

# COMMUNICATION SYSTEMS INTERNATIONAL INC.



## REPORT TO THE SHAREHOLDERS

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### Revenues up 126%

Communication Systems International Inc. (CSI), is a leading supplier of low cost precision systems to the Global Positioning System (GPS) industry.

### Revenue Growth

Revenues for the first quarter jumped 126% to \$5,080,000 from \$2,246,000 for the same period in 1999. EBITDA tripled to \$603,000 from \$197,000 and net earnings increased 120% to \$231,000 or \$0.03 per share, compared with net earnings of \$105,000, or \$0.02 per share, for the respective periods.

"I am very pleased to report an all-time record quarter of financial performance," stated Stephen Verhoeff, CSI's President and CEO. "Our strong year over year revenue growth continues."

Gross margins for the quarter leaped 162% to \$2,334,000 from \$892,000 for the same period in 1999. Gross margin improved to 46% compared to 40% last year. The improved margins were primarily a result of the introduction of higher margin products to the overall product mix.

Year over year selling and general and administrative expenses for the period increased 136% to \$1,278,000 from \$542,000 in the first quarter of 1999. The increase was primarily due to the addition of the selling and general and administrative expenses for Satloc Inc. in this year's first quarter results. Satloc was acquired in the second quarter of last year.

Working capital remains strong at \$6,425,000. On March 20th the Company completed a fully subscribed Rights Offering, for 1,635,221 common shares at a price of \$1.60 per share. Proceeds from the Offering will be used, in part, to pay down a subordinated debt in conjunction with the acquisition of Satloc Inc.

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## INTERIM REPORT - Q1

## Acquisition

Subsequent to the close of the first quarter CSI announced that it was acquiring Silicon Valley based Wireless Link Corporation, pending regulatory and shareholder approval. The Wireless Link acquisition positions CSI strongly within the emerging high growth segments for GPS and wireless including Asset Tracking, Fleet Management, Vehicle Navigation, Automotive Telematics, and Mobile Computing, all of which require cost-effective wireless communications as the necessary enabling technology. Wireless Link owns a number of patents and intellectual property for a variety of wireless networks and has licensed its cellular technology to numerous handset and chipset manufacturers. The Company is currently designing leading-edge technology to bring 'Internet Quality' bandwidth to all fixed telemetry and mobile market segments.

"Wireless Link's success in asset tracking is an indicator of the substantial growth expected in these markets," commented Verhoeff. "Joint research and development will create highly integrated GPS and wireless communications technology solutions for both consumer and commercial applications."

## Product Intergration

Recently, President Clinton was pleased to announce that the US Government is removing the intentional degradation of the GPS signals (called "Selective Availability"). This initiative is good news for the GPS industry and its consumers, as it will substantially improve the accuracy of GPS, by as much as ten times.

This will increase the market usefulness of GPS and as result, CSI's market potential. It also emphasizes the importance of GPS to the commercial markets, to which CSI markets its products. The decision is expected to benefit consumers significantly as the improved GPS accuracy drives new applications and user adoption.

"In terms of market opportunity, the timing of this

announcement couldn't be more exciting for CSI," stated Verhoeff. "Just last month we acquired Wireless Link and formed an alliance with SiRF Technologies to pursue emerging markets such as asset tracking and telematics. Although all of our current markets still require "differential quality" accuracy, this Presidential decision accelerates our growth potential within the emerging wireless markets."

## About CSI

Based in Calgary, Canada, CSI was established in 1990 and has grown to become a leading global manufacturer of Differential GPS beacon receivers, combined DGPS/GPS receivers, OEM circuit boards and antenna systems. The Company is actively pursuing emerging high growth markets in the automotive, mobile computing, and asset tracking market spaces. Its current products are employed worldwide in many DGPS applications, including marine, precision farming, geographic information systems, automatic vehicle location, hydrographic surveying, commercial fishing and recreational uses. CSI's Arizona based SATLOC division is a dominant global supplier of precision guidance systems using differential GPS technology and has become the worldwide leader in high performance GPS aerial swath guidance systems for agriculture and other applications. The common shares of CSI trade on The Toronto Stock Exchange under the trading symbol "CSY", with approximately 8.3 million shares outstanding.



Stephen Verhoeff  
Chairman, President & CEO  
May 4, 2000

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

THREE MONTHS ENDED MARCH 31, 2000 AND 1999

UNAUDITED

	MARCH 31 2000	MARCH 31 1999
Sales	\$ 5,080,381	\$ 2,245,773
Cost of sales	2,746,712	1,353,659
	2,333,669	892,114
Expenses:		
Selling	817,243	289,602
General and administrative	461,208	251,929
Interest on long-term debt	118,961	-
Depreciation and amortization	253,048	91,259
	1,650,460	632,790
Earnings before undernoted item	683,209	259,324
Research and development	452,269	153,928
Net earnings	230,940	105,396
Deficit, beginning of period	(2,551,803)	(3,119,994)
Deficit, end of period	\$ (2,320,863)	\$ (3,014,598)
Net earnings per common share:		
Basic	\$ 0.03	\$ 0.02
Fully diluted	\$ 0.03	\$ 0.02
Issued and outstanding shares:		
Common shares	8,347,906	6,425,600
Preferred shares	350,000	-

## CONSOLIDATED BALANCE SHEETS

	MARCH 31 2000	DECEMBER 31 1999
<b>Assets</b>	UNAUDITED	
Current assets:		
Cash and term deposits	\$ 3,128,121	\$ 455,207
Accounts receivable	3,704,225	2,221,937
Income taxes recoverable	11,317	38,967
Inventories	4,655,551	4,008,731
Prepaid expenses and deposits	157,472	317,736
	11,656,686	7,042,578
Capital assets	1,583,209	1,524,045
Deferred development costs	414,572	405,224
Goodwill	3,246,846	2,829,441
	\$16,901,313	\$11,801,288
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 1,956,645	\$ 392,431
Accounts payable and accrued liabilities	2,732,635	3,720,903
Current portion of long-term debt	542,784	292,329
	5,232,064	4,405,663
Vendor subordinated debt	2,428,750	2,335,856
Senior long-term debt	1,821,626	1,023,210
Shareholders' equity:		
Share capital	9,739,736	6,620,362
Deficit	(2,320,863)	(2,551,803)
	7,418,873	4,068,559
Due from shareholders	-	(32,000)
	7,418,873	4,036,559
	\$16,901,313	\$11,801,288

## CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2000 AND 1999

UNAUDITED

	MARCH 31 2000	MARCH 31 1999
<b>Operating Activities:</b>		
Net earnings	\$ 230,940	\$ 105,396
<b>Item not involving cash:</b>		
Depreciation and amortization	253,046	91,259
Foreign exchange	11,332	-
	<b>495,318</b>	<b>196,655</b>
<b>Changes in non-cash operating working capital</b>		
Accounts receivable	(1,482,288)	453,201
Income taxes recoverable	27,650	(4,712)
Inventories	(646,820)	(358,811)
Prepaid expenses and deposits	160,264	1,197
Accounts payable and accrued liabilities	(1,120,977)	(129,424)
	<b>(2,566,853)</b>	<b>158,106</b>
<b>Financing Activities:</b>		
Repurchase of shares	-	(18,190)
Senior long-term debt	1,048,871	-
Vendor subordinated debt	81,562	-
Issue of share capital	2,643,874	(589)
	<b>3,774,307</b>	<b>(18,779)</b>
<b>Investing Activities:</b>		
Purchase of capital assets	(27,256)	(58,638)
Deferred development costs	(71,498)	-
	<b>(98,754)</b>	<b>(58,638)</b>
Increase in cash position	1,108,700	80,689
Cash position, beginning period	62,776	1,186,032
Cash position, end of period	\$ 1,171,476	\$ 1,266,721
<b>Cash is comprised of:</b>		
Cash	\$ 3,128,121	\$ 581,654
Term deposits	-	685,067
Bank indebtedness	(1,956,645)	-
	<b>\$ 1,171,476</b>	<b>\$ 1,266,721</b>



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Quality System Registration