

WAVE WIRELESS CORP
Form 10QSB
October 06, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006**

Commission File Number **0-25356**

WAVE WIRELESS CORPORATION
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0289371
(IRS Employer Identification No.)

255 Consumers Road, Toronto, Ontario M2J 1R4
(Address of principal executive offices and Zip (Postal) code)

416-502-3200
(Issuer's telephone number)

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 x No

As of June 30, 2006, there were 75,011,057 shares of the Registrant's common stock outstanding, par value \$0.0001 per share.

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

This Quarterly Report on Form 10-QSB consists of 30 pages of which this is Page 1. The Exhibit Index appears on Page 2.

WAVE WIRELESS CORPORATION

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You should carefully consider all of the risk factors discussed in our Annual Report on Form 10-KSB, and other documents filed by us with the Securities and Exchange Commission before purchasing our common stock. The risks described in those documents are not all of the risks facing us. Additional risks, including the risk that the Company may not be able to continue as a going concern, and those that are currently not known to us or that we currently deem immaterial, may also affect our business operations.

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****WAVE WIRELESS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 249	\$ 380
Accounts receivable, net of allowances of \$606 (2005 - \$756)	530	1,152
Inventory	207	197
Assets held for sale	1,698	-
Assets from discontinued operations	81	-
Prepaid expenses and notes receivable	615	447
Total current assets	3,380	2,176
Property and equipment, net	547	622
WaveRider note receivable	-	250
Product rights	340	-
Goodwill	250	11,990
Total assets	\$ 4,517	\$ 15,038
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Bank loan	\$ 418	\$ 759
Accounts payable	1,675	1,683
Other accrued liabilities	3,016	2,521
Deferred revenue	855	862
Liabilities held for sale	866	-
Liabilities of discontinued operations	55	184
Notes payable	-	898
Derivative liability	3,950	-
Current maturities of long-term debt	2,493	2,379
Total current liabilities	13,328	9,286
Long-term debt, less current maturities	860	1,544
Total liabilities	14,188	10,830
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit):		
Series E Preferred Stock	332	332

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Series F Preferred Stock	-	661
Series G Preferred Stock	3,224	3,344
Series J & J1 Preferred Stock	16,824	-
Common stock, par value \$0.0001 per share, 250 million shares authorized; 75,011 shares issued; 74,981 shares outstanding at June 30, 2006		
22,162 shares issued; 22,132 shares outstanding at December 31, 2005	8	2
Treasury stock, at cost; 30 shares	(74)	(74)
Additional paid-in capital	391,652	383,778
Accumulated deficit	(421,637)	(383,835)
Total stockholders' equity (deficit)	(9,671)	4,208
Total liabilities and stockholders' equity (deficit)	\$ 4,517	\$ 15,038

The accompanying notes are an integral part of these condensed consolidated financial statements.

WAVE WIRELESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months ended		Six Months ended	
	June 30 2006 (Unaudited)	June 30 2005 (Unaudited)	June 30 2006 (Unaudited)	June 30 2005 (Unaudited)
Sales	\$ 2,766	\$ 4,261	\$ 4,644	\$ 6,758
Cost of sales	1,904	2,936	3,437	5481
Gross profit	862	1,325	1,207	1,277
Operating expense:				
Research and development	642	774	1,182	1,971
Selling and marketing	613	853	1,115	2,088
General and administrative	604	943	1,240	1,867
Impairment and other charges	24,497	-	24,497	-
Restructuring charges	-	(75)	-	5,287
Total operating expenses	26,356	2,495	28,034	11,213
Loss from operations	(25,494)	(1,170)	(26,827)	(9,936)
Other income (expenses):				
Financing expense	(681)	-	(9,851)	-
Derivative financial instrument income	1,342	-	1,220	-
Interest expense	(164)	(169)	(555)	(388)
Other income (expense), net	56	(153)	113	33
Loss from continuing operations	(24,941)	(1,492)	(35,900)	(10,291)
Loss from discontinued operations	(740)	-	(703)	-
Net loss	(25,681)	(1,492)	(36,603)	(10,291)
Preferred stock accretions	(1,199)	(578)	(1,199)	(1,158)
Net loss attributable to common stockholders	\$ (26,880)	\$ (2,070)	\$ (37,802)	\$ (11,449)
Basic and diluted loss per common share:				
Loss from continuing operations	\$ (0.34)	\$ (0.17)	\$ (0.74)	\$ (0.96)

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Loss from discontinued operations	\$	(0.01)	\$	-	\$	(0.01)	\$	-
Basic and diluted loss per common share	\$	(0.35)	\$	(0.17)	\$	(0.75)	\$	(0.96)
Shares used in basic and diluted per share computations		73,537		12,037		48,924		11,926

The accompanying notes are an integral part of these condensed consolidated financial statements.

WAVE WIRELESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six months ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (36,603)	\$ (10,291)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation in continuing operations	85	416
Depreciation in discontinued operations	55	-
Non-cash impairment charges	24,434	-
Non-cash restructuring charges	-	5,287
Loss on disposal of discontinued operations	897	-
Loss on conversion of promissory notes	7,342	-
Derivative financial instrument income	(1,220)	-
Amortization of discounts on promissory notes	1,160	46
Securities issued to consultants	734	-
(Gain) loss on debt extinguishments	(26)	11
Gain on disposal of property and equipment	(30)	(352)
Warranty expense	-	137
Gain on vendor settlements	-	(92)
Bad debt expense	-	259
Changes in operating assets and liabilities:		
Accounts receivable	883	(519)
Inventory	510	(823)
Prepaid expenses and other assets	(98)	593
Net operating assets of discontinued operations	(1,051)	-
Accounts payable	(400)	(779)
Other liabilities	110	1,578
Net cash used in operating activities	(3,218)	(4,529)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(34)
Increase in restricted cash	-	(53)
Proceeds from sale of patents	30	-
Net cash received on acquisition of WaveRider	169	-
Proceeds from sale of property and equipment	16	481
Net cash provided by investing activities	215	394
Cash flows from financing activities:		
Proceeds from sale of preferred shares (net of cash fees of \$281)	2,224	-
Proceeds from debt financing (net of cash fees of \$101 in 2006)	989	1,500
Proceeds (payments) on bank loan	(341)	1,517
Payments under note payable obligations	-	(425)

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Net cash provided by financing activities	2,872	2,592
Effect of exchange rate changes on cash	-	(1)
Net decrease in cash and cash equivalents	(131)	(1,544)
Cash and cash equivalents at beginning of the period	380	2,280
Cash and cash equivalents at end of the period	\$ 249	\$ 736

The accompanying notes are an integral part of these condensed consolidated financial statements

WAVE WIRELESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

(In thousands, unaudited)

Supplemental cash flow disclosures:

Cash paid for interest	\$	158	\$	48
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Non-cash investing and financing activities:

Warrants issued in connection with convertible promissory notes	\$	261	\$	44
Warrants issued in connection with lease termination	\$	-	\$	233
Warrants issued in connection with officer settlement	\$	-	\$	93
Warrants issued in connection with preferred stock conversion	\$	-	\$	180
Conversion of Preferred stock into Common stock	\$	5	\$	10

See Footnotes 4 & 6 for conversion of debt and preferred stock

The accompanying notes are an integral part of these condensed consolidated financial statements.

WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

1. BASIS OF PRESENTATION

The financial statements include, in the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the results of operations for such periods. Operating results for the three- and six month period ended June 30, 2006 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2006. The financial statements should be read in conjunction with the Company's Form 10-KSB for the year ended December 31, 2005.

On March 28, 2006, the Company merged a wholly owned subsidiary of the Company with and into WaveRider Communications Inc. (the "WaveRider Merger"). As a result of the WaveRider Merger, the financial statements for the three and six months ended June 30, 2006 reflect the financial condition of the consolidated companies at June 30, 2006. The results of operations of the Company for the six months ended June 30, 2006 reflect WaveRider's operating results for the quarter end June 30, 2006 and for the last four days during the quarter ended March 31, 2006.

On June 30, 2006, the Company sold WaveRider Communications Australia Pty Ltd. and, on July 1, 2006, the Company sold all of its interest in WaveRider Communications (Canada) Inc. and its wholly owned subsidiary, JetStream Internet Services Inc., WaveRider Communications (USA) Inc. and Avendo Wireless Corporation. The operations of these entities, that will not be ongoing, have been segregated and shown as discontinued operations in the condensed consolidated statements of operations and the assets and liabilities of these entities still existing at June 30, 2006 have been shown as assets and liabilities, respectively, from discontinued operations in the condensed consolidated balance sheet.

As a result, the results of operations reflected in the financial statements for the six months ended June 30, 2006 are not necessary indicative of the operating results that may be expected for future periods.

Going Concern, Liquidity and Management's Plan

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is currently reviewing its remaining product lines, in light of the continuing softness in the telecommunications equipment markets, disappointing results in its principal business units, the unexpected resignation of its President and Chief Executive Officer and its current working capital deficit. Management's review will likely result in the decision to sell certain or all remaining product lines and business units. In light of this action, and management's belief that, based on operating results during the three month period ended June 30, 2006, management's assessment regarding future operating results, and the substantial personnel and other reductions resulting from the Company's operating performance, the Company's product lines and business units will not achieve previously anticipated operating results. As a result, the Company has written off substantially all of the goodwill associated with these product lines and business units. The financial statements for the three and six month periods ended June 30, 2006, reflect this determination.

As reflected in the financial statements, for the six-month period ended June 30, 2006, the Company incurred a net loss attributable to common stockholders of \$37,802 million. As of June 30, 2006, the Company had a stockholders' deficit of \$9.671 million and accumulated deficit of \$421.6 million. Also, as of June 30, 2006, the Company had approximately \$249,000 in cash and cash equivalents, and a working capital deficiency of approximately \$9.948 million.

The Company's working capital requirements have historically been met principally from the private placement of equity and debt securities, and available borrowings under a credit facility ("Credit Facility") with Silicon Valley Bank (the "Bank"), discussed below, and cash from operations. On August 4, 2006, the Bank advised the Company that it was in default of certain covenants under the Credit Facility, and that it was terminating the Credit Facility effective on such date. At June 30, 2006, the Company owed the Bank \$418,056 under the Credit Facility, and no amounts were due the Bank on the termination date.

WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

The Company is dependent on external sources of financing and the sale of assets to continue operations. As a result, in connection with and immediately following the WaveRider Merger, the Company privately placed equity securities to address its immediate liquidity needs. In addition, during June 2006, the Company sold its interest in WaveRider Communications Australia Pty Ltd. for \$370,000 plus 15% of future gross revenues for the next 12 months. The payment of \$370,000 was received in July 2006. In addition, on July 1, 2006, the Company sold all of its interest in: WaveRider Communications (Canada) Inc., including its wholly owned subsidiary, JetStream Internet Services Inc.; WaveRider Communications (USA) Inc.; and Avendo Wireless Corporation for approximately \$1,773,000, of which \$1,388,000 was received on that date, and approximately \$385,000 remains to be paid, subject to certain conditions and offsets. While proceeds received from the foregoing transactions have provided additional necessary working capital, and allowed the Company to satisfy certain contractual and other obligations, the Company's current cash flow from operations remains substantially below levels necessary to satisfy its working capital needs. As a result, as set forth above, the Company will attempt to sell certain or all of its remaining product lines and business units, in order to continue as a going concern.

There can be no assurance that the Company will be successful in selling certain or all of its product lines and business units, in order to meet its immediate working capital needs. Even if the Company is successful, the proceeds from such transactions are likely to be insufficient to satisfy the Company's current and long term liabilities. As a result, the Company will likely be required to seek protection under the bankruptcy laws, in which event the Company believes it is unlikely that its common stock will have any value. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern.

Derivative liability accounting

Derivative instrument accounting arises when certain financial instruments, such as warrants to acquire common stock, are classified as liabilities due to either (a) the holder possesses rights to net-cash settlement or (b) physical or net share settlement is not within the control of the Company. In such instances, net-cash settlement is assumed for financial accounting and reporting, even when the terms of the underlying contracts do not provide for net-cash settlement. Such derivative financial instruments are initially recorded at fair value with subsequent changes in the fair value charged (credited) to operations each reporting period.

With the issuance of the Company's Series J and Series J1 preferred stock, the Company determined that the warrants associated therewith should be accounted for as a derivative liability. Additionally, during the three months ended June 30, 2006, the Company did not have enough authorized common stock, if all of the existing preferred shares and other convertible financial instruments were converted to common shares. As part of the Series J and Series J1 offering the Company committed to seek shareholder approval for changes to its authorized capital and the holders of these securities agreed to refrain from exercising their warrants or converting their Series J and Series J1 preferred shares until the earlier of the shareholder approval or December 31, 2006. Since there is no assurance that the shareholders will approve a change in the Company's authorized capital, the Company does not control whether physical or net share settlement is available.

Fair value for our financial instruments is determined using the closing price of our common stock at the close of each reporting period. Reductions in the remaining life of unexercised warrants and declines in the price of our common stock will reduce the fair value of the preferred stock and warrants resulting in additional credits to our consolidated statements of operations. Alternatively, increases in the price of our common stock will increase the fair value of the preferred stock and warrants and may result in charges to operations. We will continue to adjust our derivative financial instruments to fair value throughout their term, or until we achieve the ability to net-share settle these

instruments, at which time they would be reclassified to equity.

Critical Accounting Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

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WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

New Accounting Pronouncements

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," ("FAS 123R") using the modified-prospective-transition method. Under this transition method, compensation costs subsequent to December 31, 2005 will include, as the options vest, the fair value of options granted prior to but not vested as of December 31, 2005.

The adoption of FAS 123R had no material effect on the financial results for the three and six months ended June 30, 2006. As of June 30, 2006, there is no material liability related to unvested share-based compensation awards granted.

2. RESTATEMENT OF PREVIOUSLY REPORTED INFORMATION

During the second quarter the Company determined that the warrants associated with the Series J preferred stock issued on March 28, 2006 should have been accounted for as a derivative liability, as they do not meet all the criteria for equity classification under EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. The impact to the balance sheet at March 31, 2006 as previously reported is to increase current and total liabilities by approximately \$3 million and to decrease additional paid-in capital and total stockholders' equity by approximately \$2.9 million. Additionally, net loss for the three months ended March 31, 2006 as previously reported would have increased by \$0.1 million from \$10.8 million to \$10.9 million as the result of adjusting the derivative liability to market value at March 31, 2006.

3. ACQUISITION, DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

i) Effective March 28, 2006, the Company acquired WaveRider Communications Inc. ("WaveRider"), a Nevada corporation ("WaveRider Merger"). Under the terms of the WaveRider Merger, the Company issued 48,362,446 shares of common stock, 1,326,446 shares of Series H Preferred Stock, 132,644 shares of Series I Preferred Stock and 8,842,089 common stock purchase warrants in exchange for all of the issued and outstanding shares of WaveRider, and all outstanding long-term debt. The warrants are exercisable at \$0.20 per share for a five-year period and include a net share settlement feature. In addition, the Company issued to the employees of WaveRider 2,125,545 employee stock options, with an average exercise price of \$1.02 and to the warrant holders of WaveRider 2,125,613 common share purchase warrants, with an average exercise price of \$1.84.

The WaveRider Merger was accounted for as a purchase and is summarized as follows (in thousands \$):

Cash on hand (including cash from loans made by Wave Wireless prior to the acquisition which were forgiven on acquisition)	\$	413
Other current assets		2,241
Fixed assets		200
Current liabilities		(2,787)
Net assets received		67
Goodwill		14,745
Total consideration received	\$	14,812
Common stock issued on closing	\$	6,432

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Preferred stock issued on closing		4,705
Warrants issued on closing at fair value		1,492
WaveRider shares forfeited on merger		450
Employee stock options issued on closing at fair value		83
Expenses incurred on acquisition		1,650
Total consideration given	\$	14,812

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WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

The cash effect of this transaction is summarized as follows:

Cash acquired on closing	\$	413
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ii) The Company has determined that the goodwill created upon the WaveRider Merger be allocated to the individual units acquired as follows:

WaveRider Communications Inc.	\$	12,679
WaveRider Communications (Australia) Pty Ltd.		1,150
WaveRider Communications (Canada) Inc.		916
	\$	14,745

iii) On June 19, 2006, the Company's Board of Directors approved the disposal of its interest in WaveRider Communications (Australia) Pty Ltd. for cash considerations of \$370,000 plus contingent consideration of 15% of the trailing 12 months revenue, payable quarterly in arrears. The sale was completed on June 30, 2006.

The results of the WaveRider Communications (Australia) for the three and six months ended June 30, 2006 are as follows:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Revenue	\$ 1,132	\$ 1,243
Cost of goods sold	609	664
Gross profit	523	579
Selling and marketing expenses	371	387
Loss on disposal of assets	897	897
Other income	(20)	(17)
Loss on discontinued operations	\$ 725	\$ 688

iv) On July 1, 2006, the Company disposed of its interests in WaveRider Communications (Canada) Inc., including its wholly owned subsidiary JetStream Internet Services Inc. ("JetStream"), WaveRider Communications (USA) Inc. and Avendo Wireless Inc. for proceeds of \$1,773,000, of which \$1,388,000 was received in cash on that date, and a \$385,000 hold back which is to be paid, subject to satisfaction of certain conditions. The Company retained the ongoing 900 MHz operations related to the WaveRider Merger to provide sales and support of the WaveRider 900 MHz products to its customers. It did however dispose of the ongoing operations of JetStream and will have no further involvement in JetStream's operations.

WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

The following operations of JetStream, which are to be sold, have been included in discontinued operations:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Revenue	\$ 51	\$ 51
Cost of goods sold	34	34
Gross profit	17	17
Selling and marketing expenses	37	37
Other income	(5)	(5)
Loss on discontinued operations	\$ 15	\$ 15

The following assets and liabilities of JetStream and the other subsidiaries to be sold, as at June 30, 2006, are included in assets and liabilities held for sale, respectively:

	Other	JetStream	Total
Cash	\$ 51	\$ 7	\$ 58
Accounts receivable	1,034	4	1,038
Inventory	613	2	615
Prepaid expenses and other assets	-	68	68
	\$ 1,698	\$ 81	\$ 1,779
Accounts payable and accrued liabilities	\$ 866	\$ 16	\$ 882
Deferred revenue	-	39	39
	\$ 866	\$ 55	\$ 921

v) The following unaudited pro forma financial information gives effect to the WaveRider Merger, as if it had occurred at the beginning of the respective period. Proforma consolidated revenue does not include the operations of the subsidiaries of WaveRider, which were sold on June 30, 2006 and July 1, 2006.

Unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place at the beginning of those periods:

	Three Months ended		Six Months ended	
	June 30 2006 (Unaudited)	June 30 2005 (Unaudited)	June 30 2006 (Unaudited)	June 30 2005 (Unaudited)
Pro forma consolidated revenue	\$ 2,767	\$ 6,097	\$ 5,794	\$ 9,841

Pro forma consolidated net loss	\$	(26,831)	\$	(1,925)	\$	(39,988)	\$	(11,850)
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Pro forma consolidated basic and diluted loss per share	\$	(0.36)	\$	(0.03)	\$	(0.57)	\$	(0.20)
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WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

4. NET LOSS PER SHARE

For purposes of computing basic and diluted net loss per common share in the three and six months ended June 30, 2006, the weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market of the Company's common stock for the period because the effect would be anti-dilutive. Because losses were incurred in the three and six months ended June 30, 2006 and 2005, all options, warrants, and convertible notes are excluded from the computations of diluted net loss per share because they are anti-dilutive.

5. BORROWING AND OTHER OBLIGATIONS

Credit Facility. On August 4, 2006, the Silicon Valley Bank (the "Bank") advised the Company that it was in default of certain covenants under the Credit Facility, and that it was terminating the Credit Facility effective on such date. On March 27, 2006, we had renewed our credit facility (the "Credit Facility") with the Bank through March 27, 2007. The Credit Facility consisted of a Loan and Security Agreement for a \$2.5 million borrowing line based on domestic receivables, and a Loan and Security Agreement under the Export-Import ("EXIM") program for a \$1.5 million borrowing line based on export related inventories and receivables. The Credit Facility provided for cash advances equal to 75% of eligible accounts receivable balances for both the EXIM program and domestic lines. Advances under the Credit Facility were charged interest at the Bank's prime rate plus 3.5% per annum. The Credit Facility was secured by all of our receivables, deposit accounts, general intangibles, investment properties, inventories, cash, property, plant and equipment. We also issued a \$4.0 million secured promissory note underlying the Credit Facility to the Bank. As of June 30, 2006, \$418,056 was outstanding under the Credit Facility, and no amounts were outstanding under the Credit Facility on August 4, 2006.

As of June 30, 2006, we were not in compliance with the loan covenants established in the Credit Facility.

Long-term debt. Long-term debt at June 30, 2006 consists of the following:

Debenture financing (i)	\$ 2,539
Note payable - Siemens; in default (see Note 9)	350
Note payable, former vendor, due in monthly installments of \$35,000 through June 2006; in default	316
Note payable - Agilent (ii)	92
Other	56
	3,353
less: current portion	2,493
	\$ 860

(i) Debenture Financing. On November 10, 2005, the Company entered into an agreement with a Purchaser of notes issued under an existing Debenture Agreement which exchanged all issued and outstanding notes for and in consideration for the issuance to the Purchaser of a new promissory note, in the principal amount of \$4,153,649 (the "New Note"), which amount represented unpaid principal and accrued interest due under the terms of the old Notes as of the date of the New Note, October 1, 2005. Under the terms of the New Note, interest accrued on such debt at an

annual interest rate of 8%, and this rate increased to 10% on April 1, 2006 through the maturity date of the loan, December 31, 2007. Payments of principal and accrued interest under the New Note are amortized and paid by Wave Wireless over a period of eight quarters in either cash or shares of Wave Wireless' common stock, with the first amortization payment being made on December 31, 2005. The Company's obligations under the Debenture Agreement are covered by a Security Agreement over all of the assets of the Company, subordinated only to the Security Interest provided to Silicon Valley Bank.

WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

On March 27, 2006, Wave Wireless and the Purchaser entered into an Exchange Agreement, pursuant to which the Purchaser agreed to convert \$1,230,475 of principal and accrued interest due to Purchaser on the date thereof into 260,3183 shares of our Series J Convertible Preferred Stock and warrants to purchase 7,809,548 shares of our common stock, at an exercise price of \$0.12 per share, (the "Note Exchange"). Such conversion is in lieu of the quarterly payments due March 31, 2006 and June 30, 2006. The Series J Convertible Preferred Stock is convertible into 26,031,827 shares of our common stock. As a result of the Note Exchange, the total amount due Purchaser on June 30, 2006 is \$2,538,574. The Company recorded a loss on conversion in the amount of \$3.507 million, including finance expense. The fair value of the financial instruments issued has been allocated to the Series J Convertible Preferred Stock and the warrants, in the amount of \$3,644 and \$1,094, respectively.

(ii) Agilent Note. On November 30, 2004, Agilent Financial Services ("Agilent") entered into an agreement with us to restructure the \$1,725,000 due Agilent on December 31, 2004. Under the terms of the agreement, we paid Agilent an initial payment of \$250,000 on December 1, 2004; with the balance payable in sixteen monthly payments of \$92,187 beginning January 1, 2005, up to and including April 1, 2006. In addition, we issued Agilent a warrant to purchase 178,571 shares of our common stock. The warrant has an initial exercise price of \$0.56 and a term of five years. On March 31, 2005, the Company and Agilent entered into an agreement whereby one half of the remaining debt of \$1,111,599 will be paid in equal payments over eighteen months beginning April 1, 2005, with the other half paid in the form of 555,799 shares of Series E Convertible Preferred Stock, convertible at any time at the option of the holder into common stock equal to the quotient obtained by dividing the liquidation preference amount of the shares to be converted by the conversion price. The Series E Preferred Stock was authorized and issued in the quarter ending June 30, 2005, and the Company recorded a gain on the conversion of \$355,712.

At June 30, 2006, the remaining amount due Agilent was \$91,994, which amount is paid monthly in \$30,000 installments, with the final installment due in September 2006.

(iii) Convertible Notes. During 2005, Wave Wireless issued convertible promissory notes to certain purchasers in the principal amount of \$850,000, payable on or before March 31, 2006 (the "Convertible Notes"). Interest accrued on the Convertible Notes at an annual interest rate of 10%. As additional consideration for the loans evidenced by the Convertible Notes, the holders were issued warrants for the issuance of 2,125,000 shares of common stock of Wave Wireless, exercisable for 5 years, at an exercise price of \$0.20 per share. The notes were discounted for the relative fair value of the warrants issued and the intrinsic value of the beneficial conversion features associated with the notes.

From January 1, 2006 through March 31, 2006, Wave Wireless issued additional Convertible Notes to certain purchasers in the principal amount of \$1.09 million. As additional consideration for the loans evidenced by the Convertible Notes, the holders were issued warrants for the issuance of 2,725,000 shares of common stock of Wave Wireless, exercisable for 5 years, at an exercise price of \$0.20 per share.

Under the terms of the Convertible Notes, as amended by the terms of the Amendment to Promissory Note dated as of March 27, 2006 (the "Amendment Agreement"), the outstanding principal amounts and all accrued but unpaid interest under the terms of all issued and outstanding Convertible Notes automatically converted into shares of Series J Convertible Preferred Stock and warrants to purchase shares of common stock, at an exercise price of \$0.12 per share, on March 31, 2006 (the "Series J Equity Securities"). For purposes of determining the number of Series J Equity Securities that each holder received upon conversion, the holders were deemed to have tendered 120% of the outstanding balance of the Convertible Notes as payment of the purchase price for the Series J Equity Securities. As consideration for entering into the Amendment Agreement the Company reduced the exercise price of the Warrants issued in conjunction with Convertible Notes from \$0.20 to \$0.12 per share. The Company recorded a loss on conversion in the amount of \$3.835 million, included in finance expense.

The Series J Convertible Preferred Stock and warrants issued in connection with the conversion of all outstanding Convertible Notes is convertible or exercisable, as the case may be, into 31,728,719 and 9,518,616 shares of common stock, respectively. The fair value of the financial instruments issued has been allocated to the Series J Convertible Preferred Stock and the warrants, in the amount of \$4,442 and \$1,333, respectively.

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6. BALANCE SHEET COMPONENTS

Other Accrued Liabilities

Other accrued liabilities consist of the following (in thousands, unaudited):

Accrued compensation and employee benefits	\$	796
Accrued penalty for late filing of registration statement		615
Accrued warranty (a)		445
Accrued legal and accounting		233
Purchase commitment		312
Royalties payable		125
Value added and other sales tax payable		119
Other		371
Balance at June 30, 2006	\$	3,016

a) A summary of product warranty reserve activity for the six-month period ended June 30, 2006 is as follows:

Balance at January 1, 2006	\$	341
Additions with acquisition of WaveRider		104
Additions relating to products sold		62
Payments		(62)
Balance at June 30, 2006	\$	445

7. STOCKHOLDERS' EQUITY

The authorized capital stock of Wave Wireless consists of 250 million shares of common stock, \$0.0001 par value, and 2.0 million shares of preferred stock, \$0.0001 par value, including 500,000 shares of which have been designated Series A Junior Participating Preferred Stock (the "Series A Preferred Stock") pursuant to the Stockholder Rights Agreement (see discussion below), 2,000 shares of Series E Preferred Convertible Preferred Stock (the "Series E Preferred Stock"), 250 shares of Series F Convertible Preferred Stock (the "Series F Preferred Stock"), 10,000 shares of Series G Convertible Preferred Stock (the "Series G Preferred Stock"), 2,000 shares of Series H Convertible Preferred Stock (the "Series H Preferred Stock"), 200 shares of Series I Convertible Preferred Stock (the "Series I Preferred Stock"), 1,250 shares of Series J Convertible Preferred Stock (the "Series J Preferred Stock"), and 300 shares of Series J-1 Convertible Preferred Stock.

PREFERRED STOCK

The Board of Directors is authorized to issue shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, term of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series, without further action by the holders of common stock.

Series H and I Convertible Preferred Stock

Wave Wireless has designated 2,000 shares of its Preferred Stock as Series H Convertible Preferred Stock (the "Series H Preferred Stock") and 200 shares of its Preferred Stock as Series I Convertible Preferred Stock (the "Series I Preferred Stock"). In conjunction with the WaveRider Merger, Wave Wireless issued 1,326.446 shares of Series H Preferred Stock and 132.6446 shares of Series I Preferred Stock, along with warrants to purchase 8,842,089 shares of Common Stock, at an exercise price of \$0.20, to a holder of WaveRider convertible debentures.

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The Series H Preferred Stock has a liquidation preference amount equal to \$1,000 per share. Each share of Series H Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference amount divided by the conversion price of \$0.15. The Series I Preferred Stock has a liquidation preference amount equal to \$1,000 per share. Each share of Series I Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference amount divided by the conversion price of \$0.01.

In connection with the closing of the WaveRider Merger, all of the issued and outstanding shares of the Series H and I Convertible Preferred Stock and the related warrants were exchanged for 353.7333 shares of Series J Convertible Preferred Stock and Series J Warrants to purchase 10,612,000 shares of Common Stock. The Company, after consideration of several valuation models, determined the fair value of the preferred stock as an amount equal to the fair value of the number of common shares into which the resulting Series J Preferred Stock is convertible into using the trading market price on the date the WaveRider Merger.

Series J Convertible Preferred Stock

Wave Wireless has designated 1,250 shares of its Preferred Stock as Series J Convertible Preferred Stock (the "Series J Preferred Stock"), of which 1,247 shares were issued and outstanding as of June 30, 2006. The Series J Preferred Stock has a liquidation preference amount equal to \$7,500 per share. Each share of Series J Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference amount divided by the conversion price of \$0.075.

The Company, after consideration of several valuation models, determined the fair value of the preferred stock as an amount equal to the fair value of the number of common shares into which the Series J Preferred Stock is convertible into using the trading market price on the date the Series J Preferred Stock was issued.

Series J-1 Convertible Preferred Stock

Wave Wireless has designated 300 shares of its Preferred Stock as Series J-1 Convertible Preferred Stock, of which 121 shares were issued and outstanding as of June 30, 2006. The Series J-1 Preferred Stock has a liquidation preference amount equal to \$7,500 per share. Each share of Series J-1 Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference amount divided by the conversion price of \$0.075.

The Company, after consideration of several valuation models, determined the fair value of the preferred stock as an amount equal to the fair value of the number of common shares into which the Series J-1 Preferred Stock is convertible into using the trading market price on the date the Series J-1 Preferred Stock was issued.

Issuances of Series J and J-1 Convertible Preferred Stock

In connection with exchange for Series H and I shares	\$ 4,705
In connection with exchange of Bridge Notes	4,442
In connection with debenture exchange	3,644
Sold to qualified investors (excluding \$1,199 included in derivative liability for excess shares)	1,309
Issued to consultants in connection with the WaveRider Merger	957
Issued to consultants in connection with the sale of a qualified financing	568
Accretion of shares sold to qualified investors to face value	1,199
	\$ 16,824

Stockholder Rights Agreement

On September 26, 1997, the Board of Directors of Wave Wireless adopted a Stockholder Rights Agreement (the "Rights Agreement"). Pursuant to the Rights Agreement, Rights (the "Rights") were distributed as a dividend on each outstanding share of its common stock held by stockholders of record as of the close of business on November 3, 1997. Each Right will entitle stockholders to buy Series A Preferred at an exercise price of \$18,750 upon certain events. The Rights will expire ten years from the date of the Rights Agreement.

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In general, the Rights will be exercisable only if a person or group acquires 15% or more of Wave Wireless common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of Wave Wireless common stock. In the case of certain specified stockholders the threshold figure is 20% rather than 15%. If, after the Rights become exercisable, Wave Wireless is acquired in a merger or other business combination transaction, or sells 50% or more of its assets or earning power, each unexercised Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of the acquiring company's common shares having a market value at the time of twice the Right's exercise price. At any time within ten days after the public announcement that a person or group has acquired beneficial ownership of 15% or more of Wave Wireless common stock, the Board of Directors, in its sole discretion, may redeem the Rights for \$0.015 per Right.

8. ASSET IMPAIRMENT CHARGES

(a) **Goodwill**

The Company is currently reviewing its product lines, in light of the current softness in telecommunications equipment markets, disappointing results in its principal business units, and its current working capital deficit. The Company intends to sell certain or all of its remaining product lines and business units. There can be no assurance that such sales will occur and in light of operating results during the three month period ended June 30, 2006, and management's current assessment regarding future operating results, the Company has determined that an impairment charge was required on the basis that the carrying value of goodwill exceeded its fair value.

Goodwill was created by the excess of the purchase price over the fair values of net assets acquired in connection with the acquisition of substantially all of the operating assets and certain liabilities of SPEEDCOM Wireless Corporation ("SPEEDCOM"), on December 10, 2003, and the merger with WaveRider Communications Inc. ("WaveRider"), on March 31, 2006.

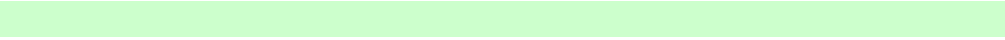
The goodwill related to the acquisition of the SPEEDCOM amounted to \$11,990,552. After review of the potential proceeds on the sale of the remaining assets associated with the SPEEDCOM product line, the Company has determined that an impairment charge of \$11,740,552 was required on the basis that the carrying value of goodwill exceeded its fair value.

The goodwill related to the WaveRider Merger amounted to \$14,745,220. Goodwill amounting to \$1,150,000 was sold in connection with the sale of WaveRider Communications (Australia) Pty Ltd on June 30, 2006 and goodwill amounting to \$915,878 related to the sale of WaveRider Canada has been charged to impairment expense. In addition, after review of the potential proceeds on the sale of the remaining assets associated with the WaveRider Merger, the Company has determined that \$340,000 of the goodwill should be reclassified as Product Rights and that an impairment charge of \$12,339,342 was required on the basis that the carrying value of the remaining goodwill exceeded its fair value.

(b) **Inventory**

A summary of inventory reserve activities is as follows:

	Inventory Reserve
Balance at January 1, 2006	\$ 13,947
Additions charged to Statement of Operations	145



Balance at June 30, 2006	\$	14,092
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9. SALES BY GEOGRAPHIC REGION AND CONCENTRATIONS

The breakdown of product sales by geographic region is as follows (in thousands):

Three Months ended		Six Months ended
June 30	June 30	