WAVE WIRELESS CORP
Form 10QSB
May 11, 2007

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 SEPTEMBER 30, 2006

Commission File Number **0-25356**

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

DELAWARE	**77-0289371**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6080 Center Drive, Los Angeles, California 90045
(Address of principal executive offices and Zip (Postal) code)

310-880-7792
(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 o No x

As of September 30, 2006, there were 75,111,097 shares of the Registrant's common stock outstanding, par value $0.0001 per share.

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

This Quarterly Report on Form 10-QSB consists of 27 pages of which this is Page 1. The Exhibit Index appears on Page 25.

WAVE WIRELESS CORPORATION

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Wave Wireless Corporation (the "Company") has filed for a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code, with the United States Bankruptcy Court for the District of Delaware (the "Court"). The Company, along with the Official Committee of Unsecured Creditors, has also proposed a Joint Plan of Reorganization (the "Joint Plan"), a copy of which is attached as an Exhibit to this Quarterly Report on Form 10-QSB. The proposed Joint Plan is subject to approval by the Court, at a hearing scheduled on June 14, 2007. You should carefully consider all documents filed by us with the Securities and Exchange Commission before purchasing our common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WAVE WIRELESS CORPORATION
Debtor in Possession
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 612	$ 380
Accounts receivable, net of allowances of $913 (2005 - $756)	133	1,152
Inventory	168	197
Assets from discontinued operations	1,981	-
Prepaid expenses and notes receivable	685	447
Total current assets	3,579	2,176
Property and equipment, net	494	622
WaveRider note receivable	-	250
Goodwill	250	11,990
Total assets	$ 4,323	$ 15,038
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Bank loan	$ -	$ 759
Accounts payable	1,228	1,683
Other accrued liabilities	2,723	2,521
Deferred revenue	1,537	862
Liabilities of discontinued operations	1,705	184
Notes payable	-	898
Derivative liability for excess shares	660	-
Current maturities of long-term debt	3,325	2,379
Total current liabilities	11,178	9,286
Long-term debt, less current maturities	-	1,544
Total liabilities	11,178	10,830
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit):		
Series E Preferred Stock	332	332
Series F Preferred Stock	-	661

Series G Preferred Stock		3,224		3,344
Series J & J-1 Preferred Stock		16,824		-
Common stock, par value $0.0001 per share, 250 million shares authorized; 75,111 shares issued; 74,981 shares outstanding at September 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		391,660		383,778
Accumulated deficit		(418,829)		(383,835)
Total stockholders' equity (deficit)		(6,855)		4,208
Total liabilities and stockholders' equity (deficit)	$	4,323	$	15,038

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

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WAVE WIRELESS CORPORATION AND SUBSIDIARIES
Debtor in Possession
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months ended September 30 2006 (Unaudited)	Three Months ended September 30 2005 (Unaudited)	Nine Months ended September 30 2006 (Unaudited)	Nine Months ended September 30 2005 (Unaudited)
Sales	$ 222	$ 506	$ 1,036	$ 1,244
Cost of sales	89	255	496	655
Gross profit	133	251	540	589
Operating expense:				
Research and development	295	496	1,281	2,466
Selling and marketing	208	564	1,027	2,652
General and administrative	575	658	1,281	2,527
Impairment and other charges	-	-	24,497	-
Restructuring charges	-	310	-	5,597
Total operating expenses	1,078	2,028	28,086	13,242
Loss from operations	(945)	(1,777)	(27,546)	(12,653)
Other income (expenses):				
Financing expense	-	-	(9,851)	-
Derivative financial instrument income	3,290	-	4,510	-
Interest expense	(71)	(201)	(626)	(589)
Other income (expense), net	95	(430)	208	(397)
Gain (loss) from continuing operations	2,369	(2,408)	(33,305)	(13,639)
Gain (loss) from discontinued operations	439	1,136	(490)	2,075
Net income (loss)	2,808	(1,272)	(33,795)	(11,564)
Preferred stock accretions	-	(2,670)	(1,199)	(3,828)
Net income (loss) attributable to common stockholders	$ 2,808	$ (3,942)	$ (34,994)	$ (15,392)
Basic and diluted loss per common share:				
Income (loss) from continuing operations	$ 0.03	$ (0.13)	$ (0.58)	$ (0.98)

Income (loss) from discontinued operations	$ 0.01	$ 0.06	$ 0.01	$ 0.15
Basic and diluted income (loss) per common share	$ 0.04	$ (0.07)	$ (0.59)	$ (0.83)
Shares used in basic and diluted per share computations	75,044	17,940	57,726	13,931

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

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WAVE WIRELESS CORPORATION AND SUBSIDIARIES
Debtor in Possession
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from operating activities:		
Net loss	$ (33,795)	$ (11,564)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation in continuing operations	85	498
Depreciation in discontinued operations	108	-
Non-cash impairment charges	24,497	-
Non-cash restructuring charges	-	5,597
Gain on disposal of discontinued operations	(1,657)	-
Loss on conversion of promissory notes	7,643	-
Derivative financial instrument income	(4,510)	-
Amortization of discounts on promissory notes	1,011	-
Amortization of warrants	-	68
Securities issued to consultants	735	-
(Gain) loss on debt extinguishments	(26)	33
Gain on disposal of patent	(30)	(237)
Warranty expense	-	169
Gain on vendor settlements	-	(92)
Bad debt expense	307	172
Changes in operating assets and liabilities:		
Accounts receivable	973	(445)
Inventory	549	(551)
Prepaid expenses and other assets	(248)	806
Net operating assets of discontinued operations	(223)	-
Accounts payable	(834)	(1,108)
Other liabilities	1,530	1,241
Net cash used in operating activities	(3,885)	(5,413)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(44)
Increase in restricted cash	-	(95)
Proceeds from sale of patents	30	-
Net cash received on acquisition of WaveRider	169	-
Proceeds from sale of discontinued operations	1,758	-
Proceeds from sale of property and equipment	16	502
Net cash provided by investing activities	1,973	363
Cash flows from financing activities:		
Proceeds from sale of preferred shares (net of cash fees of $281)	2,225	-
Proceeds from debt financing (net of cash fees of $101 in 2006)	989	1,500
Proceeds (payments) on bank loan	(771)	1,948

Proceeds from convertible note		-		100
Payments under note payable obligations		(299)		(610)
Net cash provided by financing activities		2,144		2,938
Effect of exchange rate changes on cash		-		(2)
Net change in cash and cash equivalents		232		(2,114)
Cash and cash equivalents at beginning of the period		380		2,280
Cash and cash equivalents at end of the period	$	612	$	166

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

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WAVE WIRELESS CORPORATION AND SUBSIDIARIES
Debtor in Possession
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
(In thousands, unaudited)

Supplemental cash flow disclosures:

Cash paid for interest	$	158	$	141
Non-cash investing and financing activities:				
Warrants issued in connection with convertible promissory notes	$	261	$	44
Warrants issued in connection with promissory notes	$	-	$	32
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
Issuance of common stock to settle accounts payable obligation	$	-	$	138
Conversion of preferred stock into common stock	$	5	$	5,100
Conversion of debt into preferred stock	$	10,512	$	-

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)

1. PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE AND BASIS OF PRESENTATION

Bankruptcy Proceedings

On October 31, 2006 ("Petition Date"), Wave Wireless Corporation (the "Company") filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the "Code") in the United States Bankruptcy Court for the District of Delaware ("Court"). The Company's significant operating losses, working capital deficit, defaults on certain outstanding debentures, together with the significant cash required to maintain operations, delays in commercializing next-generation products, and the loss of a key executive, precipitated the need to seek protection under Chapter 11 of the Code.

As a Debtor-in-Possession, The Company is authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the approval of the Court, after notice and an opportunity for a hearing. Under the Code, actions to collect pre-petition indebtedness, as well as pending litigation, are stayed, and other contractual obligations against the Company may not be enforced. In addition, under the Code, the Company may assume or reject executory contracts, including lease obligations, subject to approval by the Court. Parties affected by these rejections may file claims with the Court in accordance with the reorganization process. Absent an order of the Court, substantially all pre-petition liabilities are subject to treatment under a plan of reorganization to be voted upon by creditors and holders of the Corporation's preferred stock, and approved by the Court. On April 5, 2007, the Company, together with the Official Committee of Unsecured Creditors, filed a Joint Plan of Reorganization with the Court ("Joint Plan"), which Joint Plan was amended and restated and filed with the Court on May 2, 2007. Under the terms and conditions of the Joint Plan, holders of the Company's common stock will receive no distribution, and all common stock interests will be cancelled. A hearing by the Court to consider confirmation of the Joint Plan is scheduled for June 14, 2007.

Upon confirmation of the Joint Plan and emergence from bankruptcy, the amounts reported in subsequent financial statements will materially change due to the restructuring of the Company's assets and liabilities as a result of the Joint Plan and the application of the provisions of Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," (SOP 90-7). Financial statements for periods subsequent to confirmation of the Joint Plan and emergence from Chapter 11 will not be comparable with those of prior periods.

As a result of the filing of the bankruptcy petition, all liabilities reflected on the balance sheet are subject to compromise.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. The ability of the Company to continue as a going concern is predicated upon numerous issues, including confirmation of the Joint Plan by the Court in a timely manner, and successful implementation of the Joint Plan.

Discontinued Operations

On March 28, 2006, the Company merged a wholly owned subsidiary of the Company with and into WaveRider Communications Inc. ("WaveRider") (the "WaveRider Merger"). 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. Subsequent to the end of the quarter ended September 30, 2006, WaveRider sold its 900 MHz business. As a result, WaveRider has no continuing operations other than winding down its business for the benefit of its creditors. In addition, subsequent to the quarter ended September 30, 2006, the Company disposed of its repair and maintenance business (“RMA Business”). The operations of these entities and business units 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 September 30, 2006 have been shown as assets and liabilities, respectively, from discontinued operations in the condensed consolidated balance sheet.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)

The Company continues to operate its SPEEDLAN product line, which is shown as an ongoing business, while in protection under Chapter 11 of the Code.

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 J-1 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 J-1 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 J-1 Preferred Stock until the earlier of shareholder approval or December 31, 2006. This matter has not been brought before the shareholders for approval.

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.

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 affect on the financial results for the three and nine months ended September 30, 2006. As of September 30, 2006, there is no material liability related to unvested share-based compensation awards granted.

2. ACQUISITION, DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

i) Effective March 28, 2006, the Company consummated the WaveRider Merger. In connection with the WaveRider Merger, the Company issued 48,362,446 shares of common stock, 1,326.446 shares of Series H Preferred Stock, 132.6446 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)

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		