own finished goods inventory. It provides custodial responsibilities for inventory management, and storage of finished goods and component parts, product quality evaluations, logistics advice, claims administration and data interfaces for its customers.

Customers

Universal: EDC s manufacturing and distribution agreements with Universal accounted for approximately 87% and 91% of its 2006 and 2005 revenues, respectively. EDC plans, manages and monitors the use of resources based on regular forecasts provided by Universal. Because EDC is dependent on Universal for a significant amount of its revenues, if market or other factors cause Universal to cancel, reduce or postpone current or expected purchase commitments for EDC s products, EDC s operating results and financial condition may be adversely affected.

Third-Party: With the Blackburn acquisition in July 2006, we added several major third-party customers in the UK market including Demon Music Group, Sanctuary Records Group and Warner Music Group. In 2006, we added several independents to our third-party customer base. Third-party customers accounted for approximately 13% and 9% of our 2006 and 2005 revenues, respectively. We have a business development and sales and marketing team focused on providing a high level of service to Universal as well as attracting new third party customers in the music, video and games markets.

International Sales

EDC s international sales which originate primarily in Germany and the UK, are denominated in Euros and British pounds, respectively, and accounted for approximately 60% and 50% of EDC s total revenues in 2006 and 2005, respectively. See Note 20 to the consolidated financial statements for information concerning revenues and long-lived assets by geographic area.

Operations

Manufacturing: EDC currently manufactures its products for the U.S. market at our facility in Grover, North Carolina, for the central European market at our facility in Hanover, Germany and for the UK market at our facility in Blackburn, UK. We own the facility in Grover, have an option to purchase the Hanover facility, which we currently lease from Universal, and lease the Blackburn facility. We believe that these facilities are adequate for our current manufacturing needs.

Distribution: EDC distributes products for the U.S. market at our main distribution facility in Fishers, Indiana and two satellite distribution facilities in Reno, Nevada and Wilkes-Barre, Pennsylvania and for the central European market at our facility in Hanover, Germany. The Hanover, Germany facility is a combined manufacturing and distribution facility. All the facilities are leased and we have an option to purchase the Hanover facility, which we currently lease from Universal.

We believe in setting high standards of quality throughout all of our operations. The Hanover, Germany facility and the Grover, North Carolina manufacturing facility are registered ISO 9001:2000 international standard for quality assurance and ISO 14001 for environmental management. During 2006, the U.S. distribution operations became

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ISO 9001:2000 compliant. We believe that adhering to the stringent ISO 9001 and 14001 procedures not only creates efficiency in operations, but also positions EDC to meet the exacting standards required by its customers.

EDC is also a member of the International Recording Media Association (IRMA) and fully supports and complies with the worldwide IRMA Anti-Piracy program. This compliance program ensures that EDC only provides services to those intellectual property owners who have certified and documented ownership and proper use of content, thus ensuring the legitimacy of customer products.

Raw Materials and Components

EDC s principle raw materials are polystyrene used in the manufacture of jewel boxes and trays (in Germany only) and polycarbonate used in the manufacture of CDs and DVDs. EDC has a limited number of suppliers who are able to provide raw materials. In Germany, we purchase polystyrene (accounting for approximately 6% of total cost of sales), polycarbonate (accounting for approximately 8% of total cost of sales) and any jewel boxes and trays, not internally manufactured, (accounting for approximately 7% of total cost of sales) from several suppliers. In the UK, we purchase polycarbonate (accounting for approximately 16% of total cost of sales) and jewel boxes and trays (accounting for approximately 33% of total cost of sales), which are not manufactured by EDC, from several suppliers. In the U.S., we purchase polycarbonate (accounting for approximately 10% of total cost of sales) and jewel boxes and trays (accounting for approximately 22% of total cost of sales), which are not manufactured by EDC, from several suppliers. These inputs are crucial to the production of CDs and DVDs and while there are alternative suppliers of products, it would be disruptive to EDC s production if any of our suppliers were unable to deliver its product to EDC. In mid-January 2006, one of our U.S. suppliers of jewel boxes in North Carolina filed for bankruptcy and closed manufacturing operations. EDC continued to purchase their remaining inventory until the end of January of 2006. The loss of this major vendor has resulted in an increase in EDC s purchases from one of the other suppliers.

Proprietary Technology

EDC has non-exclusive CD replication licensing agreements with a member of the Philips Group of Companies and with Discovision Associates and non-exclusive DVD replication licensing agreements with MPEGLA, the 3-C and AC-3 Groups (both administered by Philips Electronics), the 6-C Group (administered by Toshiba Corporation) and Discovision Associates.

Registered Trademarks

Our trademarks and service marks are also valued corporate assets. We protect our most important marks through registrations in the United States and various foreign countries. We are in the process of registering EDC and SIDEBURST as trademarks.

Government Regulation

Our manufacturing and distribution operations are subject to a range of federal, state, local and international laws and regulations relating to the environment. These include laws and regulations that govern discharges into the air, water and landfills and the handling and disposal of hazardous substances and wastes. We do not anticipate any material effect on our capital expenditures, earnings or competitive position due to compliance with government regulations involving environmental matters.

Seasonality

EDC typically manufactures and distributes approximately 55% to 60% of its annual demand by volume in the second half of the calendar year due to seasonality in the entertainment business. Variability is also experienced on a quarterly basis with the lowest demand typically being experienced in the first calendar quarter and with the highest demand occurring in the last calendar quarter. This seasonality cycles year over year and is influenced by our customers product release schedule.

Backlog

EDC s customers order products and services only as they are needed, therefore we do not maintain any significant backlog.

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Employees

At December 31, 2006, we employed approximately 2,200 persons. In Germany, approximately 43% of our workforce of approximately 900 employees are represented by a worker council. However, collective bargaining agreements negotiated by the worker council cover all non-exempt staff. Exempt staff represents approximately 4% of the total employees. In the UK, approximately 70% of our workforce of over 350 employees is unionized and subject to collective bargaining agreements. In the United States, approximately 27% of our workforce of over 900 employees is unionized and subject to collective bargaining agreements. The collective bargaining agreements in the UK and U.S. expire in 2007. Contract negotiations at both locations are expected to begin in the first quarter of 2007. We believe employee relations are good.

SEC Filings

We make available all annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports free of charge through our Internet website at www.glenayre.com as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission. These reports are also available on the Securities and Exchange Commission s Internet website at www.sec.gov.

Our code of ethics is posted on our Internet website at www.glenayre.com. You can also receive a copy free of charge by sending an email request to investor.relations@glenayre.com or by sending a written request to our offices at 825 8th Avenue, 23rd Floor, New York, NY 10019, Attention: Investor Relations.

ITEM 1A. RISK FACTORS

Our prospects are subject to certain risks and uncertainties including the following.

Derivative Litigation and Investigation of Past Stock Option Practice

As disclosed elsewhere in this report, the Company, through a Special Litigation Committee (SLC) of the Board of Directors conducted an investigation of certain stock option grant practices and claims alleged in the shareholder derivative actions discussed in Part I, Item 3, Legal Proceedings. The Company is restating certain prior period financial statements based on the results of this investigation. See the Explanatory Note immediately preceding Part I of this 10-K and Note 2, Restatement of Consolidated Financial Statements to the consolidated financial statements. The internal investigation, litigation and related matters have required us to incur substantial legal, accounting, tax and other professional fees, have diverted management s attention from our business, could continue to do so and could in the future harm our business, financial condition, results of operations and cash flows. Our past stock option practice and the restatement of prior financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages, fines or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows.

While we believe we have made appropriate judgments in determining the appropriate adjustments to and restatements of the applicable financial statements, the SEC may disagree with the manner in which we have accounted for and reported the financial impact of such changes. Accordingly there is a risk that we may have to further restate our prior financial statements, amend prior filings, or take other actions not currently contemplated.

Potential Intellectual Property Infringement Claims from Third Parties

The industry in which EDC competes has many participants who own, or who claim to own, intellectual property for certain of the manufacturing processes we employ, the products we produce or the content produced by our customers. We pay licensing fees to certain third parties who claim to own the rights to intellectual property that we employ in our manufacturing processes or products. It is not possible to determine with certainty whether these or

any other existing third party patents or the issuance of any new third party patents may require us to alter, or obtain licenses relating to our processes or products. There is no assurance that we would be able to obtain any such licenses on favorable terms and obtaining and paying royalties on new licenses might materially increase our costs. New multimedia formats will likely require us to obtain additional licenses.

Any intellectual property infringement claims asserted by a third party against us could be time-consuming and costly to defend, divert management s attention and resources, cause product and service delays, or require us to pay damages to or enter into licensing agreements with third party claimants. An adverse decision in an infringement claim asserted against us could result in our being prohibited from using such technology, as licensing arrangements may not be available on commercially reasonable terms. Our inability to license the infringed or similar technology on commercially reasonable terms could have a material adverse effect on our business, financial condition and results of operations.

The messaging business, substantially all of the assets of which were sold on December 31, 2006, is subject to certain infringement claims. See Note 19 to the consolidated financial statements and Part I, Item 3 Legal Proceedings.

Internal Controls and Procedures

As disclosed in the Company s 2005 Annual Report on Form 10-K, and in its Quarterly Reports on Form 10-Q for each of the first three quarters of 2006, management s assessment of the Company s internal controls over financial reporting identified a material weakness in the Company s internal control over financial reporting (as of December 31, 2005) and ineffective disclosure controls and procedures (as of December 31, 2005 and as of the end of the first three quarters of 2006) related to revenue recognition in the Messaging business. During the year ended December 31, 2006, the Company implemented certain corrective actions to address the material weakness identified above. This resulted in improvements in the Company s internal control over financial reporting, including the successful remediation of the material weakness. Additionally, on December 31, 2006, the Company sold substantially all of the assets comprising the Messaging business. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations. Therefore, even effective internal controls over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Any failure to maintain adequate internal control over financial reporting or disclosure controls and procedures could harm our operating results or cause us to fail to meet our reporting obligations in a timely and accurate manner. If we discover a material weakness in the future, we may not be able to provide reasonable assurance regarding the reliability of our financial statements. As a result, our business and operating results could be harmed.

Litigation

We are party to certain legal proceedings as described in Note 19 to the consolidated financial statements and Part I, Item 3 Legal Proceedings. In addition to such legal proceedings, we are from time to time, involved in various disputes and legal actions related to our business operations. While no assurance can be given regarding the outcome of such matters, based on information currently available, we believe that the resolution of these matters will not have a material adverse effect on our financial position or results of future operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of such actions be unfavorable, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Potential Acquisitions and Strategic Investments

We intend to continue making significant investments and to examine opportunities for growth through acquisitions and strategic investments. The impact of these decisions on future financial results cannot be predicted with certainty, and our commitment to growth may increase our vulnerability to downturns in our markets, technology changes and shifts in competitive conditions.

We have made, and in the future, may make, strategic investments in other companies. These investments have been made in, and future investments could likely be made in, immature businesses with unproven track records and technologies. Such investments have a high degree of risk, with the possibility that we may lose our entire investment. We may not be able to identify suitable investment candidates and may not be able to make investments on acceptable terms. In addition, we may not gain strategic benefits from those investments.

Senior Secured Credit Facility

EDC s Senior Secured Credit Facility contains usual and customary restrictive covenants that, among other things, permit EDC to use the revolver only as a source of liquidity for EDC and its subsidiaries and place limitations on (i) EDC s ability to incur additional indebtedness; (ii) our ability to pay dividends or make acquisitions outside its current industries; (iii) EDC s ability to make any payments to us in the form of cash dividends, loans or advances (other than tax distributions) and (iv) asset dispositions by EDC. It also contains financial covenants relating to maximum consolidated EDC and subsidiaries leverage, minimum interest coverage and maximum senior secured leverage as defined therein. EDC s ability to comply with these financial covenants is dependent on its future performance, which is subject to prevailing economic conditions and other factors that are beyond our control. Our failure to comply with any of these restrictions in the Senior Secured Credit Facility may result in an event of default, which, if not cured or waived, would allow the lenders to accelerate the payment of the loans and/or terminate the commitments to lend or forclose on collateral in addition to other legal remedies.

Environmental Laws and Regulations

Our manufacturing and distribution operations are subject to environmental laws and requirements that may impose material costs or liabilities on us. Our facilities are subject to a range of federal, state, local and international laws and regulations relating to the environment. These include laws and regulations that govern discharges into the air, water and landfills and the handling and disposal of hazardous substances and wastes. Compliance with existing and future environmental laws and regulations and enforcement policies may require us to incur capital and other costs, which may materially adversely affect future financial conditions. Such costs, or related third-party personal injury or property damage claims, could have a material adverse affect on our business, results of operations or financial condition.

Ability to Attract and Retain Key Personnel

Our continued growth and success depends to a significant extent on the continued service of senior management and other key employees, the development of additional management personnel and the hiring of new qualified employees. There can be no assurance that we will be successful in continuously recruiting new personnel or in retaining existing personnel. The loss of one or more key or other employees or our inability to attract additional qualified employees or retain other employees could have a material adverse affect on our business, results of operations or financial condition.

Volatility of Stock Price

The market price of our common stock is volatile. The market price of our common stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors such as announcements of technological developments or new products, developments in relationships with our customers, strategic alliances and partnerships, potential acquisitions and strategic investments, technological advances by existing and new competitors, general market conditions in our industries and changes in government regulations.

Competition

Some of our competitors have substantially greater financial, technical, marketing and distribution resources than us and we may be unable to successfully compete with these competitors. In addition, competitive pricing pressures may have an adverse effect on our profits margins in the future.

Variability of Quarterly Results and Dependence on Key Customers

Our manufacturing and distribution agreements with Universal accounted for approximately 87% and 91% of our 2006 and 2005 revenues, respectively. If market or other factors cause Universal to cancel, reduce or postpone current or expected purchase commitments for our products, our operating results and financial condition may be adversely affected. We have a business development and sales and marketing team focused on providing a high level of service to Universal as well as attracting new third party customers in the music, video and games markets. Our efforts to expand business with parties other than Universal may not succeed, and as a result, we may not be able to significantly reduce our dependence on Universal.

Under our agreements with Universal, we are required to deliver substantial volumes of products meeting stringent requirements. Our failure to successfully manage the production or supply of our products, including the failure to

meet scheduled production and delivery deadlines, or the failure of our products to meet required quality standards, could materially adversely affect our business, operating results and financial condition.

Our production levels, revenue and cash flows are largely affected by our customers product release schedule. The release schedule is dependent on a variety of factors such as consumer demand and the availability of marketable content. Our results of operations and cash flows in any period can be materially affected by the timing of product releases by our customers, which may result in significant fluctuations from period to period. In addition, the entertainment business is seasonal and, as such, we typically manufacture and distribute approximately 55% to 60% of our annual demand by volume in the second half of the calendar year. Typically the lowest demand is experienced in the first calendar quarter with the highest demand occurring in the last calendar quarter. This seasonality cycles year over year and is also influenced by Universal s new product release schedule.

International Business Risks

International sales are subject to the customary risks associated with international transactions, including political risks, local laws and taxes, the potential imposition of trade or currency exchange restrictions, tariff increases, transportation delays, difficulties or delays in collecting accounts receivable and, to a lesser extent, exchange rate fluctuations. Accordingly, we may seek to mitigate our currency exchange fluctuation risk by entering into currency hedging transactions. We also mitigate certain risks associated with international transactions through the use of letters of credit. However, there can be no assurance that these efforts will successfully limit the risks associated with these international transactions.

Sensitivity to Economic Trends and Consumer Preferences

Our financial performance depends on consumer demand for our customers products. Substantially all of the purchases of the pre-recorded media products sold by our customers are discretionary. Accordingly, weak economic conditions or outlook or varying consumer confidence could significantly reduce consumption in any of our customers major markets thereby causing material declines in our sales and net earnings. In addition, because of the discretionary nature of their products, our customers must continually compete for the public s leisure time and disposable income with other forms of entertainment, including legal and illegal downloading of content, box office movies, sporting events, concerts, live theatre and restaurants. As a result of this competition, demand for our customers products could be reduced and our sales volumes and gross profit margins could be adversely affected.

Increased Costs or Shortages of Raw Materials or Energy

We purchase significant quantities of plastics (e.g., polystyrene and polycarbonate), the key raw materials used in the production of DVDs, CDs, jewel cases and trays. The availability and price of these materials may be influenced by a number of different factors, many of which are beyond our control, including weather, transportation, increased demand, production delays and the price of oil. The costs of these raw materials are passed through to Universal. The processes at our manufacturing and distribution facilities are energy-intensive. Therefore, increases in energy costs would adversely affect our gross margins and results of operations.

Advances in Technology, Efforts to Add Services and Changes in Customer Demands

Changes in the technology employed by the pre-recorded media industry and the emergence of the future generations of multimedia products, such as Blu-ray discs or HD-DVD, may require us to extensively upgrade or alter our manufacturing processes and production facilities in order to offer the most up-to-date product variations. As the demands and requirements of our customers shift, we will need to modify the products and services offered to retain these customers. The costs associated with adapting our operations to these requirements will likely be significant. The initiatives we are pursuing to increase revenue by providing a wide range of manufacturing, distribution and value added services to entertainment content owners and their customers will also require us to incur costs, which may be significant. However, there can be no assurance that these initiatives will succeed in significantly increasing our revenues. If we are unable to obtain the resources necessary to fund product expansion and new technology development or to increase revenues by adding to the types of manufacturing, distribution and value added services we provide to our customers, we may not be able to successfully implement our business strategies and our market share, gross profit margins and results of operations could be adversely affected.

Development of Digital Distribution Alternatives; Including Copying and Distribution of Music and Video Files

Our business is dependent on the continued viability and growth of physical distribution of music and video through authorized pre-recorded media. Alternative distribution channels and methods, both authorized and unauthorized, for delivering music may erode our volume of sales and the pricing of our products and services. The growth of

these alternatives is driven by advances in technology that allow for the transfer and downloading of music and video files from the Internet. The proliferation of this copying, use and distribution of such files is supported by the increasing availability and decreasing price of new technologies, such as personal video recorders, CD and DVD burners, portable MP3 music and video players, widespread access to the Internet, and the increasing number of peer-to-peer digital distribution services that facilitate file transfers and downloading. We expect that file sharing and downloading, both legally and illegally, will continue to exert downward pressure on the demand for CDs. As current technologies and delivery systems improve, the digital transfer and downloading of video files will likely become more widespread. As the speed and quality with which video files can be transferred and downloaded improves, file sharing and downloading may in the future exert significant downward pressure on the demand for DVDs. In addition, our business faces pressure from the emerging distribution alternatives, like video on demand (VOD) and personal digital video recorders. As substantially all of our revenues are derived from the sale of CDs and DVDs, increased file sharing, downloading and piracy or the growth of other alternative distribution channels and methods, could materially adversely affect our business, financial condition and results of operations.

Concentration of Suppliers

EDC s principle raw materials are polystyrene used in the manufacture of jewel boxes and trays (in Germany only) and polycarbonate used in the manufacture of CDs and DVDs. EDC has a limited number of suppliers who are able to provide raw materials. In Germany, we purchase polystyrene (accounting for approximately 6% of total cost of sales), polycarbonate (accounting for approximately 8% of total cost of sales) and any jewel boxes and trays, not internally manufactured, (accounting for approximately 7% of total cost of sales) from several suppliers. In the UK, we purchase polycarbonate (accounting for approximately 16% of total cost of sales) and jewel boxes and trays (accounting for approximately 33% of total cost of sales), which are not manufactured by EDC, from several suppliers. In the U.S., we purchase polycarbonate (accounting for approximately 10% of total cost of sales) and jewel boxes and trays (accounting for approximately 22% of total cost of sales), which are not manufactured by EDC, from several suppliers.

These inputs are crucial to the production of CDs and DVDs and while there are alternative suppliers of these products, it would be disruptive to EDC s production if any of our suppliers were unable to deliver their product to EDC which could materially adversely affect our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES

The following table sets forth certain information regarding our principal facilities used in its continuing operations:

Location	Size (Square Feet)	Owned Or Leased	Lease Expiration Date	Used
Blackburn, England	148,869	Leased	2017	Manufacturing facility and offices for EDC UK information services, finance and accounting.
Grover, North Carolina	356,000	Owned	N/A	Manufacturing facility and administrative offices for EDC U.S. manufacturing operations.
Fishers, Indiana	648,000	Leased	2012	Full stocking warehouse and distribution center, offices for EDC U.S. information services, and corporate accounting and finance.
Reno, Nevada	100,000	Leased	2010	EDC product warehouse and distribution center.
Wilkes-Barre, Pennsylvania	60,000	Leased	2010	EDC product warehouse and distribution center.
New York, New York	5,300	Leased	2007	EDC Headquarters
Hanover, Germany	738,000	Leased	2015	Manufacturing facility and full stocking warehouse and distribution center and offices for EDC central Europe information services, finance and accounting.

In addition to our principal facilities listed above, we have leased facilities for certain of our international sales offices associated with discontinued operations which are in various stages of disposition or closing.

ITEM 3. LEGAL PROCEEDINGS

In addition to the legal proceedings discussed below, we are, from time to time, involved in various disputes and legal actions related to our business operations. While no assurance can be given regarding the outcome of these matters, based on information currently available, we believe that the resolution of these matters will not have a material adverse affect on our financial position or results of our future operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations and cash flows could be materially adversely affected.

EDC is currently not party to any material legal proceedings.

Shareholder Derivative Actions On September 6, 2006, Vladimir Gusinsky (Gusinsky), a Company shareholder, commenced a derivative action (the Gusinsky Action) in the Supreme Court of the State of New York, New York County, against the Company (as nominal defendant) and against certain of our current and former officers and directors as defendants. On December 4, 2006, Gusinsky filed an amended complaint, and on January 22, 2007 Gusinsky filed a corrected amended complaint. The amended complaint, purportedly on behalf of the Company, alleges that the defendants breached their fiduciary duties by improperly backdating the grant of stock options between December 1994 and October 2002 and disseminating financial statements and proxy materials in violation of the securities laws and generally accepted accounting principles as a result of such allegedly improper grants. The corrected amended complaint further alleges that certain individual defendants concealed the alleged misconduct and

were unjustly enriched as a result of their receipt and retention of the subject stock option grants. The plaintiff seeks to obtain, on behalf of the Company, an accounting, damages against all of the named individual defendants, disgorgement of all options and the proceeds thereof by those defendants who were recipients of the allegedly backdated options, and attorneys fees and costs. The plaintiff also seeks to have any stock option contract entered into between the Company and those defendants who were the recipients of the allegedly backdated options rescinded, and all executory contracts cancelled and declared void.

Following the Gusinsky Action, the Company s Board of Directors established a Special Litigation Committee (SLC) of the Board to conduct a full investigation of the claims asserted in the action. The SLC engaged independent legal counsel and an independent accounting advisor to assist counsel by providing forensic accounting assistance in connection with the SLC s investigation. The SLC expanded the scope of its review and examined all 51 grants made to directors or officers of the Company during the period 1993 through 2004 in greater depth to determine whether the Company had used the proper measurement dates in accounting for those grants. On January 26, 2007 and February 7, 2007, two additional, derivative actions were commenced in the United States District Court for the Southern District of New York by two different Company shareholders, Larry L. Stoll and Mark C.

Neiswender, respectively (the Subsequent Actions). The Subsequent Actions are identical to each other, and assert the same claims as those asserted in the Gusinsky Action regarding a subset of the same option grants at issue in that action along with additional claims alleging violations of federal securities laws relating to those grants. The SLC expanded the scope of its review to include the claims asserted in Subsequent Actions.

As disclosed in the Explanatory Note immediately preceding Part I of this Form 10-K, the SLC completed its investigation on February 27, 2007 and, with one possible exception concerning the May 31, 2000 option grant, the SLC did not identify evidence of backdating of options, spring-loading (awarding grants before the release of positive material information), or bullet-dodging (awarding grants after the release of materially damaging information). The investigation did, however, reveal a series of administrative issues that, in 14 of the 51 grants to executives and directors from 1993 through 2003, had potential accounting implications as a result of the recording of improper option grant dates. With regard to all of these grants, including the May 31, 2000 grant, the SLC has concluded that there is no conclusive or compelling evidence that any of the named defendants in the lawsuits breached the fiduciary duties of care or loyalty, or acted in bad faith with respect to their obligations to the Company or its shareholders, and further concluded that it would not be in the Company s best interest to pursue any claims with respect to these grants.

Management and the Company s Audit Committee have determined that the non-cash stock-based compensation expense for certain stock option grants was material to certain of the Company s previously filed financial statements. Accordingly, on February 28, 2007 the Company determined that it is appropriate to restate its previously issued financial statements for the fiscal years ended 1993, 1994, 2000, 2001, 2002 and 2003 to reflect additional non-cash charges for stock-based compensation expense. For additional information regarding the restatement, see the Explanatory Note immediately preceding Part I of this 10-K and Note 2, Restatement of Consolidated Financial Statements to the consolidated financial statements.

The Company has obtained an extension of time until March 29, 2007 to respond or move with respect to the corrected amended complaint filed in the Gusinsky Action, and currently has at least until April 1, 2007 and April 8, 2007, respectively, to respond or move with respect to the complaints filed in the Subsequent Actions.

Discontinued Operations:

In connection with the licensing of our former Messaging division s software products, our standard purchase and license agreements typically required us to defend and indemnify our customers against claims that our licensed programs infringe or misappropriate the intellectual property rights of third parties. Under these agreements, we agreed to indemnify, defend and hold harmless the customer in connection with patent, copyright, trade secret or mask works infringement claims made by third parties with respect to the customer s authorized use of our licensed programs. In connection with the sale of substantially all of the assets comprising the Messaging business, the purchaser has assumed these purchase and license agreements and the associated indemnification obligations. In addition, as part of the sale of Messaging, the purchaser has agreed to indemnify us against any losses incurred by us arising out of or resulting from the indemnification obligations included in such purchase and license agreements.

Phillip Jackson Beginning in late 2001, Phillip Jackson (Jackson) filed lawsuits against several of our customers claiming that products sold by us and used by these customers infringed a patent held by Jackson. We agreed to indemnify our customers for the claims in these lawsuits and assumed primary responsibility for defending the claims with respect to our products. Following completion of the trial and post-trial reduction of damages by the court, the court entered judgment in the total amount of approximately $2.7 million, plus interest and costs. During the first quarter of 2004, we recorded a charge consisting of $2.7 million of royalty fee expense (recorded in cost of revenues) and $200,000 of interest expense, and recorded a reduction of the estimated liability for accrued legal cost associated with this case of $770,000. We paid the $2.7 million award plus interest and costs during the second quarter of 2004. On May 14, 2004, Jackson filed a motion with the trial court to set trial on remaining issues of contributory infringement and inducement to infringe Jackson s patent. On June 29, 2004, the trial court ruled that there were no issues remaining between the parties and denied Jackson s motion to set trial on remaining issues. Jackson filed an appeal with respect to this ruling and the appeal was argued before the United States Court of Appeals for the Federal Circuit on March 11, 2005. On April 11, 2006, the appellate court ruled on the appeal in our favor, affirming the trial court s ruling of June 29, 2004 and dismissing Jackson s claim for a second trial on other issues. On April 25, 2006, Jackson filed a request for rehearing en banc with the appellate court that was subsequently denied. Since that time,

Jackson filed a petition for writ of certiorari to the Supreme Court of the United States seeking further appellate review of the decision. We filed a responsive brief in opposition to the Jackson petition on

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October 10, 2006. On November 13, 2006, the Supreme Court issued an order denying Jackson s petition for writ of certiorari and this matter is now closed.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Market under the symbol GEMS. The table below sets forth the inter-day high and low sale prices for our common stock on the NASDAQ Global Market for the periods indicated.

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2006		
First Quarter	$5.25	$3.17
Second Quarter	$6.02	$2.21
Third Quarter	$2.80	$2.00
Fourth Quarter	$2.69	$2.15
Year Ended December 31, 2005		
First Quarter	$2.59	$1.71
Second Quarter	$4.09	$1.74
Third Quarter	$4.44	$3.12
Fourth Quarter	$3.85	$2.90

At March 28, 2007 there were approximately 1,604 holders of record of our common stock.

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

Stock Performance Graph

The following Stock Performance Graph and related information shall not be deemed soliciting material, or to be filed with the SEC nor shall such information be incorporated by reference in any filing of the Company under the Securities Act or Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total return on $100 invested on December 31, 2001 in each of the Company s Common Stock, the NASDAQ U.S. Composite Index and the S&P 500 Movies & Entertainment Index at the end of each fiscal year through 2006. The returns are calculated assuming the reinvestment of dividends. The

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Company has not paid any cash dividends during the period covered by the graph below. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	Base Period	INDEXED RETURNS Years Ending				
Company / Index	**Dec01**	**Dec02**	**Dec03**	**Dec04**	**Dec05**	**Dec06**
GLENAYRE TECHNOLOGIES INC	**100**	69.94	165.03	133.74	199.39	157.06
NASDAQ U.S INDEX	**100**	69.13	103.36	112.49	114.88	126.22
S&P500 MOVIES & ENTERTAINMENT INDEX	**100**	62.41	78.93	79.78	70.47	90.38

Equity Compensation Plan Information

The following table provides information as of December, 2006 with respect to our shares of common stock that may be issued under our existing equity compensation plan, which has been approved by our stockholders:

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EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Common Shares to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Common Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Common Shares Reflected in Column (a)) (c)
Equity compensation plan approved by stockholders	4,970,578	$3.36	6,180,420

ITEM 6. SELECTED FINANCIAL DATA

In past periods, including during fiscal year 2006, we had two reportable business segments: Entertainment Distribution Company (EDC) and Glenayre Messaging (Messaging). On December 31, 2006, we sold substantially all of the assets comprising the Messaging business. As a result, all prior period information has been restated to present the operations of this segment as discontinued operations.

The Selected Consolidated Financial Data presented below as of and for the years ended December 31, 2003 and 2002 set forth below have been restated as set forth in this Form 10-K and as more fully described in Note 2, Restatement of Consolidated Financial Statements to the consolidated financial statements, but such restated data has not been audited and is derived from the Company s books and records. The Selected Consolidated Financial Data presented below for each of the three years in the period ended December 31, 2006 has been derived from our audited consolidated financial statements.

We have not amended any and we do not intend to amend any of our previously-filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this annual report on Form 10-K, and the financial statements and related financial information contained in previously-filed reports should no longer be relied upon.

The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management s Discussion and Analysis-Financial Condition and Results of Operations and the consolidated financial statements and Notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

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	Year Ended December 31,								
	2006 (1)	**2005 (2)**	**2004**	**2003**			**2002 (3)**		
				As Previously Reported	**Adjust- ments**	**As Restated (4)**	**As Previously Reported**	**Adjust- ments**	**As Restated (4)**
	(In thousands, except per share data)								
Operating Data (5):									
Total revenues	$ 348,528	$ 189,588	$	$	$	$	$	$	$
Income (loss) from continuing operations	(1,550)	1,785	(4,277)	(3,425)		(3,425)	(2,527)		(2,527)
Discontinued operations	(8,220)	6,190	8,796	5,058	(49)	5,009	(5,223)	(130)	(5,353)
Gain on sale of Messaging business	6,127								
Extraordinary Gain	7,668								
Net income (loss)	4,025	7,975	4,519	1,633	(49)	1,584	(7,750)	(130)	(7,880)
Per Share Data:									
Per Weighted Average Common Share:									
Income (loss) from continuing operations	(0.02)	0.03	(0.06)	(0.05)		(0.05)	(0.04)		(0.04)
Discontinued operations	(0.12)	0.09	0.13	0.08		0.08	(0.08)		(0.08)
Gain on sale of Messaging business	0.09								
Extraordinary Gain	0.11								
Net income (loss)	0.06	0.12	0.07	0.02		0.02	(0.12)		(0.12)
Per Common Share Assuming Dilution:									

Income (loss) from continuing operations	(0.02)	0.03	(0.06)	(0.05)		(0.05)	(0.04)		(0.04)
Discontinued operations	(0.12)	0.09	0.13	0.08		0.08	(0.08)		(0.08)
Gain on sale of Messaging business	0.09								
Extraordinary Gain	0.11								
Net income (loss)	0.06	0.11	0.07	0.02		0.02	(0.12)		(0.12)
Balance Sheet Data:									
		Restated(4)	**Restated(4)**						
Working capital	$ 59,874	$ 47,539	$ 89,120	$ 88,386	$	$ 88,386	$ 102,854	$	$ 102,854
Total assets	324,236	313,472	121,282	133,355		133,355	145,804		145,804
Long-term debt	43,959	61,868							
Accumulated deficit	(258,199)	(262,224)	(270,199)	(273,368)	(1,350)	(274,718)	(275,001)	(1,301)	(276,302)
Stockholders equity	112,785	103,681	95,185	90,232		90,232	87,792		87,792

(1) During 2006, we acquired Deluxe s CD Manufacturing operations in Blackburn, England. A gain of $7.7 million was recorded on the acquisition. See Note 3 to the consolidated financial statements.

(2) During 2005, we acquired Universal s U.S. and central European CD and DVD manufacturing and distribution operations. See Note 3 to the

consolidated financial statements.

(3) The results for 2002 were impacted by an impairment charge of $21.3 million related to the write-down of continuing operations long-lived assets based on the evaluation of recoverability in accordance with Statement of Financial Accounting Standard No. 144.

(4) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements.

(5) On December 31, 2006, we completed the sale of substantially all of our assets of our Messaging business. We recorded a gain on this sale of $6.1 million in the fourth quarter. Due to this sale, the results of

Messaging operations have been reclassified from continuing to discontinued operations for all periods presented.

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) describes the matters that we consider to be important to understanding the results of our operations for each of the three years in the period ended December 31, 2006, and our financial condition and liquidity as of December 31, 2006.

In past periods, including during fiscal year 2006, we had two reportable business segments: Entertainment Distribution Company (EDC) and Glenayre Messaging (Messaging). On December 31, 2006, we sold substantially all of the assets comprising the Messaging business. As a result, all prior period information has been restated to present the operations of this segment as discontinued operations.

EDC, our only continuing segment, is an industry leader in providing pre-recorded products and distribution services to the entertainment industry with operations serving the U.S., central Europe and the UK. EDC is comprised of operations acquired in separate acquisitions in 2005 of our U.S. and central Europe operations and in 2006 of our UK operations, as is discussed in more detail below. We offer customers one solution for both manufacturing and delivery requirements; and therefore, our CD/DVD manufacturing and distribution operations are integral to one another. Meeting the logistical requirements of our customers is the core competency of this business. The nature of the products and services in our three geographic markets are similar and our primary customer is Universal.

Key Events and Executive Overview

On May 31, 2005, we, through our then newly formed EDC segment, acquired the U.S. and central European CD and DVD manufacturing and distribution operations from Universal. The acquisition was a strategic opportunity for us to become an industry leader in providing pre-recorded products and distribution services to the entertainment industry. As part of the transaction, EDC entered into supply agreements with Universal with initial terms of 10 years under which it immediately became exclusive manufacturer and distributor for approximately 80% of Universal s CD and DVD manufacturing requirements and 100% of their distribution requirements for the U.S. and central Europe. Under these contracts, EDC has responsibility for all but 5% of Universal s requirements in the U.S. and central Europe that were previously outsourced as Universal s commitments to third party suppliers have expired since May 2005.

On July 21, 2006, EDC acquired a CD manufacturing operation in Blackburn, UK (the UK operations). Blackburn is the largest CD replicator in the UK. Its customer base includes Universal, its largest customer, as well as Demon Music Group, Sanctuary Records Group and Warner Music Group. This acquisition also allowed EDC to secure all of Universal s UK CD manufacturing business, a portion of which was scheduled to revert to EDC in 2007 as part of EDC s international supply agreement with Universal.

The results of EDC s operations have been included in our consolidated financial statements since the acquisition on May 31, 2005 and the results of our UK operations have been included since their acquisition on July 21, 2006.

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Revenues for 2006 and 2005 were $348.5 million and $189.6 million, respectively. As reported in Note 3 to the consolidated financial statements, pro forma revenues for 2005, assuming the acquisition of EDC s operations on January 1, 2005, were $305.6 million. Our 2006 revenues represent an increase of approximately 14.0% compared to such pro forma results. The pro forma results for 2005 do not include Blackburn results. Therefore, the increase was primarily due to revenues from our UK operations acquired in July 2006.

On December 31, 2006, we sold substantially all of the assets comprising our other reportable segment Messaging. The sale of U.S. Messaging s assets closed on December 31, 2006, with the transfer of certain international locations scheduled to close before the end of the second quarter of 2007. All prior period information has been restated to present the operations of this segment as discontinued operations.

Results of Continuing Operations

The following table sets forth our operating results as a percentage of total revenues for the periods indicated. With the sale of substantially all of the assets comprising our Messaging segment on December 31, 2006, all results for this segment have been reported as results from discontinued operations for all periods presented. Therefore, the following table includes only the continuing operations of the Company, the EDC segment. Since the EDC acquisition was consummated on May 31, 2005, our results of operations in 2005 only include seven months of operations for EDC and our results of operations in 2004 did not include EDC. As a result, the results of operations in 2004 are only comprised of corporate overhead expenses. Therefore, information for the year ended December 31, 2004 is not included in the table below.

	Periods Ended December 31,	
	2006	2005
	(Percentage of Revenues)	
REVENUES:		
Product	76.6%	72.7%
Services	23.4%	27.3%
Total Revenues	100.0%	100.0%
COST OF REVENUES:		
Product	63.6%	60.6%
Services	17.4%	19.2%
Total Cost of Revenues	81.0%	79.8%
GROSS PROFIT	19.0%	20.2%
OPERATING EXPENSES:		
Selling, general and administrative	14.0%	14.5%
Amortization of intangible assets	2.3%	2.0%
Total Operating Expenses	16.3%	16.5%
OPERATING INCOME	2.7%	3.7%
OTHER INCOME (EXPENSE):		
Interest income	1.2%	1.5%
Interest expense	-1.7%	-1.9%
Gain (loss) on currency swap, net	-0.9%	0.4%
Transaction gain (loss), net	0.6%	-1.0%
Other income (expense)	0.0%	0.0%
Total Other Expenses	-0.8%	-1.0%

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST, DISCONTINUED OPERATIONS, GAIN ON SALE OF MESSAGING BUSINESS AND EXTRAORDINARY ITEM	1.9%	2.7%
Provision for income taxes	2.3%	1.8%
Minority interests	0.0%	0.1%
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS, GAIN ON SALE OF MESSAGING BUSINESS AND EXTRAORDINARY ITEM	-0.4%	0.8%
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX	-2.4%	3.3%
GAIN ON SALE OF MESSAGING BUSINESS, NET OF INCOME TAX	1.8%	0.0%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	-1.0%	4.1%
Extraordinary gain, net of income tax	2.2%	0.0%
NET INCOME	1.2%	4.1%

Year Ended December 31, 2006 compared to Year Ended December 31, 2005

With the sale of substantially all of the assets comprising our Messaging segment on December 31, 2006, all results for this segment have been reported as results from discontinued operations for all periods presented. Therefore, the following discussion includes only the continuing operations of the Company, the EDC segment. Since the EDC acquisition was consummated on May 31, 2005, our results of operations in 2005 only included seven months of operations for EDC.

Revenues. Revenues for the twelve months ended December 31, 2006 were $348.5 million compared to $189.6 million for the seven months ended December 31, 2005. The 2006 results included $40.6 million of revenues from our UK operations acquired in July 2006. Product revenues were $267.1 million in the 2006 period, including $40.6 million from our UK operations compared to $137.8 million for the 2005 period. Service revenues were $81.5 million in the 2006 period compared to $51.8 million for the 2005 period. During 2006, Universal individually accounted for approximately 87% of EDC s revenue compared to 91% in 2005. The increase in revenue in 2006 was largely due to twelve months of operations in 2006 versus seven months in 2005. EDC s revenues were also positively impacted by the settlement of CD pricing cost adjustments with Universal under the terms of the 10 year supply agreements. We expect growth in 2007 to be driven by a full year of results from our UK operations and additional third party business.

Gross Margins on Product Sales and Services. Gross margins were 19% of revenues during 2006 compared to 20% of revenues in 2005. Gross profits on product revenue were $45.3 million, or 17% of product revenues and gross profits on service revenues were $20.7 million or 25% of service revenues. Gross margins as a percent of revenue in 2006 were impacted by inclusion of a full year of EDC gross margins, which included five months of off-peak season results. Three of the seven months of EDC operations included in the 2005 period were from our peak selling season when our gross margin as a percent of sales is four to five percentage points higher than at other points in the year.

Selling, General and Administrative Expense (SG&A). SG&A expense was $48.6 million in 2006 compared to $27.5 million in 2005. The increase is primarily due to a full year of EDC s expenses in 2006 combined with SG&A costs from our UK operation acquired in 2006, internal and external costs related to SOX compliance and higher professional fees.

Amortization of Intangible Assets. Amortization expense was $7.9 million in 2006 compared to $3.7 million in 2005. The increase is due to the inclusion of a full year of amortization of intangibles in 2006 at EDC. The Company s amortizable intangible assets consist primarily of 10 year term manufacturing and distribution services agreements that EDC entered into with Universal as part of the acquisition in 2005, and agreements with various central European customers.

Other Income (Expenses)

Interest Income. Interest income in the 2006 period was $4.2 million compared to $2.9 million in 2005. Our interest income is primarily derived from income earned on excess cash held in interest-bearing money market accounts. The increase is primarily due to interest earned on a full year of EDC cash.

Interest Expense. Interest expense in the 2006 period was $6.0 million compared to $3.6 million in 2005. Our interest expense includes interest on our term debt, amortization of debt issuance costs, amortization of interest on our Rebate Loans payable to Universal and interest due on loans to EDC by employees of our central European operations under a government regulated employee savings plan. The increase is primarily due to interest on debt for a full year in 2006, compared to seven months in 2005.

Gains (Losses) on Currency Swap, net. We recorded losses of $3.2 million on our currency swap arrangement in 2006 compared to gains of $0.8 million in 2005. The losses in 2006 are due to the strengthening of the Euro against the U.S. dollar. The currency swap is not subject to hedge accounting but instead fluctuations in the fair value of the instrument are recorded in earnings for the period.

Transaction Gains (Losses), net. We recorded gains of $2.1 million on intercompany transactions with our international operations denominated in their local currency in 2006 compared to losses of $1.9 million in 2005. The gains in 2006 are due to the strengthening of the Euro against the U.S. dollar.

Income Taxes. The provision for income taxes increased $4.4 million to $7.9 million in 2006 primarily due to inclusion of a full year of EDC results and the taxes related to our UK operations. Our provision relates to income from operations from our central European and UK operations. We have offset any taxes on profits from our U.S. operations against net operating losses (NOL) recorded in accordance with SFAS 109. Additionally, we continue to maintain a full valuation allowance on our U.S. deferred tax assets until we reach an appropriate level of profitability in the U.S. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, we have concluded that a full valuation allowance is necessary at December 31, 2006. In the event we determine that we will be able to realize our deferred tax assets in the future, an adjustment to the valuation allowance would increase income in the period such determination was made.

Extraordinary Gain. The extraordinary gain in 2006 is due to gains recorded on the acquisition of the Blackburn assets in July 2006.

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

With the sale of substantially all of the assets comprising our Messaging segment on December 31, 2006, all results for this segment have been reported as results from discontinued operations for all periods presented. Therefore, the following discussion includes only the continuing operations of the Company, the EDC segment. Since the EDC acquisition was consummated on May 31, 2005, our results of operations in 2005 only included seven months of operations for EDC and our results of operations in 2004 only included certain corporate overhead expenses.

Revenues. Our revenues of $189.6 million in the 2005 period relate entirely to our EDC segment acquired in May 2005. Product revenues were $137.8 million and service revenues were $51.8 million.

Gross Margins on Product Sales and Services. Gross margins were 20% of revenues during 2005. Gross profits on product revenue were $23.0 million, or 17% of product revenues and gross profits on service revenues were $15.3 million or 30% of services revenues. Gross margins as a percent of revenue were impacted during 2005 by increased raw material costs that are passed through to Universal. The pass through of these costs to Universal contributes to revenue, but does not impact gross margins.

Selling, General and Administrative Expense (SG&A). SG&A expense was $27.5 million in 2005 compared to $5.3 million in 2004. The increase is primarily due to SG&A costs from the EDC segment acquired in May 2005. SG&A in 2004 were comprised of corporate costs not associated with the Messaging business sold on December 31, 2006.

Amortization of Intangible Assets. Amortization expense was $3.7 million in 2005. The intangible assets consist primarily of 10 year term manufacturing and distribution services agreements that EDC entered into with Universal as part of the acquisition in 2005, and agreements with various central European customers.

Other Income (Expenses)

Interest Income. Interest income in 2005 was $2.9 million compared to $1.2 million in 2004. Our interest income is primarily derived from income earned on excess cash held in interest-bearing money market accounts. The increase is primarily due to interest income on cash generated by the EDC operations that were acquired in May 2005.

Interest Expense. Interest expense in 2005 was $3.6 million. Our interest expense includes interest on our term debt, amortization of debt issuance costs, amortization of interest on our Rebate Loans payable to Universal and interest due on loans to EDC by employees of our central European operations under a government regulated employee savings plan. These debt related items were entered into, incurred or assumed as part of the EDC acquisition in May 2005.

Gains (Losses) on Currency Swap, net. We recorded gains on our currency swap arrangement of $0.8 million in 2005. The gains resulted from the weakening of the Euro compared to the U.S. dollar. The currency swap arrangement was entered into in May 2005 to manage the foreign currency exposure arising from loans to our German subsidiary. The currency swap is not subject to hedge accounting but instead fluctuations in the fair value of the instrument are recorded in earnings for the period.

Transaction Gains (Losses), net. We recorded losses of $1.9 million on intercompany transactions with our international operations denominated in their local currency in 2005. The losses in 2005 are due to the weakening of the Euro against the U.S. dollar.

Income Taxes. The provision for income taxes of $3.5 million in 2005 relates to income from operations of our central European operations. We have offset any taxes on profits from our U.S. operations against NOLs recorded in accordance with SFAS 109. Additionally, we continue to maintain a full valuation allowance on our U.S. deferred tax assets until we reach an appropriate level of profitability in the U.S. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, we have concluded that a full valuation allowance is necessary at December 31, 2005. In the event we determine that we will be able to realize our deferred tax assets in the future, an adjustment to the valuation allowance would increase income in the period such determination was made.

Results of Discontinued Operations

Discontinued operations include our Wireless Messaging (Paging) business, which we began exiting in May 2001 and our Messaging business, substantially all of the assets of which were sold in December 2006. See Wind-Down of Discontinued Operations below and Note 4 to the consolidated financial statements.

For the year ended December 31, 2006, we had losses from discontinued operations of $8.2 million from our Messaging and Paging segments. In 2006, we also recorded a gain of $6.1 million on the sale of substantially all of the assets of our Messaging business. For the years ended December 31, 2005 and 2004, we had income from discontinued operations of $6.2 million and $8.8 million, respectively, from our Messaging and Paging segments. The 2006 results included losses of $11.6 million from Messaging segment operations and $0.3 million from the wind-down of the Paging segment, offset by $3.7 million of income tax benefits from the Paging segment primarily from the release of a reserve for international business taxes as we received clearance for the potential tax liability from the applicable foreign country s taxing authority during the third quarter of 2006. The 2005 results included $5.8 million of income from Messaging segment operations and $0.4 million of income from the wind down of the Paging segment. The 2004 results included $12.7 million of income from the wind-down of the Paging segment, offset by $3.9 million from Messaging segment losses.

Financial Condition and Liquidity

Overview

At December 31, 2006, we had cash and cash equivalents and restricted cash totaling $120.5 million. The restricted cash of $24.4 million consisted primarily of cash and cash equivalents to fund the payment of German pension obligations and repayment of loans from employees of EDC s German operations. At December 31, 2006, Glenayre s principal sources of liquidity were our $96.1 million of unrestricted cash and cash equivalents and our $10.0 million unused revolving line of credit. Our cash generally consists of money market demand deposits and our cash equivalents generally consist of high-grade commercial paper, bank certificates of deposit, treasury bills,

notes or agency securities guaranteed by the U.S. government, and repurchase agreements backed by U.S. government securities with original maturities of three months or less.

We expect to use our cash and cash equivalents for working capital and other general corporate purposes, including the expansion and development of our existing products and markets, liabilities related to discontinued operations, and potential future acquisitions.

At December 31, 2006, approximately $5.6 million of liabilities related to discontinued operations remained outstanding primarily related to Messaging sale closing costs and a legal settlement.

Derivative Activities

We entered into a cross currency rate swap agreement with a commercial bank on May 31, 2005. The objective of this swap agreement is to manage foreign currency exposure arising from our loan to our German subsidiary, and is therefore for purposes other than trading. The loan is denominated in Euros and repayment is due on demand, or by May 31, 2010. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the currency swap does not qualify for hedge accounting. Therefore we report the foreign currency exchange gains or losses attributable to changes in the US$/Euro exchange rate on the currency swap in earnings in accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*.

The fair value of the currency rate swap was calculated based on mathematical approximations of market values derived from the commercial banks proprietary models as of a given date. These valuations are calculated on a mid-market basis and do not include a bid/offered spread that would be reflected in an actual price quotation. Therefore, the actual price quotations for unwinding these transactions would be different. These valuations and models rely on certain assumptions regarding past, present and future market conditions and are subject to change at any time. Valuations based on other models or assumptions may yield different results. At December 31, 2006, we are in a net loss position of $2.4 million on the fair value of the currency swap.

Cash Flows

Operating Activities. Cash provided by operating activities in 2006 was $9.4 million including $13.6 million from net income (excluding non-cash charges) offset by changes in operating assets and liabilities of $4.2 million. Cash provided by operating activities in 2005 was primarily due to EDC s acquisition of the Universal operations on May 31, 2005. Cash (used in) operating activities in 2004 of $2.3 million was due primarily to the losses from continuing operations, including both continuing and discontinued operations.

Changes in operating assets and liabilities in 2006 included:

- An increase of $3.1 million in accounts receivable due primarily to the acquisition of our UK operations in July 2006, which has a customer base with credit terms longer than EDC s primary customer.
- A decrease of $2.3 million in inventories.
- An increase of 3.5 million in prepaid expenses and other current assets primarily related to the timing of printed material pass-through costs and receivables related to advance VAT payments.
- A decrease in our long-term receivable of $5.5 million due to the receipt of scheduled payments.
- A decrease of $6.3 million in deferred revenues primarily due to the completion of delivery and installation of prior year invoiced transactions in our Messaging business.
- An increase in accounts payable, accrued liabilities and income taxes payable primarily due to the timing of payments.

Investing Activities.

In December 2006, we received proceeds of $25.0 million related to the sale of our Messaging business. Substantially all of the assets of the Messaging business were transferred and certain liabilities were assumed by the purchaser.

We spent $1.1 million, $2.3 million and $2.1 million in 2006, 2005 and 2004, respectively, on equipment used in Messaging operations, which was disposed of as part of the sale of the Messaging business.

In July 2006, we paid $5.6 million for net assets of our UK operations. The assets purchased included accounts receivable, inventory, other current assets, fixed assets and maintenance parts inventory, net of certain liabilities assumed.

In 2006, EDC capital expenditures were $14.2 million including $2.5 million for the purchase and installation of pre-owned DVD manufacturing equipment in our North Carolina operations, which provided DVD replication capabilities to our U.S. customers and $3.4 million for the purchase and installation of super jewel box manufacturing equipment in our central European facility. In 2005, EDC capital expenditures were $6.0 million including the installation of additional automated packaging equipment and a network mastering system in support of improving efficiencies. During 2005, EDC also installed additional DVD capacity and optimized the warehouse conveyor systems resulting in better utilization of labor and higher throughput in our central European facility. The capacity increase was implemented utilizing the existing work force without adding employees. The savings from these projects are expected to be fully realized in 2007.

In June 2006, as part of our amendment of our Senior Secured Credit Facility with Wachovia Bank, which is described below, $16.5 million of restricted cash was released that had been held as collateral since the acquisition of the EDC assets in May 2005.

Financing Activities.

In 2005, EDC entered into a Senior Secured Credit Facility with Wachovia Bank to partially fund the purchase of the Universal operations for an aggregate principal amount of $56.5 million consisting of a term facility of $46.5 million and a revolving credit facility of $10.0 million. In June 2006, EDC amended its Senior Secured Credit Facility to extend the revolving line of credit, modify the applicable leverage and fixed charge coverage ratios, and move all required principal payment dates from June 30th to December 31st. The term loan expires on December 31, 2010 and the revolving credit facility expires on May 31, 2007. The amendment also released the $16.5 million cash collateral that we deposited with the lender at closing of the EDC acquisition. The Senior Secured Credit Facility bears interest, at our option, at either: the higher of (i) the Prime Rate in effect and (ii) the Federal Funds Effective Rate in effect plus 1/2 of 1%; or the LIBOR plus a 2.50% margin. The applicable LIBOR is determined periodically based on the length of the interest term selected by us. The weighted average interest rate of outstanding debt was 7.87% at December 31, 2006. At December 31, 2006, the total outstanding amount of the facility was $35.0 million consisting of a term loan of $35.0 million and a $10 million revolving credit facility, which was unused as of December 31, 2006.

Under the terms of the supply contracts entered into as part of the EDC acquisition in 2005, EDC is obligated to pay to Universal deferred acquisition payments with a net present value using a discount rate of 6.52% that totaled approximately $39.8 million at acquisition, using the May 2005 Euro to U.S. dollar exchange rate of 1.2474. At December 31, 2006, the obligation to Universal was $30.1 million (using a 6.52% discount rate).

During 2006, we made scheduled debt payments of $15.4 million under our long-term debt and capital lease obligations and payments of $1.2 million under our employee loan agreements.

During 2006, 2005 and 2004, we issued our common stock in connection with the exercise of options and other awards and purchases under our Employee Stock Purchase Plan for total proceeds of $1.8 million, $1.7 million and $0.4 million, respectively.

Capital Expenditures

Capital spending amounted to approximately $15.3 million in 2006 and is anticipated to be approximately $12-14 million in 2007. Anticipated expenditures in 2007 are expected to include additional production equipment for our U.S. manufacturing facility and IT infrastructure upgrades for our U.S. operations with the remainder targeted for normal equipment and facility maintenance, replacement and upgrades and efficiency improvements.

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Income Tax Matters

Glenayre s recent cash outlays for income taxes have been limited primarily to foreign income taxes. At December 31, 2006, Glenayre had U.S. and international net operating loss carryforwards (NOLs) aggregating approximately $355.3 million, which may be used to offset future taxable income and reduce federal and international income taxes. These NOLs begin to expire in 2007 as noted in the table below:

	Unrestricted U.S.	Restricted U.S.	INT'L*	Total
2007	$	$ 1.8	$	$ 1.8
2008		3.3		$ 3.3
2009		3.7	3.8	$ 7.5
2010		5.9	41.4	$ 47.3
2011		9.0		$ 9.0
2012		9.4	0.2	$ 9.6
2019	44.3			$ 44.3
2020	50.6			$ 50.6
2021	65.0			$ 65.0
2022	13.4			$ 13.4
2023	20.7			$ 20.7
2024	48.4			$ 48.4
2025	2.0			$ 2.0
2026	32.4			$ 32.4
TOTAL	$ 276.8	$ 33.1	$ 45.4	$ 355.3

*International NOLs are primarily related to Canada.

Contractual Obligations

The following table summarizes our contractual obligations, as discussed in the Notes to Consolidated Financial Statements, as of December 31, 2006 (in thousands):

	Payments Due by Period				
	Total	2007	2008	2009-2010	Thereafter
Long-term debt (1)	$ 67,779	$ 22,202	$ 23,602	$ 20,258	$ 1,717
Capital lease (2)	998	350	253	395	
Loans from employees (3)	5,466	1,245	1,078	1,788	1,355
Operating leases (4)	64,802	8,306	8,268	15,968	32,260
Pension obligations (5)	11,241	581	620	685	9,355
Purchase obligations (6)	9,636	9,591	30	15	
Total	$ 159,922	$ 42,275	$ 33,851	$ 39,109	$ 44,687

(1) Long-term debt includes a commercial bank loan and

deferred acquisition payments due to Universal. See Note 14 to the consolidated financial statements.

(2) Capital lease includes a piece of production related equipment in our central European facility.

(3) Loans from employees. See Note 14 to the consolidated financial statements.

(4) We lease manufacturing, distribution and office facilities, and equipment under operating leases.

(5) Pension obligations. A significant portion of this balance will be settled using cash held in escrow. See Note 16 to the consolidated financial statements.

(6) The amount represents cancelable and non-cancelable purchase

agreements for
inventory.

The commercial bank loan contains usual and customary restrictive covenants that, among other things, permit EDC to use the revolver only as a source of liquidity for EDC and its subsidiaries and place limitations on (i) EDC s ability to incur additional indebtedness; (ii) EDC s ability to pay dividends or acquisitions outside our current industries; (iii) EDC s ability to make any payments to Glenayre in the form of cash dividends, loans or advances (other than tax distributions) and (iv) asset dispositions by EDC. It also contains financial covenants relating to maximum consolidated leverage, minimum interest coverage and maximum senior secured leverage as defined therein.

We have additional liabilities for defined benefit plans not included in the above table. See Note 16 to the consolidated financial statements.

Outlook

For the year ahead, while we plan to focus on our cost reduction initiatives, we expect EDC to be directly impacted by the trend in sales of CDs and DVDs on a global basis. Our assumptions are that CD sales globally will decline by roughly 7% in 2007. There has been an acceleration in the rate of decline since 2006 and we will monitor the market closely as a further deterioration in the month over month sales of CDs and DVDs will certainly impact our expectations for the year. Offsetting this possible negative development, is the fact that we have only modest new business assumptions in our 2007 business plan. Despite 2007 being off to a slow start for the industry, it is early and our biggest customer has some very exciting releases on the horizon, which make us cautiously optimistic for the full year. We are well positioned to continue to execute on our strategy of gaining market share in the declining physical manufacturing and distribution space. We are aggressively pursuing third party customers. We have also expanded our physical service offerings to our client base and we are set to capture our remaining reversionary business prior to the end of the year as we have negotiated for an early reversion of the applicable contract. Since we have to invest in additional capacity and start-up costs for the new lines, we would expect to see only a modest benefit of the new lines in 2007, with the full impact beginning in 2008. These new lines will provide us greater third party capacity that we hope to sell this year, which would be incrementally profitable.

The current state of the CD and DVD physical space demands that we more aggressively develop our digital business plan. Digital is a counter-balance to the decline of the physical unit sales the market and EDC are experiencing. Currently EDC provides many of the back-office services that connect content owners and consumers on the physical side. We believe there is a similar role for EDC in the back-office preparation, management and distribution of digital assets. We have identified several core back-office digital music service partnerships, or, at the right price, acquisition opportunities, which are critical for us to carefully pursue in the near-term as they will play a role in supporting the long term growth of EDC.

We believe EDC remains uniquely positioned. Our 10 year contract with Universal Music shields us from many of the near-term challenges affecting other physical manufacturing and distribution companies. It also makes us unique in that it allows us to be more selective in the actions we choose to take. That, coupled with our strong balance sheet and NOLs, positions us well to be one of the survivors and consolidators not only in the physical space, but also in the emerging digital back office services market.

This Outlook section contains forward-looking statements that are subject to the risks described above in Part I Item 1A, Risk Factors.

Critical Accounting Policies and Estimates

General. Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company s consolidated financial statements.

Bad Debt. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. On a quarterly basis, we perform a reserve calculation based on the aging of receivables and either increase or decrease the estimate of doubtful accounts accordingly. Additional allowances may be required if one or more customer s financial condition deteriorates, resulting in an impairment of their ability to make payments. Such allowances, if any, would be recorded in the period the impairment is identified.

Inventory. Inventories are valued using a first in, first out method and are valued at the lower of average cost or net realizable value. On a quarterly basis, we assess the ultimate realization of inventories by making judgments as to future demand requirements compared to the current or committed inventory levels.

Generally, we do not own the finished goods and component parts produced by the EDC division. Consequently, reserves are minimal and relate primarily to raw materials. Our inventories at December 31, 2006 were $8.7 million, net of reserves of $1.1 million.

Pension, Early Retirement and Long-term Service Awards. The Pension, Early Retirement and Long-term Service Awards cover employees of EDC s German operation and Long-term Service Awards for employees of EDC s UK operation. The benefit costs and obligations for these plans are actuarially calculated based on various assumptions including discount rates, salary growth rates and other factors. The discount rate assumption is based on current investment yields on high quality fixed income investments. The salary growth assumptions include long-term actual experience and expectations for future growth. The differences between actual experience and the assumptions are accumulated and amortized over the estimated future working life of the plan participants. See Note 16 to the consolidated financial statements for specific assumption values.

Post-retirement Health Care Benefit. We have a plan for post-retirement health care benefits covering a limited number of employees and retirees. The post-retirement benefit costs and obligations for this plan are actuarially calculated based on various assumptions. These assumptions relate to discount rates, medical cost trend rates and other factors. The discount rate assumption is based on current investment yields on high quality fixed income investments. The salary growth assumptions include long-term actual experience and expectations for future growth. The medical cost trend assumptions are based on historical cost data, the near-term outlook and an assessment of likely long-term trends. The differences between actual experience and the assumptions are accumulated and amortized over the estimated future working life of the plan participants. See Note 16 to the consolidated financial statements for specific assumption values.

Wind-Down of Discontinued Operations

Messaging Segment. On December 31, 2006, we completed the sale of substantially all of the assets comprising our Messaging segment. The sale was accounted for as a sale of a segment of business in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Accordingly, the operating results of the Messaging segment have been classified as a discontinued operations for all periods presented in the Company s consolidated statements of operations. The proceeds from the sale related to both domestic and international operations. The parties are in the process of determining which international subsidiaries will be transferred through an asset transfer and which will be transferred through a transfer of equity interests. It is expected that all such transfers will be completed before the end of the second quarter of 2007, and during such transition period, the Company will operate such foreign assets for the purchaser and the purchaser will reimburse the Company for normal costs associated with such foreign assets. During the second quarter of 2007, the parties will also be completing the calculation of the closing working captial, which may result in certain adjustments to the consideration pursuant to the asset purchase agreement. In December 2006, we recorded an estimated gain on the sale of $6.1 million.

Paging Segment. In May 2001, we began exiting the Wireless Messaging (Paging) business. The Paging segment was reported as a disposal of a segment of business in accordance with APB Opinion No. 30, *Reporting the Results of Operations*. Accordingly, the operating results of the Paging segment have been classified as discontinued operations for all periods presented in the Company s consolidated statements of operations. During 2006, 2005 and 2004, we recorded a net reduction in the loss on disposal of $3.4 million, $0.4 million and $12.7 million, respectively. The adjustments in all three years were primarily as a result of our review of the estimated asset values and liabilities and future commitments related to the discontinued operations. Included in the 2006 reduction, we recognized an income tax benefit due to the release of a reserve for international business taxes of $4.1 million. We will continue to monitor our future obligations associated with our pre-existing contractual commitments in the Paging business in order to assess the current carrying values of the assets and liabilities associated with the discontinued operations.

At December 31, 2006, we had current liabilities of $0.1 million related to these discontinued operations.

Numerous estimates and assumptions were made in determining the net realizable value related to the discontinued operations assets and various obligations noted above. These original estimates have been and are subject to further recalculation as a result of future changes in estimates related to our future obligations associated with our pre-existing contractual commitments and actions to finalize the abandonment of the discontinued operations. See Note 4 to the consolidated financial statements.

Taxes

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, (SFAS 109) establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to

recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or its results of operations.

At December 31, 2006, we had deferred tax assets of $168.9 million primarily related to operations in the U.S. and Canada and deferred tax liabilities of $19.1 million primarily related to operations in Germany. The valuation allowance of $155.8 million reduces the deferred tax assets to the amount that is more likely than not to be realized and results in a net deferred tax liability of $6.0 million. We are maintaining a full valuation allowance on our United States deferred tax assets until we reach an appropriate level and consistency of profitability in the United States. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, we have concluded that a full valuation allowance is necessary at December 31, 2006. In the event we determine that we will be able to realize these deferred tax assets in the future, an adjustment to the valuation allowance would increase net income in the period such determination was made. See Note 15 to the consolidated financial statements for a more indepth income tax analysis.

Shared-Based Compensation. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. We use the Black-Scholes-Merton model to estimate compensation expense using certain variables and estimates. These variables and estimates include dividend yield, estimated forfeitures, expected life, stock price volatility and interest rate. We recognize expense on a straight-line basis over the requisite service period, which is normally the vesting period. See Note 17 to the consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FAS 109, *Accounting for Income Taxes* (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. We do not believe that the adoption of FIN 48 will have a material effect on our financial position and results of operations.

In September 2006, the FASB issued FAS 157, Fair Value Measurements which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The statement is effective for us beginning January 1, 2008. We are still assessing the potential impact of adoption.

In September 2006, the FASB also issued FAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires an employer to recognize the over or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. We will initially recognize the funded status of our defined benefit postretirement plan and provide the required disclosures as of the end of our fiscal year ended December 31, 2006. In the fourth quarter of 2006, we recorded a $1.1 million adjustment to our pension benefit obligation as a charge to comprehensive income. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for our fiscal year ending December 31, 2009.

Other

Leases

We lease manufacturing, warehouse, and office facilities and equipment under operating leases. The office leases generally include provisions for rent escalation of 3% or less and hold over options to continue occupancy without renewal. The lease for EDC s facility in Germany escalates in 5% increments if the German Consumer Price Index has increased 5% or greater. Contingent rentals are estimated based on provisions in the lease and historical trends. The principal leases for our UK manufacturing facility include an option to break the lease without penalty in 2010 along with a rent escalation of 11%.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements including special purpose entities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risk arising from adverse changes in interest rates, foreign exchange and stock market volatility. We do not enter into financial investments for speculation or trading purposes and are not a party to any financial or commodity derivatives except for a cross currency rate swap discussed below.

Interest Rate Risk

We have variable rate debt that is not hedged by interest rate swaps. A 100 basis point change in the interest rate would affect earnings by approximately $0.4 million per year, based on variable rate balances outstanding at December 31, 2006.

Changes in interest rates would also affect our investment portfolio. Our investment policy requires investment of surplus cash in high-grade commercial paper, bank certificates of deposits, treasury bills, notes or agency securities guaranteed by the U.S. Government and repurchase agreements backed by U.S. Government securities. We typically invest surplus cash in these types of securities for periods of relatively short duration. Although we are exposed to market risk related to changes in short-term interest rates on these investments, we manage these risks by closely monitoring market interest rates and the duration of our investments. Due to the short-term duration and the limited dollar amounts exposed to market interest rates, we believe that fluctuations in short-term interest rates will not have a material adverse effect on our results of operations.

Foreign Currency Risk

We operate internationally and are exposed to movements in foreign currency exchange rates primarily related to our German manufacturing and distribution operations and our UK manufacturing operations. Approximately 48% and 12% of the revenues and 45% and 10% of the expenses for EDC were transacted in Euros and British pounds, respectively, during 2006. We also have demand deposits denominated in non-functional currencies. We entered into a cross currency rate swap agreement with a commercial bank to offset the effect of exchange rate fluctuations with our German subsidiary.

At December 31, 2006, approximately $393,000 or less than 1% of our cash and cash equivalent balances were denominated in non-functional currencies. A 10% strengthening or decline in the dollar would not have a material impact on our results of operations. We seek to mitigate the risk associated with non-functional currency deposits by monitoring and limiting the total cash deposits held in non-functional currencies. Additionally, we may seek to mitigate the risk by entering into currency hedging transactions. We were a party to a hedge transaction as of December 31, 2006, as described in Derivative Activities in Part II, Item 7 above.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty fails to perform under its contractual obligations. We have established controls to determine and monitor the creditworthiness of customers. Credit concentration exists when a group of customers have similar business characteristics and/or are engaged in like activities that would cause their ability to meet their contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. Since EDC s primary customer, Universal, represented approximately 87% and 91% of EDC revenue in 2006 and 2005, respectively, our exposure to credit risk largely depends on Universal s performance under its contractual obligations.

Other financial instruments potentially subjecting us to concentrations of credit risk consist of temporary cash investments and a currency swap. We place our temporary cash investments and currency swap with large diversified entities with operations throughout the U.S.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and our wholly owned and controlled majority owned subsidiaries as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, as well as the report of independent registered public accounting firm thereon, are set forth on the following pages. The index to such financial statements and required financial statement schedule is set forth below.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

	Page
Financial Statements:	
Report of Ernst & Young LLP Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets at December 31, 2006 and 2005 (Restated)	34
Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004	35
Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended December 31, 2006, 2005 and 2004 (Restated)	36
Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004	37
Notes to Consolidated Financial Statements	38

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

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Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements

The Board of Directors and Stockholders
Glenayre Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Glenayre Technologies, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glenayre Technologies, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the Consolidated Financial Statements, the consolidated balance sheet as of December 31, 2005 and the consolidated statements of stockholders equity for the years ended December 31, 2005 and 2004 have been restated to record additional stock-based compensation expense.

As discussed in Note 4 to the Consolidated Financial Statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(Revised 2004), Share-Based Payment and effective December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Statements No. 87, 88, 106 and 132 (R).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Glenayre Technologies, Inc.'s and subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP
Atlanta, Georgia
March 29, 2007

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GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005 As restated (1)
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 96,088	$ 78,803
Restricted cash	1,972	10,602
Accounts receivable, net of allowances for doubtful accounts of $558 and $99 for 2006 and 2005, respectively	43,677	15,044
Current portion of long-term receivable	1,933	6,076
Inventories, net	8,684	5,708
Prepaid expenses and other current assets	15,850	9,442
Current assets, discontinued operations	946	24,582
Total Current Assets	169,150	150,257
Restricted cash	22,390	29,727
Property, plant and equipment, net	59,219	53,364
Long-term receivable	4,078	4,624
Goodwill	2,382	
Intangible assets	58,164	59,642
Deferred income taxes	2,943	
Other assets	5,910	6,882
Non-current assets, discontinued operations		8,976
TOTAL ASSETS	$ 324,236	$ 313,472
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 30,233	$ 24,560
Accrued and other liabilities	35,799	28,182
Income taxes payable	13,981	9,270
Deferred income taxes	262	211
Loans from employees	1,250	1,132
Current portion of long-term debt	22,157	14,700
Accrued liabilities, discontinued operations	5,594	24,663
Total Current Liabilities	109,276	102,718
Other non-current liabilities	3,076	1,089
Loans from employees	4,216	4,113
Long-term debt	43,959	61,868
Pension and other defined benefit obligations	36,849	29,281

Deferred income taxes	8,663	8,462
Accrued liabilities, discontinued operations		251
Total Liabilities	206,039	207,782
Minority interest in subsidiary company	5,412	2,009
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $.01 par value; authorized: 5,000,000 shares, no shares issued and outstanding		
Common stock, $.02 par value; authorized: 200,000,000 shares, issued and outstanding: 2006 69,325,780 shares; 2005 68,063,799 shares	1,387	1,361
Additional paid in capital	368,493	365,726
Accumulated deficit	(258,199)	(262,224)
Other comprehensive income, net of tax	1,104	(1,182)
Total Stockholders Equity	112,785	103,681
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 324,236	$ 313,472

(1) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements

See Notes to Consolidated Financial Statements.

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GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2006	2005	2004
	(In thousands, except per share amounts)		
REVENUES:			
Product sales	$ 267,067	$ 137,838	$
Service revenues	81,461	51,750	
Total Revenues	348,528	189,588	
COST OF REVENUES:			
Cost of sales	221,792	114,843	
Cost of services	60,783	36,443	
Total Cost of Revenues	282,575	151,286	
GROSS PROFIT	65,953	38,302	
OPERATING EXPENSES:			
Selling, general and administrative expense	48,648	27,461	5,252
Amortization of intangible assets	7,860	3,729	
Total Operating Expenses	56,508	31,190	5,252
OPERATING INCOME (LOSS)	9,445	7,112	(5,252)
OTHER INCOME (EXPENSES):			
Interest income	4,187	2,914	1,203
Interest expense	(6,045)	(3,631)	(228)
Gain (loss) on currency swap, net	(3,211)	789	
Transaction gain (loss), net	2,130	(1,857)	
Other income, net	(41)	76	
Total Other Income (Expense)	(2,980)	(1,709)	975
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST, DISCONTINUED OPERATIONS, GAIN ON SALE OF MESSAGING BUSINESS AND EXTRAORDINARY ITEM	6,465	5,403	(4,277)
Provision for income taxes	7,921	3,504	
Minority interest	94	114	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS, GAIN ON SALE OF MESSAGING BUSINESS AND EXTRAORDINARY ITEM	(1,550)	1,785	(4,277)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX	(8,220)	6,190	8,796
	6,127		

GAIN ON SALE OF MESSAGING BUSINESS, NET OF INCOME TAX			
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(3,643)	7,975	4,519
Extraordinary gain net of income tax	7,668		
NET INCOME	$ 4,025	$ 7,975	$ 4,519
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE (1):			
Income (loss) from continuing operations	$ (0.02)	$ 0.03	$ (0.06)
Income (loss) from discontinued operations	(0.12)	0.09	0.13
Gain on sale of messaging	0.09		
Extraordinary gain	0.11		
Net income per weighted average common share	$ 0.06	$ 0.12	$ 0.07
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION (1):			
Income (loss) from continuing operations	$ (0.02)	$ 0.03	$ (0.06)
Income (loss) from discontinued operations	(0.12)	0.09	0.13
Gain on sale of messaging	0.09		
Extraordinary gain	0.11		
Net income per weighted average common share	$ 0.06	$ 0.11	$ 0.07

(1) Income per weighted average common share amounts are rounded to the nearest $.01; therefore, such rounding may impact individual amounts presented.

See Notes to Consolidated Financial Statements.

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GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands)

	Common Stock				Accumulated Other Comprehensive Loss		
	Shares	Amount	Contributed Capital As Restated (1)	Accumulated Deficit As Restated (1)	Pension and Other Benefit Obligations	Currency Translation Adjustment	Comprehensive Income
Balances, December 31, 2003 as previously reported	66,385	$ 1,327	$ 362,273	$ (273,368)	$	$	
Adjustments to opening stockholders equity			1,350	(1,350)			
Balances, December 31, 2003 as restated	66,385	1,327	363,623	(274,718)			
Net income				4,519			$ 4,519
Comprehensive income							4,519
Shares issued for ESP Plan, other awards and option exercise	435	9	425				
Balances, December 31, 2004	66,820	1,336	364,048	(270,199)			
Net income				7,975			7,975
Foreign currency translation						(1,182)	(1,182)
Comprehensive income							6,793
Shares issued for ESP Plan, other awards and option exercise	1,244	25	1,678				

Balances, December 31, 2005	68,064	1,361	365,726	(262,224)		(1,182)	
Net income				4,025			4,025
Effect of adopting FAS 158 on post-retirement and pension benefit obligations, net of income tax					(1,143)		(1,143)
Foreign currency translation						3,429	3,429
Comprehensive income							$ 6,311
Shares issued for ESP Plan, other awards and option exercise	1,262	26	2,767				
Balances, December 31, 2006	69,326	$ 1,387	$ 368,493	$ (258,199)	$ (1,143)	$ 2,247	

(1) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006	2005	2004
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,025	$ 7,975	$ 4,519
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Extraordinary gain	(7,668)		
Gain on sale of messaging business	(6,127)		
Depreciation and amortization	21,946	12,975	1,783
Stock compensation expense	934		
Compensation expense on profit interest in EDC, LLC	1,610		
Unrealized gain on currency swap	3,211	(789)	
Gain on adjustment to discontinued operations accrual	(3,972)	(520)	(3,882)
Foreign currency transaction loss	(1,081)	1,854	
Minority interest	94	114	
Income tax benefit discontinued operations			(1,828)
Other	584	5	(84)
Changes in operating assets and liabilities, net of effects of business dispositions and acquisitions:			
Restricted cash	2,043	(959)	3,118
Accounts receivable	(3,059)	(16,126)	2,074
Inventories	2,337	(4,377)	(335)
Other current assets, discontinued operations			3,374
Prepaid and other current assets	(3,503)	(4,416)	317
Long-term receivables	5,463	7,133	
Other assets	(1,476)	74	(17)
Accounts payable	(3,766)	14,148	410
Deferred revenue	(6,255)	5,249	(615)
Accrued liabilities and income taxes payable	2,626	19,130	(10,608)
Other liabilities	1,448	(2,008)	(503)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	9,414	39,462	(2,277)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of messaging business	25,000		
Purchases of property, plant and equipment	(15,322)	(8,274)	(2,146)
Maturities of short-term securities		12,180	20,827
Asset and share purchase of businesses, net of cash acquired	(5,591)	(66,207)	
Cash restricted under long-term borrowing agreement	16,500	(16,500)	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	20,587	(78,801)	18,681
CASH FLOWS FROM FINANCING ACTIVITIES:			

Proceeds from long-term borrowing, net of costs	729	45,444	
Repayment of long-term borrowing	(16,562)	(10,454)	
Proceeds from sales of LLC interest in subsidiary	58	772	
Issuance of common stock	1,836	1,703	434
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(13,939)	37,465	434
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,223	(2,014)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,285	(3,888)	16,838
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	78,803	82,691	65,853
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 96,088	$ 78,803	$ 82,691
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 3,918	$ 2,854	$ 197
Cash paid during the period for income taxes	$ 3,267	$ 74	$ 334
Non-cash capital lease obligations additions	$ 1,118	$	$

SUPPLEMENTAL INFORMATION OF NON-CASH INVESTING AND FINANCING ACTIVITIES

On May 31, 2005 the Company completed the acquisition of the U.S. and central European CD and DVD manufacturing and distribution operations from Universal Music Group (see Note 3).

See Notes to Consolidated Financial Statements.

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GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Amounts in Thousands Except per Share Amounts)

1. Business and Basis of Presentation

Glenayre Technologies, Inc. and its wholly owned and controlled majority owned subsidiaries (Glenayre) is an multi-national company in the entertainment industry. We have one reportable business segment operated by a subsidiary, Entertainment Distribution Company (EDC). The EDC business provides pre-recorded products and distribution services to the entertainment industry. The primary customer of EDC is Universal Music Group.

Our operations also include our Wireless Messaging (Paging) business, which we began exiting in May 2001, and our Glenayre Messaging (Messaging) business, substantially all of the assets of which were sold in December 2006. Consequently, the operating results of the Paging and Messaging segments are reported as discontinued operations in the accompanying financial statements. See Note 4.

2. Restatement of Consolidated Financial Statements

In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2005, and the related consolidated statements of stockholders equity for the years ended December 31, 2005 and 2004.

This Form 10-K also reflects the restatement of Selected Consolidated Financial Data in Part I, Item 6 for the years ended December 31, 2003, and 2002.

We have not amended, and we do not intend to amend, any of our previously-filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this annual report on Form 10-K, and the financial statements and related financial information contained in previously-filed reports should no longer be relied upon.

Following shareholder derivative claims filed against the Company described elsewhere in this Form 10-K, the Company s Board of Directors appointed a Special Litigation Committee (the SLC), consisting of independent directors, to investigate the claims asserted and matters raised in the derivative actions. In conducting such investigation, the SLC evaluated the claims and determined whether the Company s practices with respect to the granting of stock options since 1993 have been in compliance with the Company s plans and policies and applicable law. The SLC engaged independent legal counsel and an independent accounting advisor to assist counsel by providing forensic accounting assistance in connection with the SLC s investigation.

As part of its investigation, the SLC conducted numerous interviews, including interviews of the named defendants in the derivative actions, certain current and former directors of the Company, certain current and former executive officers, and former Glenayre personnel involved in the administration of options. The SLC also reviewed over 82,000 hard copy documents, available emails and electronic documents, including the Company s SEC filings, corporate minutes, finance files (including all stock option agreements) and human resource files from January 1993 through December 2002. The SLC reviewed every option grant made and option agreement executed during that period of time (over 180 separate grant dates and 3,000 separate option agreements) and confirmed that the dates, prices and share amounts matched. The SLC further examined all 51 grants made to directors or officers of the Company during the period 1993 through 2004 in greater depth to determine whether the Company had used the proper measurement dates in accounting for those grants.

The SLC completed its investigation on February 27, 2007 and, with one possible exception concerning the May 31, 2000 option grant, the SLC did not identify evidence of backdating of options, spring-loading (awarding grants before the release of positive material information), or bullet-dodging (awarding grants after the release of materially damaging information). The investigation did, however, reveal a series of administrative issues that, in 14 of the 51 grants to executives and directors from 1993 through 2003, had potential accounting implications as a result of the recording of improper option grant dates. With regard to all of these grants, including the May 31, 2000 grant, the SLC has concluded that there is

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular Amounts in Thousands Except per Share Amounts)

no conclusive or compelling evidence that any of the named defendants in the lawsuits breached the fiduciary duties of care or loyalty, or acted in bad faith with respect to their obligations to the Company or its shareholders, and further concluded that it would not be in the Company s best interest to pursue any claims with respect to these grants.

Based on the findings of the SLC and our internal review, we identified a number of occasions related to the 14 grants on which we used an incorrect measurement date for financial accounting and reporting purposes or applied incorrect accounting to modify grants. In accordance with Accounting Principles Board No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, with respect to the period from January 1, 1993 through December 31, 2003, we should have recorded compensation expense in an amount per share subject to each option to the extent that the fair market value of our stock on the correct measurement date exceeded the exercise price of the option. The errors identified in applyin