

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **July 31, 2009**

OR

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 **000-50346**

**COUNTERPATH CORPORATION**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-0004161**

(IRS Employer Identification No.)

**Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3**

(Address, including zip code, of principal executive offices)

**(604) 320-3344**

(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 29,409,420 shares of common stock issued and outstanding as of September 11, 2009.

**COUNTERPATH CORPORATION**  
**JULY 31, 2009 QUARTERLY REPORT ON FORM 10-Q**

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## PART I

### Item 1. Financial Statements.

It is the opinion of management that the interim consolidated financial statements for the quarter ended July 31, 2009 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

The interim consolidated financial statements are stated in United States dollars and are prepared in accordance with generally accepted accounting principles in the United States of America.

**COUNTERPATH CORPORATION**  
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**July 31, 2009**  
**(Unaudited)**  
(Stated in U.S. Dollars)

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**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

	<b>July 31, 2009</b>	<b>April 30, 2009</b>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash	\$ 2,107,364	\$ 2,931,932
Accounts receivable (net of allowance for doubtful accounts of \$625,065 and \$755,114, respectively)	2,731,045	2,524,220
Investment tax credits recoverable	–	143,334
Other current assets	1,269,802	310,274
Total current assets	<u>6,108,211</u>	<u>5,909,760</u>
Deposits	99,958	114,267
Equipment	229,554	258,442
Intangible assets (net of accumulated amortization of \$3,581,167 and \$3,375,195, respectively) – Note 2(e)	2,893,795	2,201,894
Goodwill – Note 2(e)	8,093,201	7,262,701
Other assets	86,065	92,101
Total Assets	<u>\$ 17,510,784</u>	<u>\$ 15,839,165</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,835,803	\$ 3,488,001
Unearned revenue	607,761	708,455
Customer deposits	4,079	9,443
Accrued warranty	123,212	137,378
Total current liabilities	<u>4,570,855</u>	<u>4,343,277</u>
Deferred lease inducements	17,466	55,016
Unrecognized tax benefit	98,575	98,575
Total liabilities	<u>4,686,896</u>	<u>4,496,868</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized: 100,000,000		
Issued and outstanding: July 31, 2009 – 1; April 30, 2009 – 1	–	–
Common stock, \$0.001 par value – Note 5		
Authorized: 83,076,900		
Issued and outstanding:		
July 31, 2009 – 29,409,420 April 30, 2009 – 28,832,050	29,409	28,832
Additional paid-in capital	49,330,897	48,718,443
Accumulated deficit	(35,560,531)	(34,318,195)
Accumulated other comprehensive loss – currency translation adjustment	(975,887)	(3,086,783)
Total stockholders' equity	<u>12,823,888</u>	<u>11,342,297</u>
Liabilities and Stockholders' Equity	<u>\$ 17,510,784</u>	<u>\$ 15,839,165</u>
Going concern – Note 2		
Commitments and contingent liability – Notes 7 and 8		

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(Stated in U.S. Dollars)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<u><b>2009</b></u>	<u><b>2008</b></u>
Revenue – Note 6:		
Software	\$ 1,141,343	\$ 1,848,305
Service	909,114	764,455
Total revenue	<u>2,050,457</u>	<u>2,612,760</u>
Operating expenses:		
Cost of sales (includes depreciation of \$2,121 and \$21,484 and amortization of intangible assets of \$205,972 and \$545,473 – Note 2(e))	642,728	1,377,843
Sales and marketing	759,005	1,481,951
Research and development	820,128	3,017,412
General and administrative	622,399	2,228,127
Restructuring costs – Note 9	44,912	190,961
Total operating expenses	<u>2,889,172</u>	<u>8,296,294</u>
Loss from operations	(838,715)	(5,683,534)
Interest and other income (expense), net		
Interest income	27,758	18,068
Interest expense	(1,666)	(7,295)
Foreign exchange loss	(429,713)	(183,041)
Net loss for the period	<u>\$ (1,242,336)</u>	<u>\$ (5,855,802)</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments	2,110,896	(20,450)
Comprehensive income (loss)	<u>\$ 868,560</u>	<u>\$ (5,835,352)</u>
Loss per share:		
Basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.23)</u>
Weighted average common shares outstanding:	28,968,332	25,948,247

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in U.S. Dollars)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net loss for the period	\$ (1,242,336)	\$ (5,855,802)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	67,628	281,005
Amortization of intangible assets	205,972	545,473
Stock-based compensation – Note 5	219,615	507,988
Foreign exchange loss	429,713	183,041
Changes in assets and liabilities:		
Accounts receivable	(28,979)	357,399
Other current assets	(948,309)	113,511
Accounts payable and accrued liabilities	510,778	(463,700)
Increase (decrease) in other assets	(6,464)	73,910
Unearned revenue	(97,029)	291,733
Customer deposits	(5,364)	(14,449)
Warranty payable	(14,168)	5,983
Net cash used in operating activities	<u>(908,943)</u>	<u>(3,973,908)</u>
<b>Cash flows from investing activities:</b>		
Purchase of equipment	(36,753)	(51,953)
Deposits	28,395	1,117
Net cash used in investing activities	<u>(8,358)</u>	<u>(50,836)</u>
<b>Cash flows from financing activities:</b>		
Common stock issued, net of transaction costs	–	3,628,775
Net cash provided by financing activities	<u>–</u>	<u>3,628,775</u>
Foreign exchange effect on cash	92,733	(58,459)
Decrease in cash	(824,568)	(454,428)
Cash, beginning of the period	2,931,932	6,223,613
Cash, end of the period	<u>\$ 2,107,364</u>	<u>\$ 5,769,185</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for:		
Interest	\$ 1,666	\$ 7,282

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**for the Three Months Ended July 31, 2009**  
(Stated in U.S. Dollars)  
(Unaudited)

	Common shares		Preferred Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Par Value	Number of Shares	Par Value				
Balance, May 1, 2009	28,832,050	\$ 28,832	1	\$ -	\$ 48,718,443	\$ (34,318,195)	\$ (3,086,783)	\$ 11,342,297
<b>Shares issued:</b>								
As part of debt settlement – Note 5	527,370	527	-	-	392,889	-	-	393,416
Exchange of subsidiary preferred shares	50,000	50	-	-	(50)	-	-	-
Stock-based compensation - Note 5	-	-	-	-	219,615	-	-	219,615
Net loss for the period	-	-	-	-	-	(1,242,336)	-	(1,242,336)
Foreign currency translation adjustment	-	-	-	-	-	-	2,110,896	2,110,896
Balance, July 31, 2009 (Unaudited)	<u>29,409,420</u>	<u>\$ 29,409</u>	<u>1</u>	<u>\$ -</u>	<u>\$ 49,330,897</u>	<u>\$ (35,560,531)</u>	<u>\$ (975,887)</u>	<u>\$ 12,823,888</u>

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2009  
(Unaudited)

**Note 1**      **Nature of Operations**

CounterPath Corporation (the "Company") was incorporated in the State of Nevada on April 18, 2003. The Company changed its name from CounterPath Solutions, Inc. to CounterPath Corporation on October 17, 2007. The Company's common shares are quoted for trading on the Over-The-Counter Bulletin Board in the United States of America and the TSX Venture Exchange in Canada.

On August 2, 2007, the Company acquired all of the shares of NewHeights Software Corporation ("NewHeights") through the issuance of 7,680,168 shares of the Company's common stock and 369,836 preferred shares issued from a subsidiary of the Company that are exchangeable into 369,836 shares of common stock of the Company. For accounting purposes, the Company was deemed to be the acquirer of NewHeights based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired FirstHand Technologies Inc. ("FirstHand"), a private Ontario, Canada corporation, through the issuance of 5,900,014 shares of the Company's common stock. For accounting purposes, the Company was deemed to be the acquirer of FirstHand based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired BridgePort Networks, Inc. ("BridgePort"), a private Delaware corporation, by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort. For accounting purposes, the Company was deemed to be the acquirer of BridgePort based on certain factors primarily being the composition of the board after the transaction.

On February 5, 2008, the Company's wholly-owned subsidiaries, NewHeights and CounterPath Solutions R&D Inc. were merged as a wholly-owned subsidiary of the Company under the name CounterPath Technologies Inc.

On March 19, 2008, the Company's Board of Directors approved a five for one common stock consolidation. As a result, the Company's authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock. The par value of the common stock was unaffected by the stock consolidation and remains at \$0.001 per share. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements for all periods presented to reflect the stock consolidation.

The Company focuses on the design, development, marketing and sales of desktop and mobile communications application software, gateway (server) software and related professional services, such as pre and post sales technical support and customization services. The Company's products are sold into the Voice over Internet Protocol (VoIP) market primarily to carriers, original equipment manufacturers and businesses in North America, Central and South America, Europe and Asia.

**Note 2**      **Significant Accounting Policies and Going Concern**

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars except where otherwise disclosed. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may vary from these estimates.

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. As at July 31, 2009, the Company has not yet achieved profitable operations and had an accumulated deficit of \$35,560,531 since incorporation. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2009  
(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

Under its current operating plan the Company will require approximately \$11-\$13 million to fund ongoing operations and working capital requirements through July 31, 2010. Management is implementing a plan to address these uncertainties to enable the Company to continue as a going concern through the end of fiscal 2010 and beyond. This plan includes new equity financing in amounts sufficient to sustain operations and to increase revenues and decrease costs from operations.

Realizable values may be substantially different from carrying values as shown in these financial statements should the Company be unable to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The consolidated financial statements have been properly prepared within the framework of the significant accounting policies as follows:

a)      Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, FirstHand Technologies Inc., continued under laws of the province of British Columbia, BridgePort Networks, Inc. incorporated under the laws of the state of Delaware and 6789722 Canada Inc., incorporated under the Canada Business Corporations Act. The results of NewHeights Software Corporation (which subsequently merged with another subsidiary to become CounterPath Technologies Inc.) are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. and BridgePort Networks, Inc. are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

b)      Interim Reporting

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2009 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's April 30, 2009 annual consolidated financial statements.

Operating results for the three months ended July 31, 2009 are not necessarily indicative of the results that can be expected for the year ending April 30, 2010.

c)      New Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS No. 141R"). This standard replaces SFAS141 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statement the identifiable assets acquired and liabilities assumed, any non-controlling interest in the acquiree, and the goodwill acquired.

This standard also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this standard did not have any material impact on these financial statements.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2009  
(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

c)      New Accounting Pronouncements – (cont'd)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Non controlling Interests In Consolidated Financial Statements – an amendment to ARB No.51* (“SFAS No. 160”). This standard Amends ARB 51 to establish accounting and reporting standards for a non-controlling interest in a subsidiary and for deconsolidation of a subsidiary. This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard may not be applied before that date. The adoption of this standard did not have any material impact on these financial statements.

In March 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* (“FAS 161”). FAS 161 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. This statement is effective for financial statements issued for years beginning after November 15, 2008 and interim periods within those years. The adoption of this standard did not have any material impact on these financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepting Accounting Principles—A Replacement of FASB Statement No. 162* (“FAS 168”) which established the “FASB Accounting Standards Codification” (“Codification”) as the single source of authoritative nongovernmental U.S. GAAP which was launched on July 1, 2009. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Company’s financial condition or results of operations. The Company is currently evaluating the impact to its financial reporting process of providing Codification references in its public filings.

FASB Staff Position (“FSP”) EITF 03-06-1, *Participating securities and instruments granted in share-based payment transactions* addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting that should be included in the earnings allocation in computing earnings per share under the two-class method described FAS 128, *Earnings per Share*. This FSP is effective for years beginning after December 15, 2008, and interim periods within those years. The adoption of this standard did not have any material impact on these financial statements.

d)      Derivative Instruments and Hedging Activities

The Company adopted the provisions of Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* (“SFAS 161”), effective at the beginning of the first quarter of fiscal year 2010. SFAS 161 expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, results of operations and cash flows. SFAS 161 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Because SFAS 161 only requires additional disclosure, the adoption of SFAS 161 did not impact the Company’s financial position, results of operations, and cash flows (see Note 10, “Derivative Instruments and Hedging Activities,” of the Notes to Interim Consolidated Financial Statements).

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2009  
(Unaudited)

**Note 2      Significant Accounting Policies and Going Concern - (cont'd)**

e)      Goodwill and Intangible Assets

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") SFAS No. 142 requires goodwill to be tested for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company's business enterprise below its carrying value. The impairment test requires management to estimate the fair value of the Company's overall business enterprise down to the reporting unit level which is CounterPath Corporation.

Goodwill of \$6,339,717 (CDN\$6,704,947), and \$2,083,960 (CDN\$2,083,752) was initially recorded in connection with the acquisition of NewHeights Software Corporation on August 2, 2007 and FirstHand Technologies Inc. on February 1, 2008. Translated to U.S. dollars using the period end rate, the goodwill balance at July 31, 2009 was \$6,174,586 (CDN\$6,704,947) (April 30, 2009-\$5,540,968) and \$1,918,615 (CDN\$2,083,752) (April 30, 2009-\$1,721,733), respectively. Management will perform its annual impairment test in its fiscal fourth quarter. No impairment charges were recorded to the three months ended July 31, 2009 (2008 - \$nil).

The Company also evaluates goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis. Reporting units represent components of the Company for which discrete financial information is available that is regularly reviewed by management. Management has determined that the Company currently has one reporting unit. If the recorded value of the assets, including goodwill, and liabilities ("net book value") of the reporting unit exceeds its fair value, an impairment loss may be required.

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets are reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Intangible assets include the intangibles purchased in connection with the acquisition of NewHeights Software Corporation on August 2, 2007 and FirstHand Technologies Inc. and BridgePort Networks, Inc. on February 1, 2008.

The intangible assets of NewHeights are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$3,454,839 (CDN\$3,678,100) and customer asset of \$2,283,908 (CDN\$2,431,500). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

The intangible assets of FirstHand are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$2,804,700 (CDN\$2,804,700) and customer asset of \$587,000 (CDN\$587,000). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

The intangible assets of BridgePort are being carried and reported at acquisition cost and include amounts initially allocated to acquired technologies of \$476,703 and customer asset of \$43,594. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
July 31, 2009  
(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

e)      Goodwill and Intangible Assets – (cont'd)

A summary of the Company's intangible assets, net, at July 31, 2009 is as follows:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Accumulated Impairment Charge</u>	<u>Net Carrying Amount</u>
Acquired technologies	\$ 6,409,119	\$ 2,879,047	\$ 1,636,114	\$ 1,893,958
Customer assets	2,821,176	702,120	1,119,219	999,837
Intangible assets, July 31, 2009	<u>\$ 9,230,295</u>	<u>\$ 3,581,167</u>	<u>\$ 2,755,333</u>	<u>\$ 2,893,795</u>

f)      Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

**Note 3**      **Related Party Transactions**

During the three months ended July 31, 2009 and 2008, the Company incurred the following lease expense to a company with a director in common with the Company:

	<u>Three Months Ended July 31,</u>	
	<u>2009</u>	<u>2008</u>
Lease payment	\$ –	\$ 3,446

The above transaction is in the normal course of operations and is recorded at amounts established and agreed to between the related parties.

The Company's Chairman is the Chairman and founding shareholder of Mitel Networks Corporation ("Mitel"). NewHeights Software Corporation entered into a distribution agreement with Mitel on June 15, 2004 and amended such agreement on August 7, 2007. NewHeights was acquired by the Company on August 2, 2007 and was amalgamated on February 5, 2008 with the Company's wholly-owned subsidiary, CounterPath Solutions R&D Inc. under the name CounterPath Technologies Inc. The distribution agreement with Mitel renews automatically for one-year periods and contains termination rights of both parties. Under the terms of the distribution agreement, the Company earns a specified fee from Mitel based on the number of product licenses sold to Mitel.

On July 31, 2008 the Company entered into a source code license agreement whereby the Company licensed to Mitel the source code for the Your Assistant product in consideration of a payment of \$650,000. Associated with the agreement are ongoing license fees to be paid by Mitel of \$12.00 per copy deployed, declining to \$7.50 per copy deployed after two years and declining from \$7.50 to nil after four years. In addition, the agreement provides Mitel with a first right to match any third party offer to purchase the source code software and related intellectual property.

The Company's software license revenue for the three months ended July 31, 2009, pursuant to the terms of these agreements, was \$134,238 (2008 - \$650,000).

As at July 31, 2009, the Company has an accounts receivable balance from Mitel of \$94,181 (April 30, 2009 - \$155,208).

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3**      **Related Party Transactions – (cont'd)**

During the three month ended July 31, 2009, the Company through its wholly owned subsidiary, FirstHand Technologies Inc., paid \$18,404 (2008 - \$81,691) to Kanata Research Park Corporation ("KRP") for leased office space. KRP is controlled by the Company's Chairman. As at July 31, 2009, the Company had an accounts payable balance to KRP of \$34,113 (April 30, 2009 - \$13,210).

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

**Note 4**      **Exchangeable Shares**

On August 2, 2007, the Company entered into a voting and exchange trust agreement among its subsidiary, 6789722 Canada Inc., and Valiant Trust Company whereby the Company issued and deposited with Valiant Trust a special preferred voting share of the Company in order to enable Valiant Trust to execute certain voting and exchange rights as trustee from time to time for and on behalf of the registered holders of the preferred shares of 6789722 Canada Inc. Each preferred share of 6789722 Canada Inc. is exchangeable into one share of common stock of the Company at the election of the shareholder, or, in certain circumstances, of the Company.

On October 9, 2008, November 19, 2008, and May 11, 2009 the Company issued 50,000 shares each totaling to 150,000 shares of common stock pursuant to a holder of 150,000 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. There were 219,841 outstanding exchangeable shares as of July 31, 2009 (April 30, 2009 - 269,841). As the exchangeable shares have already been recognized in connection with the acquisition of NewHeights, the value ascribed to these shares on exchange is \$nil.

**Note 5**      **Common Stock**

On March 19, 2008, the Company's Board of Directors approved a five for one common stock consolidation. As a result, the Company's authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements for all periods presented to reflect the stock consolidation.

On July 17, 2009, in connection with a research agreement and omnibus agreement under which the Company licensed certain technologies from Columbia University, the Company entered into a debt conversion agreement and an amended omnibus agreement with The Trustees of Columbia University ("Columbia"), whereby as a result of the restructuring of certain terms and obligations of the existing research and licensing agreements, the Company issued 527,370 shares of common stock to Columbia to settle all outstanding amounts due to Columbia under such agreements and rights to certain technologies have reverted back to Columbia. The common stock was issued at \$0.75 (CDN\$0.84) per share.

**Stock Options**

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at a subscription price determined by the Board of Directors of the Company at the time of the grant. The options generally vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

The maximum number of shares of common stock authorized by the stockholders and reserved for issuance by the Board of Directors of the Company under the stock option plans are 800,000 under the 2004 Stock option plan and 4,260,000 under the 2005 Stock option plan.

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**Note 5**      **Common Stock – (cont'd)**

Stock Options – (cont'd)

The Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with SFAS No. 123R for employees, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period. Compensation expense for stock options granted to non-employees is amortized over the vesting period or, if none exists, over the service period. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model.

The expected volatility of options granted has been determined using the method described under SFAS No. 123R using the historical stock price. The expected term of options granted to employees in the current fiscal period has been determined utilizing the “simplified” method as prescribed by SAB No. 107, Share-Based Payment. For non-employees, the expected term of the options approximates the full term of the options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company has not paid and does not anticipate paying dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123R requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas prior to the adoption of SFAS No. 123R the Company recorded forfeitures based on actual forfeitures and recorded a compensation expense recovery in the period when the awards were forfeited. As a result, based on the Company’s experience, the Company applied an estimated forfeiture rate of 15% for the three month period ended July 31, 2009 and 2008 in determining the expense recorded in the accompanying consolidated statement of operations.

The weighted-average fair value of options granted during the three months ended July 31, 2009 was \$nil (2008 - \$0.85). The weighted-average assumptions utilized to determine such values are presented in the following table:

	<b>Three Months Ended July 31, 2009</b>	<b>Three Months Ended July 31, 2008</b>
Risk-free interest rate	n/a	3.25%
Expected volatility	n/a	67.0%
Expected term	n/a	3.7 yrs
Dividend yield	n/a	0%
Weighted average fair value	n/a	\$ 0.85

The following is a summary of the status of the Company’s stock options as of July 31, 2009 and the stock option activity during the three months ended July 31, 2009:

	<b>Number of Options</b>	<b>Weighted-average Exercise Price per Share</b>
Outstanding at April 30, 2009	4,650,768	\$ 1.13
Forfeited / Cancelled	(382,270)	\$ 1.70
Expired	(20,000)	\$ 0.47
Outstanding at July 31, 2009	<u>4,248,498</u>	<u>\$ 1.09</u>
Exercisable at July 31, 2009	2,325,354	\$ 1.35
Exercisable at April 30, 2009	2,474,207	\$ 1.41

**COUNTERPATH CORPORATION**  
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**Note 5**      **Common Stock – (cont'd)**

Stock Options – (cont'd)

The following table summarizes information regarding stock purchase options outstanding as of July 31, 2009:

Exercise Price	Number of Options Outstanding	Aggregate Intrinsic Value	Expiry Date	Number of Options Exercisable	Aggregate Intrinsic Value
\$0.44	586,500	\$269,790	December 15, 2013	86,957	\$40,000
\$0.47	1,201,405	516,604	August 20, 2009 to September 26, 2016	959,688	412,666
\$0.62	850,000	238,000	April 17, 2014	–	–
\$1.75	250,000	–	May 14, 2013	72,917	–
\$1.85	2,500	–	February 2, 2013	2,500	–
\$1.90	70,210	–	March 8, 2015 to January 25, 2017	70,210	–
\$1.95	582,400	–	September 7, 2010 to January 10, 2016	525,850	–
\$2.00	329,883	–	January 1, 2010 to March 18, 2015	329,882	–
\$2.15	240,000	–	September 7, 2016	170,000	–
\$3.05	135,600	–	May 23, 2016	107,350	–
July 31, 2009	<u>4,248,498</u>	<u>\$1,024,394</u>		<u>2,325,354</u>	<u>\$452,666</u>
April 30, 2009	<u>4,650,768</u>	<u>\$494,764</u>		<u>2,474,207</u>	<u>\$214,046</u>

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of \$0.90 per share as of July 31, 2009 (April 30, 2009 – \$0.69), which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of July 31, 2009 was 1,046,645 (April 30, 2009 – 972,936). The total intrinsic value of options exercised during the three months ended July 31, 2009 was \$nil (2008 – \$nil). The grant date fair value of options vested during the three months ended July 31, 2009 was \$208,931 (2008 – \$3,511,509).

The following table summarizes information regarding the non-vested stock purchase options outstanding as of July 31, 2009.

	Number of Options	Weighted Average Grant-Date Fair Value
Non-vested options at April 30, 2009	2,176,561	\$ 0.64
Vested	(218,199)	\$ 0.96
Forfeited	(35,218)	\$ 0.42
Non-vested options at July 31, 2009	<u>1,923,144</u>	<u>\$ 0.58</u>

As of July 31, 2009 there was \$973,192 (2008 – \$2,002,259) of total unrecognized compensation cost related to unvested share-based compensation awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 1.16 years (2008 – 1.05 years).

Employee and non-employee stock-based compensation amounts classified in the Company's consolidated statements of operations for the three months ended July 31, 2009 and 2008 are as follows:

**COUNTERPATH CORPORATION**  
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**Note 5**      **Common Stock – (cont'd)**

Stock Options – (cont'd)

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>
Cost of sales	\$ 20,180	\$ 19,916
Sales and marketing	31,373	28,249
Research and development	31,589	87,793
General and administrative	136,473	372,030
Total stock-based compensation	<u>\$ 219,615</u>	<u>\$ 507,988</u>

Warrants

During the three months ended July 31, 2009, the Company issued nil warrants (2008 – 1,216,720). The fair value of the stock purchase warrants granted was \$nil (2008 – \$391,831).

The following table summarizes information regarding the warrants outstanding as of July 31, 2009:

	<b>Number of</b>	<b>Weighted Average</b>	<b>Expiry Dates</b>
	<b>Options</b>	<b>Exercise Price</b>	
Warrants at July 31, 2009 and April 30, 2009	<u>2,265,421</u>	<u>\$ 3.04</u>	November 30, 2009 to October 24, 2010

Employee Stock Purchase Plan

As of February 1, 2009 the Company offers an Employee Stock Purchase Plan (“ESPP”) to all regular salaried (non- probationary) employees. Shares of common stock issued to employees as a result of purchases or exercises under these plans will generally be issued from shares acquired in the market or shares issued from treasury.

Under the terms of the ESPP, all regular salaried (non-probationary) employees can purchase up to 6% of their base salary in shares of common stock of the Company at market price. The Company will match 50% of the shares purchased by issuing up to 3% of the respective employee’s base salary in shares.

A total of 1,500,000 shares have been reserved for issuance under the ESPP. As of July 31, 2009, a total of 1,500,000 shares were available for issuance under the ESPP. During the three months ended July 31, 2009, no shares were issued from treasury to employees under the ESPP.

**Note 6**      **Segmented Information**

Our chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by desegregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, we have concluded that we have one reportable operating segment.

Foreign revenues are based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the three months ended July 31, 2009 and 2008:

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>
North America	\$ 1,249,199	\$ 1,721,543
Europe	441,968	576,569
Asia and Africa	239,260	74,021
Latin America	120,030	240,627
	<u>\$ 2,050,457</u>	<u>\$ 2,612,760</u>

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**Note 6**      **Segmented Information – (cont'd)**

Contained within the results of North America for the three months ended July 31, 2009 are revenues from the United States of \$1,087,106 (2008 - \$1,041,977) and from Canada of \$162,093 (2008 - \$679,566).

Contained within the results of Europe for the three months ended July 31, 2009 are revenues from Germany of \$132,862 (2008 - \$102,115), the Netherlands of \$86,987 (2008 - \$2,797), the United Kingdom of \$58,277 (2008 - \$172,871), and from Croatia of \$37,776 (2008 - \$22,748).

Contained within the results of Asia and Africa for the three months ended July 31, 2009 are revenues from Nigeria of \$157,350 (2008 - \$49), the Philippines of \$20,685 (2008 - \$nil), and Australia of \$11,264 (2008 - \$244).

Contained within the results of Latin America for the three months ended July 31, 2009 are revenues from Mexico of \$71,741 (2008 - \$122,231), Colombia of \$20,626 (2008 - \$6,209), and Argentina of \$10,209 (2008 - \$9,211).

All of the Company's long-lived assets, which include equipment, intangible assets and other assets, are located in Canada and the United States as follows.

	As at	
	July 31, 2009	April 30, 2009
Canada	\$ 11,291,784	\$ 9,793,247
United States	10,831	21,891
Total	\$ 11,302,615	\$ 9,815,138

Revenue from significant customers for the three months ended July 31, 2009 and 2008 is summarized as follows:

	Three Months Ended July 31,	
	2009	2008
Customer A	16%	12%
Customer B	10%	1%
Customer C	7%	25%
	33%	38%

Accounts receivable balances for Customer A were \$520,000 as at July 31, 2009 (April 30, 2009 - \$323,285). Accounts receivable balances for Customer B were \$436,550 as at July 31, 2009 (April 30, 2009 - \$370,600). Accounts receivable balances for Customer C were \$94,181 as at July 31, 2009 (April 30, 2009 - \$155,208).

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7**      **Commitments**

- a) On March 14, 2008 the Company entered into a lease for accommodation which commenced on April 1, 2008 and expired on March 31, 2009. On February 5, 2009, the Company entered into an extension agreement on this lease which commences on April 1, 2009 and expires on February 28, 2010. The monthly lease payment under the extension agreement is \$2,576.
- b) On April 29, 2005, the Company entered into a lease for office premises, which commenced on October 1, 2005 and expires on September 30, 2012 for which a deposit of \$9,143 was made. The monthly lease payment under this agreement is \$9,143 plus \$7,302 in operating costs. The Company is subleasing part of these premises for a monthly charge of \$7,327. The sublease commenced on August 1, 2007 and expires on September 30, 2012. Currently, the Company signed a new subleasing agreement for another part of these premises, which commenced on August 1, 2009 and expires September 30, 2012. The monthly charge under this subleasing agreement is \$2,962.
- c) On May 1, 2009 the Company modified its existing lease agreement for office premises, as a result of which it surrendered a substantial part of the previously leased area. The new agreement commences on May 1, 2009 and expires on April 20, 2012. The total monthly lease payment under this agreement is \$6,135.
- d) On March 12, 2009, the Company and its wholly-owned subsidiary, CounterPath Technologies Inc., entered into a settlement agreement with a founder and former officer of the Company. Under the settlement agreement, the Company will pay at total of \$409,068 (CDN\$495,000) over 45 months at a rate of CDN\$11,000 per month and pay for health benefits for 21 months from the date of the agreement.

Total payable over the term of the agreements for the years ended April 30 are as follows:

	<b>Office Leases – Related Party</b>	<b>Office Leases – Unrelated Party</b>	<b>Sub Lease Income</b>	<b>Total Office Leases</b>	<b>Settlement Agreement</b>
2010	\$ 55,213	\$ 606,651	\$ (86,670)	\$ 575,194	\$ 91,169
2011	73,617	725,566	(123,457)	675,726	121,559
2012	73,617	405,932	(123,457)	356,092	121,559
2013	–	82,224	(51,440)	30,784	75,974
	<u>\$ 202,447</u>	<u>\$ 1,820,373</u>	<u>\$ (385,024)</u>	<u>\$ 1,637,796</u>	<u>\$ 410,261</u>

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**Note 8**      **Contingent Liability**

On February 17, 2006, a competitor filed a statement of claim in the Supreme Court of British Columbia claiming among other things, general, punitive and aggravated damages of unspecified amounts with respect to alleged business ethics matters. Management of the Company believes that the claim is without foundation or merit. Any loss as a result of this claim will be recorded in the period that the loss is probable and measurable.

**Note 9**      **Restructuring**

As a result of the Company's post acquisition activities, the Company incurred restructuring costs of \$44,912 and \$190,961 during the three months ended July 31, 2009 and 2008, respectively. Restructuring costs of \$44,912 were related to employee severance arrangements as a result of the consolidation of administrative, sales, marketing, and research and development departments after the close of acquisitions of NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. These charges are shown as a separate line item in the consolidated statement of operations.

**Note 10**      **Derivative Instruments and Hedging Activities**

In the normal course of business, the Company is exposed to fluctuations in interest rates and the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk.

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue activities are transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to its operations for the three months ended July 31, 2009 is the Canadian dollar. The Company is primarily exposed to a strengthening Canadian dollar as its operating expenses are primarily denominated in Canadian dollars while its revenues are primarily denominated in U.S. dollar. The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction.

Volume of Derivative Activity

Total gross notional amounts for foreign currency forward contracts, presented by currency, are as follows:

In U.S. dollars	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>
Canadian dollar	\$ 1,000,000	\$ -
Total	\$ 1,000,000	\$ -

The fair value of forward contracts as of July 31, 2009 was \$1,046,439.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Forward-Looking Statements**

This quarterly report contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "intends", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", which may cause our or our industry's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

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

Our financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. All references to "common shares" refer to our shares of common stock. As used in this quarterly report, the terms "we", "us" and "our" means CounterPath Corporation, unless otherwise indicated.

The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this quarterly report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions.

### ***Background***

We were incorporated under the laws of the State of Nevada on April 18, 2003. Following incorporation, we commenced the business of operating an entertainment advertising website.

On April 30, 2004, we changed our business following the merger of our company with Xten Networks, Inc., a private Nevada company. Xten Networks was incorporated under the laws of the State of Nevada on October 28, 2002. As a result of the merger, we acquired all of the issued and outstanding shares in Xten Networks in exchange for agreeing to issue 3,600,000 shares of our common stock to the stockholders of Xten Networks. The stockholders of Xten Networks were entitled to receive two shares of our common stock for each one share of Xten Networks.

On August 26, 2005, we entered into an agreement and plan of merger with Ineen, Inc., our wholly-owned subsidiary, whereby Ineen merged with and into our company, with our company carrying on as the surviving corporation under the name CounterPath Solutions, Inc.

On August 2, 2007, we acquired all of the shares of NewHeights Software Corporation through the issuance of 7,680,168 shares of our common stock and 369,836 preferred shares issued from a subsidiary of our company, which preferred shares are exchangeable into 369,836 shares of common stock. On October 17, 2007, we changed our name from CounterPath Solutions, Inc. to CounterPath Corporation.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. through the issuance of 5,900,014 shares of our common stock. On February 1, 2008, we acquired all of the issued and outstanding shares of BridgePort Networks, Inc. by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

On March 19, 2008, our board of directors approved a five for one common stock consolidation. As a result, our authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock.

### ***Business of CounterPath***

Our business focuses on the design, development, marketing and sales of desktop and mobile application software, gateway server software and related professional services, such as pre and post sales technical support and customization services. Our software products are sold into the telecommunications sector, specifically the voice over Internet protocol (VoIP), unified communications and fixed-mobile convergence markets. VoIP, unified communications and fixed-mobile convergence are general terms for technologies that use Internet or mobile protocols for the transmission of packets of data which may include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network.

Our strategy is to sell our software to our customers to allow such customers to deliver session initiation protocol and voice over Internet protocol (VoIP) services. Customers that we are targeting include: (1) large incumbent telecommunications service providers, Internet telephony service providers and content providers, (2) original equipment manufacturers serving the telecommunication market, (3) small, medium and large sized businesses and (4) end users. Our software enables voice communication from the end user through the network to another end user and enables the service provider to deliver other streaming content to end users such as video, radio or the weather. Our acquisitions of FirstHand Technologies Inc. and BridgePort Networks, Inc. in February 2008, expanded our product portfolio of our company to include fixed-mobile-convergence applications for the enterprise and telecom service provider markets.

### ***Revenue***

We derive revenue from the sale of software licenses and software customization and services associated with software such as technical support services, implementation and training. We recognize software and services revenue at the time of delivery, provided all other revenue recognition criteria have been met.

Post contract customer support services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

We offer our products and services directly through our sales force and indirectly through distribution partners. Our distribution partners include networking and telecommunications equipment vendors throughout the world.

The amount of product configuration and customization, which reflects the requested features, determines the price for each sale. The number of software licenses purchased will have a direct impact on the average selling price. Services may vary depending upon a customer's requirements for technical support, implementation and training.

We believe that our revenue and results of operations may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering patterns.

### ***Operating Expenses***

Operating expenses consist of cost of sales, sales and marketing, research and development, general and administrative expenses, and restructuring costs. Personnel-related costs are generally the most significant component of each of these expense categories.

Cost of sales primarily consists of: (a) salaries and related personnel costs including stock-based compensation, (b) related overhead, (c) amortization of intangible assets, (d) billable and non-billable travel, lodging, and other out-of-pocket expenses, (e) payments to third party vendors for compression/decompression software known as codecs, (f) amortization of capitalized software that is implemented into our products and (g) warranty expense. Amortization of intangible assets consists of the amortization expense related to the intangible assets acquired from NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. comprising acquired technologies and customer assets. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years, which is management's estimate of the useful life of the customer asset.

Sales and marketing expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as trade shows and (e) other related overhead. Commissions are recorded as expense when earned by the employee. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) payments to suppliers for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing and (e) other related overhead. To date, all of our research and development costs have been expensed as incurred.

General and administrative expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation related to our executive, finance, human resource and information technology functions, (b) accounting, legal and regulatory fees and (c) other related overhead.

Restructuring costs are post acquisition activities related to the acquisition of NewHeights Software Corporation, FirstHand Technologies Inc. and Bridgeport Networks, Inc. We incurred restructuring costs related to employee severance agreements as a result of post acquisition consolidation of administration, sales and marketing and research and development departments. At July 31, 2009 we have a restructuring accrual for severance of \$nil.

#### **Application of Critical Accounting Policies and Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this quarterly report.

We believe that of our significant accounting policies, which are described in Note 2 to our annual financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, the following policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

#### ***Basis of Presentation***

The consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, FirstHand Technologies Inc., continued under laws of the province of British Columbia, BridgePort Networks, Inc. incorporated under the laws of the state of Delaware and 6789722 Canada Inc., incorporated under

the Canada Business Corporations Act. The results of NewHeights Software Corporation (which subsequently merged with another subsidiary to become CounterPath Technologies Inc.) are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. and BridgePort Networks, Inc. are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

### ***Interim Reporting***

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the interim consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, the interim consolidated financial statements follow the same accounting policies and methods of their application as our April 30, 2009 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim consolidated financial statements be read in conjunction with our April 30, 2009 annual consolidated financial statements.

Operating results for the three months ended July 31, 2009 are not necessarily indicative of the results that can be expected for the year ending April 30, 2010.

### ***Revenue Recognition***

We recognize revenue in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position ("SOP") 97-2 "Software Revenue Recognition", as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions".

In all of our arrangements, we do not recognize any revenue until we can determine that persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and we deem collection to be probable. For distribution and reseller arrangements, fees are fixed or determinable and collection probable when there are no rights to exchange or return and fees are not dependable upon payment from the end-user. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

A substantial percentage of our revenue is generated by multiple-element arrangements, such as products, maintenance and support, professional services and training. When arrangements include multiple elements, we allocate the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor-specific objective evidence, or VSOE, of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires us to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically includes maintenance and services. Revenue is allocated to each of the undelivered elements based on its respective fair value, with the fair value determined by the price charged when that element is sold separately.

For contracts with elements related to customized network solutions and certain network build-outs, we apply FASB Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" and revenues are recognized under SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", generally using the percentage-of-completion method.

In using the percentage-of-completion method, revenues are generally recorded based on a completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Post contract customer support (PCS) services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

PCS service revenue generally is deferred until the related product has been accepted and all other revenue recognition criteria have been met. Professional services and training revenue is recognized as the related service is performed.

We have set up a warranty provision in the amount of 2% of software sales, which is amortized over a twelve-month term. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale.

### ***Stock-Based Compensation***

Stock options granted are accounted for under SFAS No. 123R "Share-Based Payment" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. SFAS No.123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the fair value of those instruments on the measurement date which generally is the grant date, with limited exceptions.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee consultants. We measure stock-based compensation cost at measurement date, based on the estimated fair value of the award, and generally recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or the period during which the related services are provided by the non-employee consultants and the options are earned. We estimate the fair value of stock options using a Black-Scholes option valuation model.

The expected volatility of options granted has been determined using the volatility of our company's stock. The expected life of options granted after April 30, 2006 has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin No. 107, Share-Based Payment. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123R requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. We applied an estimated forfeiture rate of 15.0% in the three months ended July 31, 2009 in determining the expense recorded in our consolidated statement of operations.

Cost of sales and operating expenses include stock-based compensation expense. For the three months ended July 31, 2009, we recorded an expense of \$219,615 in connection with share-based payment awards. A future expense of non-vested options of \$973,192 is expected to be recognized over a weighted-average period of 1.16 years.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable accounts are periodically reviewed for collectibility on an individual basis.

### ***Goodwill and Intangible Assets***

We have a significant amount of goodwill and intangible assets on our balance sheet related to the acquisitions of NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The intangible assets acquired are comprised of acquired technologies and customer assets relating to customer relationships. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years, which is management's estimate of the useful life of the customer assets. The intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment, are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

### ***Goodwill and Intangible Assets—Impairment Assessments***

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The provisions of Statement 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of our reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of our reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for our reporting unit. Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of fiscal 2009, did not result in an impairment charge, nor did we record any goodwill impairment in fiscal 2008.

We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that an other than temporary impairment may exist. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk adjusted discounted rates and future economic and market conditions. During the fourth quarter of fiscal 2009, we recorded an impairment charge of \$2.72 million consisting of \$1.75 million for the intangible assets of NewHeights and \$0.97 million for the intangible assets of FirstHand. During the most recent quarter ended July 31, 2009, management concluded that there was no further impairment charge related to our intangible assets.

### *Use of Estimates*

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions which affect the amounts reported in these consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### **Results of Operations**

Our operating activities during the three months ended July 31, 2009 consisted primarily of selling our IP telephony software and related services to service providers and original equipment manufacturers serving the telecom industry, and the continued development of our IP telephony software products.

### *Selected Consolidated Financial Information*

The following tables set out selected consolidated financial information for the periods indicated. The selected consolidated financial information set out below for the three months ended July 31, 2009 and 2008, and as at July 31, 2009 and April 30, 2009 has been derived from the consolidated financial statements and accompanying notes for the three months ended July 31, 2009 and 2008 and fiscal year ended April 30, 2009. Each investor should read the following information in conjunction with those statements and the related notes thereto.

#### **Selected Consolidated Statements of Operations Data**

	<b>Three Months Ended July 31,</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>Percent of Total Revenue</b>	<b>Amount</b>	<b>Percent of Total Revenue</b>
Revenue	\$ 2,050,457	100%	\$ 2,612,760	100%
Non-GAAP operating expenses <sup>1</sup>	2,463,585	120%	7,242,833	277%
Stock-based compensation	219,615	11%	507,988	19%
Amortization of intangible assets	205,972	10%	545,473	21%
GAAP operating expenses	2,889,172	141%	8,296,294	318%
Loss from operations	(838,715)	(41%)	(5,683,534)	(218%)
Interest income (expense), net	26,092	1%	10,773	-
Foreign exchange loss	(429,713)	(21%)	(183,041)	(7%)
Net loss	(\$1,242,336)	(61%)	(\$5,855,802)	(224%)
Loss per share	(\$0.04)		(\$0.23)	
Weighted average common shares outstanding	28,968,332		25,948,247	

1. Non-GAAP operating expense is equal to GAAP operating expense less stock-based compensation and amortization of intangible assets.

**Selected Consolidated Balance Sheet Data**

	<u>July 31,</u> <u>2009</u>	<u>April 30,</u> <u>2009</u>
Cash	\$ 2,107,364	\$ 2,931,932
Current assets	6,108,211	5,909,760
Current liabilities	4,570,855	4,343,277
Total liabilities	4,686,896	4,496,868
Total assets	\$ 17,510,784	\$ 15,839,165

**Revenue**

	<u>Three Months Ended July 31,</u>				<u>Period-to-Period Change</u>	
	<u>2009</u>		<u>2008</u>		<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
	<u>Amount</u>	<u>Percent of Total Revenue</u>	<u>Amount</u>	<u>Percent of Total Revenue</u>		
<b>Revenue by Type</b>						
Software	\$ 1,141,343	56%	\$ 1,848,305	71%	(\$706,962)	(38%)
Service	909,114	44%	764,455	29%	144,659	19%
Total revenue	\$ 2,050,457	100%	\$ 2,612,760	100%	(\$562,303)	(22%)
<b>Revenue by Region</b>						
International	\$ 801,258	39%	\$ 891,217	34%	(\$89,959)	(10%)
North America	1,249,199	61%	1,721,543	66%	(472,344)	(27%)
Total revenue	\$ 2,050,457	100%	\$ 2,612,760	100%	(\$562,303)	(22%)

For the three months ended July 31, 2009, we generated \$2,050,457 in revenue compared to \$2,612,760 for the three months ended July 31, 2008. This represents a decrease of \$562,303 or 22% from the same period last year. We generated \$1,141,343 in software revenue for the three months ended July 31, 2009 compared to \$1,848,305 for the three months ended July 31, 2008, representing a decrease of \$706,962 or 38%. The decrease in software revenue was partially due to the \$515,762 decrease in software sales to a significant customer for the three months ended July 31, 2009 compared to the three months ended July 31, 2008. For the three months ended July 31, 2009, service revenue was \$909,114 compared to \$764,455 for the three months ended July 31, 2008. The increase of \$144,659 in service revenue was primarily due to an increase in professional services and support related to software sales in prior periods. International revenue outside of North America decreased by 10% during the three months ended July 31, 2009 compared to the three months ended July 31, 2008, due to an overall decrease in sales in the period. North American revenue decreased by 27%, compared to the three months ended July 31, 2008, due principally to a decrease in sales of software and services to North American original equipment manufacturers.

**Operating Expenses**
**Cost of Sales**

Cost of sales for the three months ended July 31, 2009 and 2008 were as follows:

	<u>July 31, 2009</u>		<u>July 31, 2008</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 642,728	31%	\$ 1,377,843	53%	(\$735,115)	(53%)

Cost of sales was \$642,728 for the three months ended July 31, 2009 compared to \$1,377,843 for the three months ended July 31, 2008. The decrease of \$735,115 was primarily attributable to the decrease in amortization of intangible assets of approximately \$340,000, the decrease in the cost of third-party royalties and hardware used with our products of approximately \$198,000 and the decrease in personnel and associated wages of approximately \$168,000.

#### *Sales and Marketing*

Sales and marketing expenses for the three months ended July 31, 2009 and 2008 were as follows:

	<u>July 31, 2009</u>		<u>July 31, 2008</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 759,005	37%	\$ 1,481,951	57%	(\$722,946)	(49%)

Sales and marketing expenses were \$759,005 for the three months ended July 31, 2009 compared to \$1,481,951 for the three months ended July 31, 2008. The decrease of \$722,946 was primarily attributable to decrease in sales and marketing personnel and associated wages and commissions as well as professional and consulting fees resulting from employee restructuring throughout fiscal year 2009. For the three months ended July 31, 2009 compared to the three months ended July 31, 2008, wages and commissions, and professional services and consulting fees related to sales and marketing expenses decreased by approximately \$551,000 and \$112,000, respectively.

#### *Research and Development*

Research and development expenses for the three months ended July 31, 2009 and 2008 were as follows:

	<u>July 31, 2009</u>		<u>July 31, 2008</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 820,128	40%	\$ 3,017,412	115%	(\$2,197,284)	(73%)

Research and development expenses were \$820,128 for the three months ended July 31, 2009 compared to \$3,017,412 for the three months ended July 31, 2008. The decrease of \$2,197,284 was primarily attributable to decrease in research and development personnel and associated wages and commissions as well as professional and consulting fees resulting from employee restructuring throughout fiscal year 2009. For the three months ended July 31, 2009 compared to the three months ended July 31, 2008, wages, decreased by approximately \$1,460,000 and professional services and consulting fees related to research and development decreased by approximately \$796,000, respectively.

#### *General and Administrative*

General and administrative expenses for the three months ended July 31, 2009 and 2008 were as follows:

	<u>July 31, 2009</u>		<u>July 31, 2008</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 622,399	30%	\$ 2,228,127	85%	(\$1,605,728)	(72%)

General and administrative expenses for the three months ended July 31, 2009 were \$622,399 compared to \$2,228,127 for the three months ended July 31, 2008. The decrease of \$1,605,728 in general and administrative expenses was primarily attributable to decreases in personnel related costs resulting from employee restructuring throughout fiscal year 2009. For the three months ended July 31, 2009 compared to the three months ended July 31,

2008, wages, stock-based compensation and professional fees related to general and administrative expenses decreased by approximately \$350,000, \$236,000 and \$238,000, respectively.

#### *Restructuring Charges*

Restructuring charges for the three months ended July 31, 2009 and 2008 were as follows:

	<b>July 31, 2009</b>		<b>July 31, 2008</b>		<b>Period-to-Period Change</b>	
	<b>Amount</b>	<b>Percent of Revenue</b>	<b>Amount</b>	<b>Percent of Revenue</b>	<b>Amount</b>	<b>Percent Increase/ (Decrease)</b>
Three months ended	\$ 44,912	2%	\$ 190,961	7%	(\$146,049)	(76%)

Restructuring charges for the three months ended July 31, 2009 were \$44,912 compared to \$190,961 for the three months ended July 31, 2008. The decrease of \$146,049 in restructuring charges was due to lower restructuring activity related to employee severance arrangements as a result of the consolidation of administrative, sales, marketing, and research and development departments after the close of acquisitions of NewHeights, FirstHand and BridgePort.

#### *Interest and Other Income*

Interest income for the three months ended July 31, 2009 was \$27,758 compared to \$18,068 for the three months ended July 31, 2008. Interest expense for the three months ended July 31, 2009 was \$1,666 compared to \$7,295 for the three months ended July 31, 2008.

Foreign exchange loss for the three months ended July 31, 2009 was \$429,713 compared to \$183,041 for the three months ended July 31, 2008. The foreign exchange loss represents the loss on account of translation of the inter company accounts of subsidiaries who maintain their records in currencies other than U.S. dollars as well as transactional losses and gains.

#### *Liquidity and Capital Resources*

As of July 31, 2009, we had \$2,107,364 in cash compared to \$2,931,932 at April 30, 2009, representing a decrease of \$824,568. Our working capital was \$1,537,356 at July 31, 2009 compared to \$1,566,483 at April 30, 2009, representing a decrease of \$29,127.

Presently, our cash flow generated from operations is not sufficient to meet operating and capital expenses. We have incurred operating losses since inception, and we project this to continue for the next nine to twelve months. At July 31, 2009, we had cash of approximately \$2.1 million and working capital of \$1.54 million; however, our management projects that under our current operating plan, we will require approximately \$11-13 million to fund our ongoing operating expenses and working capital requirements for the next twelve months. We anticipate that this will be funded through cash flow generated from operations, working capital, external financing and potential rationalization beyond the completed employee rationalization.

#### *Operating Activities*

Our operating activities resulted in a net cash outflow of \$908,943 for the three months ended July 31, 2009. This compares with a net cash outflow of \$3,973,908 for the same period last year and represents a \$3,064,965 decrease in cash outflows from operations compared to the same period last year. The net cash outflow from operating activities for the three months ended July 31, 2009 was primarily a result of a net loss of \$1,242,336, a \$948,309 increase in other assets and a \$97,029 decrease in unearned revenue partially offset by a \$510,778 increase in accounts payable. The net cash outflow was further offset by adjustments for non-cash expenses including \$429,713 for foreign exchange loss, \$219,615 for stock-based compensation, \$205,972 for amortization of intangible assets and \$67,628 for depreciation and amortization.

The net cash outflow of \$3,973,908 from operating activities for the three months ended July 31, 2008 was primarily a result of a net loss of \$5,855,802 and a decrease in accounts payable of \$463,700. The net cash outflow was offset by an increase in accounts receivable of \$357,399 and non-cash expenses including \$545,473 for amortization of intangible assets, \$507,988 for stock-based compensation and \$281,005 for depreciation and amortization.

#### ***Investing Activities***

Investing activities resulted in a net cash outflow of \$8,358 for the three months ended July 31, 2009 primarily from purchases of equipment. This compares with a net cash outflow from investing activities of \$50,836 for the same period last year which was primarily for purchases of equipment. At July 31, 2009, we did not have any material commitments for future capital expenditures.

#### ***Financing Activities***

Financing activities resulted in a net cash inflow of \$nil for the three months ended July 31, 2009 compared to a net cash inflow of \$3,628,775 for the three months ended July 31, 2008.

On July 31, 2008 and October 28, 2008, we issued 2,433,439 units and 97,402 units, respectively, at a price of \$1.50 (CDN\$1.54) per unit for gross proceeds of \$3,784,439 (CDN\$3,897,497). We incurred \$31,604 of transaction costs. Each unit consisted of one share of common stock in the capital of our company and one-half of one non-transferable common share purchase warrant. Each warrant entitles the holder thereof to purchase one share of common stock in the capital of our company for a period of two years commencing from the date of issue at an exercise price of \$2.25 per warrant share.

We intend to seek additional funding through public or private financings to fund our operations through fiscal 2010 and beyond. However, if we are unable to raise additional capital when required or on acceptable terms, or achieve cash flow positive operations, we may have to significantly delay product development and scale back operations both of which may affect our ability to continue as a going concern. There is no assurance that we will be able to obtain financing on terms deemed acceptable to our company.

#### **Off-Balance Sheet Arrangements**

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

#### **New Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ("SFAS No. 141R"). This standard replaces SFAS141 and establishes principles and requirements for an acquirer recognizes and measures in its financial statements the identifiable assets acquired and liabilities assumed, any non-controlling interest in the acquiree, and the goodwill acquired. This standard also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this standard did not have a material impact on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Non controlling Interests In Consolidated Financial Statements – an amendment to ARB No.51* ("SFAS No. 160"). This standard Amends ARB 51 to establish accounting and reporting standards for a non-controlling interest in a subsidiary and for deconsolidation of a subsidiary. This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard may not be applied before that date. The adoption of this standard did not have a material impact on our financial statements.

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment

of FASB Statement No. 133” (“FAS 161”). FAS 161 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. This statement is effective for financial statements issued for years beginning after November 15, 2008 and interim periods within those years. The adoption of this standard did not have a material impact on our financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepting Accounting Principles—A Replacement of FASB Statement No. 162* (“FAS 168”) which established the “FASB Accounting Standards Codification” (“Codification”) as the single source of authoritative nongovernmental U.S. GAAP which was launched on July 1, 2009. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on our company’s financial condition or results of operations. We are currently evaluating the impact to our financial reporting process of providing Codification references in our public filings.

FASB Staff Position (“FSP”) EITF 03-06-1, *Participating securities and instruments granted in share-based payment transactions* addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting that should be included in the earnings allocation in computing earnings per share under the two-class method described FAS 128, *Earnings per Share*. This FSP is effective for years beginning after December 15, 2008, and interim periods within those years. The adoption of this standard did not have a material impact on our financial statements.

#### **Item 4T. Controls and Procedures.**

##### ***Disclosure Controls and Procedures***

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company’s disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company’s management, including our company’s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company’s Chief Executive Officer and Chief Financial Officer concluded that subject to the inherent limitations noted in Part II, Item 9A(T) of our annual report on Form 10-K filed with the SEC on July 28, 2009, for the year ended April 30, 2009, our disclosure controls and procedures are effective as at the end of the period covered by this report.

##### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

#### Risks Associated with our Business and Industry

*Lack of cash flow which may affect our ability to continue as a going concern.*

Since inception, our company has had negative cash flows from operations. Our business plan calls for continued research and development of our products and expansion of our market share. We will require additional financing to finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. However, there is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We depend on a mix of revenues and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. Disruptions in financial markets and challenging economic conditions have and may continue to affect our ability to raise capital. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, our business and future success may be adversely affected and, as indicated in the audit report included in our annual report on Form 10-K for the year ended April 30, 2009 filed with the SEC on July 28, 2009, raise substantial doubt on our ability to continue as a going concern. Our financial statements included in this Form 10-Q do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

*The current economic environment has adversely affected business spending patterns, which may have an adverse effect on our business.*

The disruptions in the financial markets and challenging economic conditions have adversely affected the United States and world economy, and in particular, reduced consumer spending and reduced spending by businesses. Turmoil in global credit markets and recent turmoil in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs are and may continue to put pressure on global economic conditions. Our operating results in one or more segments may also be affected by uncertain or changing economic conditions particularly germane to that segment or to particular customer markets within that segment. The challenges we have seen in the United States have expanded overseas. If our customers delay or cancel spending on their IT infrastructure, that decision could result in reductions in sales of our products, longer sales cycles and increased price competition. There can be no assurances that government responses to the disruptions in the financial markets will restore spending to previous levels. If global economic and market conditions, or economic conditions in the United States or other key markets, remain uncertain or persist, spread, or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

*We are subject to the credit risk of our customers, which could have a material adverse effect on our financial condition, results of operations and liquidity.*

We are subject to the credit risk of our customers. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense. Additionally, to the degree that the ongoing turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

*The majority of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.*

The majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, investors may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

*We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company.*

We may be unaware of filed patent applications and issued patents that could relate to our products and services. Intellectual property litigation, if determined against us, could:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to lose access to key distribution channels;
- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect our brand in the market place and cause a substantial loss of goodwill;
- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our services and could cause us to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. If any of our competitors' copies or otherwise gains access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our family of registered and unregistered trademarks including CounterPath, Bria, eyeBeam, X-Pro and X-Lite, invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

*Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.*

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favorably received.

*Unless we can establish market acceptance of our current products, our potential revenues may be significantly reduced.*

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority of our revenue for the foreseeable future. Broad market acceptance of our software products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

*We face larger and better-financed competitors, which may affect our ability to operate our business and achieve profitability.*

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. Such competition will potentially affect our chances of achieving profitability and ultimately adversely affect our ability to continue as a going concern.

*Any prolonged activity in respect of the integration of the recently acquired businesses with our business could be time consuming and costly and adversely affect our financial results and stock price.*

We completed the acquisition of NewHeights Software Corporation, a private Canada corporation, FirstHand Technologies Inc., a private Ontario corporation, and BridgePort Networks, Inc., a private Delaware corporation. The integration of the business of each respective company with our business has been, and will continue to be, a time consuming and expensive process. Any prolonged activity in respect of the integration of the acquired businesses with our business could divert financial and other resources from our planned operations, which could negatively affect our results of operations, lower employee morale, and result in customers cancelling existing orders or choosing not to place new ones. In addition, the combined operations of our company and the acquired businesses may not achieve anticipated synergies or other benefits. If the anticipated benefits of the combined operations are not realized or do not meet the expectations of financial or industry analysts, the market price of our common stock may decline.

#### **Risks Associated with our Common Stock**

*If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.*

We are authorized to issue 83,076,900 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation.

*Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.*

The SEC has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net

worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder's ability to buy and/or sell shares of our common stock.*

In addition to the "penny stock" rules described above, the FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On July 17, 2009, we issued 527,370 shares of common stock to Columbia University at a price of \$0.75 (CDN\$0.84) per share. We issued the shares in connection with the restructuring of certain terms and obligations of existing research and licensing agreements, which included settling all outstanding amounts due to Columbia University under such agreements and rights to certain technologies reverting back to Columbia University. The 527,370 shares of common stock were issued to a U.S. person in reliance upon Rule 506 of Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended.

#### **Item 3. Defaults Upon Senior Securities.**

None.

#### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

#### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

***Exhibits required by Item 601 of Regulation S-B***

<b>(3)</b>	<b>Articles of Incorporation and By-laws</b>
3.1	Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
3.2	Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
3.3	Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003).
3.4	Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005).
3.5	Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 28, 2006).
3.6	Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 22, 2008).
<b>(4)</b>	<b>Instruments defining the rights of security holders, including indentures</b>
4.1	2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
4.2	Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
4.3	2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
4.4	Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
4.5	Form of Amended & Restated Stock Option and Subscription Agreement (Canadian) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).
4.6	Form of Amended & Restated Stock Option and Subscription Agreement (US) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).
<b>(10)</b>	<b>Material Contracts</b>
10.1	Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006).
10.2	Arrangement Agreement among CounterPath Solutions, Inc., 6789722 CANADA INC., a wholly owned subsidiary of CounterPath Solutions, Inc. and NewHeights Software Corporation dated as of June 15, 2007 (incorporated by reference from our Current Report on Form 8-K filed on June 18, 2007).

- 10.3 Exchangeable Share Support Agreement between CounterPath Solutions, Inc. and 6789722 Canada Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.4 Voting and Exchange Trust Agreement among CounterPath Solutions, Inc., 6789722 Canada Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. and Valiant Trust Company dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.5 Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.6 Installment Subscription Agreement dated August 2, 2007, between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.7 Loan Conversion Agreement dated August 2, 2007, between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.8 Form of Stock Option and Subscription Agreement dated August 2, 2007, between our company and each of the former optionees of NewHeights Software Corporation (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.9 Amended Employment Agreement between Donovan Jones and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated September 13, 2007 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2007).
- 10.10 Share Exchange Agreement dated January 28, 2008 among CounterPath Corporation, FirstHand Technologies Inc. and certain shareholders of FirstHand Technologies Inc. (incorporated by reference from our Current Report on Form 8-K filed on January 29, 2008).
- 10.11 Escrow Agreement dated February 1, 2008 among CounterPath Corporation, FirstHand Technologies Inc. and certain shareholders of FirstHand Technologies Inc. (incorporated by reference from our Current Report on Form 8-K filed on February 5, 2008).
- 10.12 Agreement of Merger and Plan of Reorganization dated February 1, 2008 among our company, CounterPath Acquisition Corp., BridgePort Networks, Inc. and certain shareholders of BridgePort Networks, Inc. (incorporated by reference from our Current Report on Form 8-K filed on February 5, 2008).
- 10.13 Form of Subscription Agreement dated July 31, 2008 between our company and various investors (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 15, 2008).
- 10.14 Form of Subscription Agreement dated October 28, 2008 between our company and an investor (filed herewith).
- 10.15 Settlement Agreement amongst Greg Pelling, CounterPath Corporation and CounterPath Technologies Inc. dated October 31, 2008 (incorporated by reference from our Quarterly Report on Form 10-Q filed on December 15, 2008).
- 10.16 Settlement Agreement amongst Mark Bruk, CounterPath Corporation, and CounterPath Technologies Inc. dated March 12, 2009 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 12, 2009).

10.17 Form of Debt Conversion Agreement dated July 17, 2009 between our company and The Trustees of Columbia University in the City of New York (incorporated by reference from our Annual Report on Form 10-K filed on July 28, 2009).

**(14) Code of Ethics**

14.1 Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2004).

14.2 Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 15, 2008).

**(21) Subsidiaries of CounterPath Corporation**

CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)

6789722 Canada Inc. (incorporated in Canada)

FirstHand Technologies Inc. (continued into the Province of British Columbia, Canada)

BridgePort Networks, Inc. (incorporated in the state of Delaware)

BridgePort Networks (Europe) Ltd. (incorporated in the United Kingdom)

BridgePort Networks K.K. (incorporated in Japan)

**(31) Section 302 Certifications**

[31.1 Section 302 Certification of Donovan Jones \(filed herewith\).](#)

[31.2 Section 302 Certification of David Karp \(filed herewith\).](#)

**(32) Section 906 Certifications**

[Section 906 Certification of Donovan Jones \(filed herewith\).](#)

[Section 906 Certification of David Karp \(filed herewith\).](#)

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COUNTERPATH CORPORATION**

By: /s/ Donovan Jones  
Donovan Jones  
President, Chief Executive Officer and Director  
Date: September 14, 2009

/s/ David Karp  
David Karp  
Chief Financial Officer, Treasurer and Secretary  
Date: September 14, 2009