

WAVE WIRELESS CORP  
Form 10KSB  
March 24, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-KSB**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

**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: 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 Number)

**1996 LUNDY AVENUE, SAN JOSE, CALIFORNIA 95131**  
(408) 943-4200  
(Address and Telephone Number of Principal Executive Offices)

**Securities registered pursuant to Section 12(b) of the Act:**

**Securities Registered Pursuant to Section 12(g) of the Act:  
COMMON STOCK, \$0.0001 PAR VALUE  
PREFERRED STOCK PURCHASE RIGHTS**

Check whether the issuer (1) 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 Wave Wireless was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. YES  NO

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State issuer's revenue with its most recent fiscal year, \$11,807,000.

Indicate by check mark whether Wave Wireless is an accelerated filer as defined in the Exchange Act Rule 12b-2.

YES  NO

The aggregate market value of the voting stock held by non-affiliates of Wave Wireless as of March 1, 2006 was approximately \$2,695,402 million.

On March 1, 2006, approximately 22,461,684 shares of Wave Wireless' Common Stock, \$0.0001 par value, were outstanding.

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## PART I

The following information contains forward-looking statements, which involve risks and uncertainties. Forward-looking statements are characterized by words such as "plan," "expect," "believe," "intend," "would", "will" and similar words. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Risk Factors Affecting Wave Wireless," and elsewhere in this Annual Report on Form 10-KSB.

### ITEM 1. DESCRIPTION OF BUSINESS

#### Summary

Wave Wireless develops, manufactures and distributes next generation wireless mesh routers for the telecommunications, security and surveillance and public safety markets. Wave Wireless' mesh, point-to-point and point-to-multipoint broadband wireless access systems combine high performance, versatility and AES encryption to deliver a broad range of powerful applications and turnkey solutions ideally suited for internet service providers, educational institutions, corporate enterprises and government agencies. Wave Wireless' wireless access systems are sold globally through its own sales force, as well as through strategic partners, distributors, systems integrators, and value added resellers. Wave Wireless also is focused on supporting its global customer base in connection with its repair and maintenance business ("RMA Business").

Wave Wireless originally acquired the Wave Wireless networking product line ("SPEEDLAN") from SPEEDCOM Wireless Corporation in December 2003 as a means to complement its legacy business focused on licensed wireless backhaul products, and to gain entry into the rapidly growing market for enterprise-class license-exempt wireless solutions. In April 2005, Wave Wireless announced a formal restructuring plan designed to dramatically reduce costs, refocus its strategic direction, and ultimately achieve profitability ("Restructuring Plan"). Key elements of the Restructuring Plan involved both (i) divesting Wave Wireless' legacy product lines for the licensed market that were expected to result in continued substantial operating losses, and (ii) refocusing Wave Wireless' product strategy around its SPEEDLAN product line and the market for robust license-exempt and licensed public safety band wireless applications. Wave Wireless will also continue to provide repair and maintenance support services in connection with its RMA Business to its installed base of legacy products for the licensed wireless backhaul market.

In connection with the Restructuring Plan, Wave Wireless changed its corporate name from "P-Com, Inc." to "Wave Wireless Corporation", and effected a re-capitalization whereby all outstanding shares of its Series C Preferred Stock were automatically converted into shares of its Series G Preferred Stock and common stock. Both the name change and the re-capitalization were approved at Wave Wireless' 2005 Annual Meeting of Stockholders, which was held on August 12, 2005.

On November 16, 2005, Wave Wireless announced its intent to merge with WaveRider Communications Inc. (the "WaveRider Merger"). The WaveRider Merger is a strategic fit that brings together complementary business lines, engineering, sales and marketing compatibilities and innovative technology. The combination of Wave Wireless' SPEEDLAN family of mesh networking products and WaveRider's Last Mile Solution<sup>®</sup> non-line-of-sight, fixed and mobile wireless 900 MHz products will provide customers with a wide range of line-of-sight fixed and non-line-of-sight products and services, and positions the combined company as a worldwide provider of robust wireless broadband applications and solutions. A definitive Agreement and Plan of Merger was executed on January 3, 2006. The WaveRider Merger was approved by WaveRider stockholders, at a special meeting of stockholders of WaveRider held on March 20, 2006. Assuming the satisfaction of other conditions to closing, WaveRider will merge with a wholly owned subsidiary of Wave Wireless, with WaveRider surviving the merger, and becoming a wholly owned subsidiary of Wave Wireless. Following the WaveRider Merger, former security holders of WaveRider will

own approximately 50% of the outstanding shares of Wave Wireless common stock on a fully diluted basis.

In order to provide for its immediate working capital needs prior to, and after the proposed WaveRider Merger, Wave Wireless will be required to obtain additional financing. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.”*

Wave Wireless, a Delaware corporation, was formed in 1991, and its executive offices are located at 1996 Lundy Avenue, San Jose, California 95131, and its telephone number is (408) 943-4200.

### **Products & Services**

Wave Wireless currently develops, manufactures and markets licensed exempt, next generation wireless mesh routers and other licensed and unlicensed point-to-point, spread spectrum and point-to-multipoint radio systems to carriers, systems integrators and value added resellers. Wave Wireless also provides repair, maintenance and other services to its licensed and other customers worldwide. Wave Wireless’ systems enable Internet service providers, enterprises and governmental organizations to deliver high-speed video, data, and voice transmissions across a broad range of applications, including public safety and surveillance. Cellular and personal communications service providers have employed Wave Wireless’ point-to-point systems to transmit data between remote tower sites and switching centers. Network service providers and Internet service providers are able, through the deployment of Wave Wireless’ equipment and systems, to respond to the demands for high-speed wireless access services, such as Internet access associated with business-to-business and e-commerce business processes. Systems integrators have utilized Wave Wireless’ products for various security and surveillance applications, including fixed and mobile video surveillance for public safety organizations, such as the Chicago Police Department.

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Wired networks often fall short of supplying cost effective, reliable “last mile” connectivity to the end user. To overcome such limitations in a quick and efficient manner, wireless solutions are increasingly being adopted and integrated with wired solutions. Furthermore, in many parts of the world, telecommunications services are inadequate, unreliable or non-existent due to the lack of existing wired infrastructure. Additionally, many such countries have privatized the state-owned telecommunications monopoly and opened their markets to competitive network service providers. Competitive service providers in such markets often find deployment of wireless broadband the quickest, most economical and scalable means of providing reliable, modern telecommunications services.

Wave Wireless’ current strategy is to be a leading worldwide supplier of high-performance license-exempt wireless access equipment in point to point, point to multipoint and self-healing mesh topologies. Wave Wireless principal focus is on the enterprise and government markets, by offering advanced encryption, multi-band, wireless networking solutions, serving both license-exempt users, and licensed users accessing the 4.9 GHz public safety band.

**License Exempt Products.** Wave Wireless intends to focus on the large growth opportunity in the license exempt and licensed public safety band markets, as it believes its leading edge SPEEDLAN family of products is uniquely positioned to capture market share. The current SPEEDLAN product line enables service providers, enterprises and government agencies to deliver high-speed data, voice and video connectivity enabling a broad range of applications. The SPEEDLAN product line, which currently consists of the SPEEDLAN 9100 and 9200 series, are high performance wireless mesh routers that provide wireless connectivity for local area networks utilizing mesh, point-to-point and point-to-multipoint topologies. Introduced in 2002, SPEEDLAN 9100 was the very first mesh product to market. The mesh topology creates networks that use multi-hop connections to transmit IP packets between the initiation and termination points. The ability to use different paths between any two points, based on the detected conditions, allows path redundancy and, in essence, a self-healing wireless network.

- **SPEEDLAN 9100.** The SPEEDLAN 9100 series of broadband wireless routers offers flexibility in meeting the challenges of designing, building, and managing today’s fixed wireless networks. By allowing the user to choose between star, mesh, or a point-to-point deployment, the SPEEDLAN 9100 provides a platform that can grow and easily be re-deployed as the customers needs change. The SPEEDLAN 9100 utilizes 802.11 standards to communicate at 11 Mbps per second in the 2.4 GHz band.
- **SPEEDLAN 9200.** The SPEEDLAN 9200, released in September 2004, combines high performance, a broad feature set and multiple operating frequencies to provide a flexible, scalable and robust solution. The SPEEDLAN 9200 is designed for outdoor environments such as outdoor wireless LANs, metropolitan wireless infrastructures, or security and surveillance solutions. Based on a self-healing mesh network architecture, the 9200 provides 54 Mbs throughput at either 2.4 GHz, 5.8 GHz or 4.9 GHz and supports the latest 802.11a/g-based standards and remote access by laptop and PDA users. The 9200 utilizes OFDM non-line-of-sight technology and provides for secure network performance through 128-bit AES encryption technology. These features make the 9200 ideally suited for the current and emerging IP-based applications, and particularly attractive for video applications.
- **SPEEDLAN 9300 (*Under Development*).** The SPEEDLAN 9300, currently under development, is a higher capacity, scalable unit, featuring several internal radio modules based on state-of-the-art 802.11x technology. The product can be configured as a node in a multiple-radio channel mesh backbone and/or a combination of mesh node plus standard access points, thus providing the flexibility needed to address challenging customer network requirements in difficult environments. This multiple radio feature, a new improved mesh protocol, and the use of a powerful network processor with hardware acceleration engines that can perform packet classification, bring the SPEEDLAN 9300 to a new level of performance.

The SPEEDLAN 9100, 9200 and 9300 series are all outdoor units designed for the most severe environmental conditions. Target markets for the SPEEDLAN family of products include security, surveillance, wireless ISPs and other private networks for a myriad of IP-based applications.

***Repair and Maintenance Business.*** As a result of the Restructuring Plan, a substantial portion of Wave Wireless' revenue is derived from the sale of refurbished radios in connection with its RMA Business. The RMA Business results from the repair and maintenance of a single legacy product line, Tel-Link, which was the first product introduced by Wave Wireless in 1992. The Tel-Link radio was very successful, shipping over 150,000 radios during the life of the product line. While these radios have proved to be very reliable over the years, they often require repair due to standard wear and tear and degradation of performance. Because Wave Wireless maintains a buffer stock of repaired, fully tested refurbished Tel-Link radios, it is uniquely positioned to provide unmatched service to its network customers.

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Wave Wireless' RMA customers consist of operators of large networks, as well as a number of smaller network operators and system integrators geographically dispersed throughout the world, Wave Wireless' top three RMA customers accounted for approximately 78% of all revenue attributable to the RMA Business during the fiscal year ended December 31, 2005, and we lost one of our top three RMA customers during 2005 which accounts for 19% of all revenue attributable to the RMA Business during the year. It is currently anticipated that our RMA Business will decline over time as our customers replace existing Tel-Link radios with new radios rather than send them back to Wave Wireless for repair and maintenance.

Most failed radios are shipped to Wave Wireless' intake facility in Reddich, England, which Wave Wireless maintains to satisfy the requirements of many of its European customers. All indoor units ("IDUs") are sent to Wave Wireless' facility in San Jose, California, while all outdoor units ("ODUs") are sent to Tortona, Italy, where they are refurbished under a Repair Service Agreement with Nuove Officine Radio Tortona s.r.l. The Repair Service Agreement expires in June 2007. Refurbished ODUs and IDUs are then returned to the Reddich facility for shipment back to the customers.

### Sales Channels and Wave Wireless' Customers

Wave Wireless' sales and marketing efforts are directed from its corporate offices in San Jose, California. In the United States, Wave Wireless maintains sales support through offices located in Florida, California, Washington D.C. and Oregon. Outside the United States, Wave Wireless maintains sales operations and customer support facilities in the United Kingdom that serves the European market, Singapore for the Asian market, and Mexico for the Latin American market. Internationally, Wave Wireless uses a variety of sales channels, including system integrators, original equipment manufacturers, dealers, and local agents with full service local capabilities, ranging from marketing and sales, to systems design, installation, and maintenance. Wave Wireless also sells directly to select customers, while avoiding conflict with its authorized local distribution channels. Wave Wireless has established agent relationships in numerous other countries in the Asia/Pacific region, the Middle East, Latin America, and Europe, and continues to add to its growing network of resellers and agents.

Typically, Wave Wireless' sales process commences with the solicitation of bids by prospective customers. If selected to proceed further, Wave Wireless may provide systems for incorporation into system trials, or Wave Wireless may proceed directly to contract negotiations. Wave Wireless can not record revenue until system trials are successfully completed, and Wave Wireless then negotiates a contract with the customer to set technical and commercial terms of sale. These terms of sale govern the purchase orders issued by the customer as the network is deployed and/or enhanced.

Due to the complexity of Wave Wireless' radio systems, a high level of technical sophistication is required on the part of its sales and marketing personnel. In addition, Wave Wireless believes that post-sale customer service programs are fundamental to customer satisfaction and the potential for follow-on business. New customers are provided engineering assistance for installation of the initial units as well as varying degrees of field training depending upon the customer's technical aptitude. Wave Wireless' customer service efforts are supplemented by its system providers.

For the years ended December 31, 2005 and 2004, Wave Wireless' significant customers, and their respective percent contribution to its sales are as follows:

Customer	2005	2004
Orange Personal Communications System (OPCS)	27%	13%
Vodafone (Mannesmann)	5%	15%
Aces	10%	1%
T-Mobile	10%	12%
TelCel	12%	25%
Total	64%	66%



During 2005, sales to OPCS and TelCel accounted for 27% and 12% of Wave Wireless' total sales, respectively. Sales to TelCel have substantially decreased due to management's decision to discontinue sales of its licensed radio systems in connection with the Restructuring Plan. Sales to a relatively small number of customers, particularly in connection with its RMA Business, will continue to account for a high percentage of its sales in the foreseeable future. Although the composition of Wave Wireless' largest customer group may vary from period to period, the loss of a significant customer or a major reduction in orders by any significant customer, through reductions due to market, economic or competitive conditions in the telecommunications industry, may adversely affect Wave Wireless' business, financial condition, and results of operations. Wave Wireless' ability to maintain or increase its sales in the future will depend, in part, upon its ability to maintain its RMA Business, to obtain orders from new customers, as well as the financial condition and success of its customers, and the economy in general.

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## **Research and Development**

As part of the Restructuring Plan, Wave Wireless divested its interest in P-Com Italia, which manufactured certain product components for Wave Wireless, and provided it with select research and development services. Wave Wireless ceased further development of new licensed spectrum products but plans to continue research and development on its license exempt products from its San Jose, California facility. Wave Wireless expects to continue to invest in research and development to maintain superior features for the SPEEDLAN family of products. Wave Wireless invested approximately \$3.0 million and \$5.0 million in 2005 and 2004, respectively, in total research and development efforts, including amortization and depreciation. As a result of the Restructuring Plan announced in April 2005, Wave Wireless anticipates investing approximately \$600,000 per quarter in research and development efforts, focused principally on the SPEEDLAN product line.

Wave Wireless' research and development efforts can be classified into two distinct efforts: (1) increasing the functionality of its point-to-point, point-to-multipoint and mesh radio systems through a) the development of additional frequencies and product capacities, and b) the enhancement of its network management system software offering, and (2) integrating new functionality to extend the reach of its products into customer networks, such as access technology which allows the customer to manage telecommunications services on-site and integrate voice, data, video and facsimile in one offering. Wave Wireless also intends to develop additional SPEEDLAN products with smaller size, greater functionality and greater ease of use for new markets, including developing a line of next generation fixed wireless broadband products based on the 802.11a/g and/or 802.16 standards.

## **Competition**

The worldwide wireless communications market is extremely competitive. Wave Wireless' wireless radio systems compete with other wireless telecommunications products and alternative telecommunications transmission media, including copper and fiber optic cable. Wave Wireless has experienced competition worldwide from a number of leading telecommunications companies that offer a variety of competitive products and services, including Alvarion, Nortel, Proxim, Tropos Networks, Motorola, Trango Systems, Belair Networks, Firetide and Tranzeo Wireless Technologies. Many of these companies have substantially greater installed bases, financial resources and production, marketing, manufacturing, engineering and other capabilities than Wave Wireless.

In addition, numerous start-ups continue to enter the marketplace with competing products. The principal elements of competition in Wave Wireless' market, and the basis upon which customers typically select the Wave Wireless' systems, include price, performance, software functionality, ability to meet quick delivery requirements, and customer service and support capabilities. Wave Wireless expects its competitors to continue to improve the performance and lower the price of their current products and to introduce new products or new technologies that provide added functionality and other features. New product introductions and enhancements by Wave Wireless' competitors has caused a significant decline in its sales or loss of market acceptance of its systems, and in certain cases, has made its systems or technologies obsolete or noncompetitive. Wave Wireless has experienced significant price competition and expects price competition to intensify as a result of new entrants into the market. This has adversely affected Wave Wireless' business, financial condition and results of operations. Wave Wireless believes that its ability to continue to compete successfully is based on factors both within and outside of its control. Timing of new product line introductions, performance characteristics of Wave Wireless' equipment and the ability of its customers to be successful all play key roles. In order to remain competitive, Wave Wireless will be required to continue to expend significant resources on new product development, cost reduction and enhancements.

## **Government Regulation**

Radio telecommunications are subject to extensive regulation by the United States and foreign governmental agencies and international treaties. Wave Wireless' products must conform to a variety of domestic and international requirements established to, among other things, avoid interference among users of radio frequencies and to permit

interconnection of equipment. Each country has a different regulatory process. Historically, in many developed countries, the limited availability of frequency spectra has inhibited growth of wireless telecommunications networks.

In order for Wave Wireless to operate within a specific country's jurisdiction, it must obtain regulatory approval for its systems and comply with different regulations in each jurisdiction. Regulatory bodies worldwide continue to adopt new standards for wireless telecommunications products. The delays inherent in this governmental approval process may cause the cancellation, postponement or rescheduling of the installation of communications systems, which in turn may have prevented or delayed the recognition of the sale of Wave Wireless' systems.

The failure to comply with current or future regulations or changes in the interpretation of existing regulations could result in suspension or cessation of operations in that particular jurisdiction. These regulations and changes could require Wave Wireless to modify its products and incur substantial costs and delays to comply with these time-consuming regulations and changes. In addition, Wave Wireless is also affected by the regulation, allocation and auction of radio frequency spectrum by domestic and international authorities. Equipment to support new services can be marketed only if permitted by suitable frequency allocations, auctions and regulations, and the process of establishing new regulations is complex and lengthy. If personal communications service operators and others are delayed in deploying their systems, Wave Wireless could experience delays in orders for Wave Wireless' products. Failure by the regulatory authorities to allocate suitable frequency spectrum could adversely affect its business, financial condition and results of operations.

The regulatory environment in which Wave Wireless operates is subject to significant change. Regulatory changes, which are affected by political, economic and technical factors, could significantly impact its operations by restricting the development efforts of its customers, making current systems obsolete or increasing the opportunity for additional competition. Any of these regulatory changes, including changes in the allocation of available spectrum, could adversely affect Wave Wireless' business and results of operations. Wave Wireless might modify its systems in order to operate in compliance with applicable regulations. These modifications could be costly and time consuming to implement.

### **Intellectual Property**

Wave Wireless generally owns its intellectual property, except for its existing patents, which were sold to a third party in November 2005. In connection with this sale, Wave Wireless retained a non-exclusive, perpetual, royalty free right and license to use the patents in connection with its millimeter wave radio licensed products.

Wave Wireless relies on its ability to obtain and enforce its intellectual property rights, including copyrights on its proprietary software. Wave Wireless generally enters into confidentiality and nondisclosure agreements with service providers, customers and others, and limits access to and distribution of its proprietary technology. Wave Wireless also enters into software license agreements with its customers and others. However, these measures may not provide adequate protection for Wave Wireless' trade secrets and other proprietary information. Disputes over the ownership of Wave Wireless' intellectual property rights may still arise and its trade secrets and proprietary technology may otherwise become known or be independently developed by competitors. Any patent Wave Wireless licenses may be invalidated, circumvented or challenged, the rights granted thereunder may not provide competitive advantages or any of its future patent applications may not be issued with the scope of the claims sought, if at all. Furthermore, others may develop similar products or software, duplicate Wave Wireless' products or software, or third parties may assert intellectual property infringement claims against it. In addition, foreign intellectual property laws may not adequately protect Wave Wireless' intellectual property rights abroad. Failure to protect Wave Wireless' proprietary rights could adversely affect its business, financial condition, and results of operations.

Litigation may be necessary to enforce Wave Wireless' intellectual property rights, to protect its trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. This litigation could result in substantial costs and diversion of resources and could adversely affect Wave Wireless' business, financial condition and results of operations regardless of the outcome of the litigation. Infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims may be asserted in the future and these assertions may adversely affect Wave Wireless' business, financial condition, and results of operations. If any claims or actions are asserted against Wave Wireless, it may seek to obtain a license under a third party's intellectual property rights. However, a license may not be available under reasonable terms or at all. In addition, if Wave Wireless decides to litigate these claims, the litigation could be extremely expensive and time consuming and could adversely affect Wave Wireless' business, financial condition and results of operations, regardless of the outcome of the litigation.

### **Employees**

As of December 31, 2005, Wave Wireless employed a total of 47 employees, including 18 in Operations, seven in Research and Development, 15 in Sales and Marketing and seven in Administration. Of Wave Wireless' total employees, two were part-time employees. Wave Wireless believes that future success will depend in large part on its ability to attract and retain highly skilled employees. No employees are represented by a labor union, and Wave Wireless has not experienced any work stoppages.

**ITEM 2. DESCRIPTION OF PROPERTIES**

Location of Leased Facility	Functions	Square Footage	Date Lease Expires
Headquarters, San Jose, CA	Administration/Customer Support/Sales/Engineering; Manufacturing	19,219	June 30, 2010
Redditch, England	Warehouse/Operations	6,700	September 28, 2009
Sarasota, FL	Sales/Customer Support	1,200	July 31, 2006

Wave Wireless does not own any real property.

**ITEM 3. LEGAL PROCEEDINGS**

On June 20, 2003, Agilent Financial Services, Inc. ("Agilent") filed a complaint against Wave Wireless for Breach of Lease, Claim and Delivery and Account Stated, in Superior Court of the State of California, County of Santa Clara. The amount claimed is approximately \$2.5 million, and represents accelerated amounts due under the terms of capitalized equipment leases of Wave Wireless. On June 27, 2003, the parties filed a Stipulation for Entry of Judgment and Proposed Order of Dismissal of Action With Prejudice. Under the terms of the Stipulation, Wave Wireless paid Agilent \$50,000 on July 15, 2003 and \$100,000 on September 1, 2003, and paid \$50,000 per month through November 2004. On November 30, 2004, 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; and paid monthly payments of \$92,187 through March 2005. Also, 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, Wave Wireless and Agilent entered into a further agreement whereby one half of the remaining debt of \$1,111,599 would be paid in equal payments over 18 months beginning April 1, 2005, with the other half being paid in the form of senior preferred stock convertible at any time at the option of the holder into common stock at a price of \$.50 per share. As a result of the Stipulation, judgment under the Complaint will not be entered unless and until Wave Wireless defaults under the terms of the Stipulation, as amended to reflect the agreements described above. In the event Wave Wireless satisfies each of its payment obligations under the terms of the Stipulation, the Complaint will be dismissed, with prejudice.

In June 2000, two former consultants to P-Com Italia S.p.A. filed a complaint against P-Com Italia in the Civil Court of Rome, Italy seeking payment of certain consulting fees allegedly due the consultants totaling approximately \$615,000. The Civil Court of Rome appointed a technical consultant in order to determine the merit of certain claims made by the consultants. On April 20, 2005, the Civil Court of Rome issued judgment dismissing the case, and ordered the consultants to pay P-Com Italia's legal fees. The Court's order has been appealed by the consultants to the Court of Appeal of Rome. While no assurances can be given, Wave Wireless believes that the Court of Appeal of Rome will dismiss the Appeal.

On September 16, 2005, Wave Wireless was served with a Complaint filed by Lakewood Ranch Properties, Inc. (the "Landlord") for failure to pay one month's rent due under the terms of a Sublease Agreement dated January 3, 2005, by and between the Landlord and Wave Wireless (the "Sublease"), in the amount of \$26,771.43. The Complaint seeks eviction of Wave Wireless from its facility in Sarasota, Florida, and damages in the amount of \$28,110.00. Landlord

also alleges that Wave Wireless is liable under the Sublease for accelerated future monthly rent through September 30, 2016. The total amount of the Complaint filed was \$3,533,828.70. On October 17, 2005, both parties entered into a Lease Termination Agreement and Lakewood Ranch has agreed to dismiss the Complaint filed in the amount of \$3,533,828, after payments totaling \$310,000 are made. As of December 31, 2005, the amount remaining to be paid is \$240,000. On January 30, 2006, Wave Wireless and the Landlord entered into an Amendment to Addendum of Termination Agreement (“Amendment”). Under the term of the Amendment, Wave Wireless paid \$30,000 to Landlord on February 1, 2006, and \$30,000 to Landlord on March 20, 2006, and is required to pay Landlord \$180,000 on or before March 31, 2006. Wave Wireless intends to seek financing to make the required payments. No assurances can be given that Wave Wireless will be able to obtain the necessary financing to make the remaining required payments.

In the event we are unable to satisfactorily resolve these and other proceedings that might arise, our financial position and results of operations may be materially affected.

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

None

**PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock trades on the OTC Bulletin Board operated by the National Association of Securities Dealers, Inc. Our common stock is subject to the Securities Exchange Commission's ("SEC") "penny stock" regulation. For transactions covered by this regulation, broker-dealers must make a special suitability determination for the purchase of the securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, the rules generally require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer is also subject to additional sales practice requirements. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of holders to sell the common stock in the secondary market, and the price at which a holder can sell the common stock. Effective July 19, 2004, we effected a thirty for one reverse stock split. Effective as of July 19, 2004, our common stock trades under the symbol PCMC on the OTC Bulletin Board.

The following table sets forth the range of high and low sale prices of our common stock, as reported on the OTC Bulletin Board for each quarter in 2005 and 2004. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions. All price numbers have been adjusted to reflect the reverse stock split effective July 19, 2004.

As of March 1, 2006, there were 847 stockholders of record of Wave Wireless' common stock.

	PRICE RANGE OF COMMON STOCK	
	HIGH	LOW
Year Ended December 31, 2004:		
First Quarter	\$ 6.00	\$ 1.80
Second Quarter	2.31	1.17
Third Quarter	1.26	0.63
Fourth Quarter	0.66	0.38
Year Ended December 31, 2005:		
First Quarter	\$ 0.54	\$ 0.13
Second Quarter	0.24	0.12
Third Quarter	0.36	0.15
Fourth Quarter	0.24	0.13

**RECENT SALES OF UNREGISTERED SECURITIES**

From October 1, 2005 through December 31, 2005, Wave Wireless issued Convertible Notes to certain purchasers in the principal amount of \$850,000, payable on or before March 31, 2006. Proceeds from the issuance of the Convertible Notes were used for general working capital purposes. Interest accrues on the Convertible Note at an annual interest rate of 10%. Under the terms of the Convertible Note, the holders have the option to convert the

outstanding balance due under the terms of the Convertible Notes into shares of common stock of Wave Wireless at a price per share of \$0.15 at any time the Convertible Notes remains outstanding. In addition, the outstanding principal amounts and all accrued but unpaid interest under the terms of the Convertible Notes automatically convert into any shares issued in an equity or equity-based financing with gross proceeds of at least \$2,500,000 (“Equity Financing”). For purposes of determining the number of equity securities to be received by the holders upon such conversion, the holders shall be deemed to have tendered 120% of the outstanding balance of the Convertible Notes as payment of the purchase price in the Equity Financing. As additional consideration for the loans evidenced by the Convertible Notes, the holders were issued warrants for the issuance of 1,875,000 shares of common stock of Wave Wireless at an exercise price of \$.20 per share.

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On November 10, 2005, Wave Wireless and SDS Capital Group SPC, Ltd. ("Purchaser") exchanged all issued and outstanding promissory notes previously issued by Wave Wireless and held by Purchaser ("Old 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 accrues on such debt at an annual interest rate of 8%, and this rate increases 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 due December 31, 2005. Amounts due and owing Purchaser under the terms of the New Note are secured by all assets of Wave Wireless.

No underwriters were involved in the foregoing stock transactions. The securities issued in connection with each of the above financings were issued private transactions, in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, and Rule 506 of Regulation D promulgated thereunder, because each offering was a non-public offering to accredited investors.

## **DIVIDENDS**

To date, we have not paid any cash dividends on shares of our common stock. We do not anticipate that funds will be legally available to make the required dividend payments in the foreseeable future, and such obligations therefore will accrue in arrears until such time as we have legally available funds to make the required distributions.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the section entitled "Risk Factors" beginning on Page 14 of this Annual Report on Form 10-KSB.

## **OVERVIEW**

We develop, manufacture and distribute next generation wireless mesh routers for the telecommunications, security and surveillance and public safety markets. Our mesh, point-to-point and point-to-multipoint broadband wireless access systems combine high performance, versatility and AES encryption to deliver a broad range of powerful applications and turnkey solutions ideally suited for internet service providers, educational institutions, corporate enterprises and government agencies. Our wireless access systems are sold globally through our own sales force, as well as through strategic partners, distributors, systems integrators, and value added resellers. We are also focused on supporting our global customer base in connection with our repair and maintenance business ("RMA Business").

### **Summary of Operations.**

We have incurred substantial losses in recent years. During the years ended December 31, 2005 and 2004, we recorded net losses from continuing operations of (\$12.6) million and (\$3.3) million, respectively. In April 2005, we announced a formal restructuring plan designed to dramatically reduce costs, refocus its strategic direction, and ultimately achieve profitability ("Restructuring Plan"). Key elements of the Restructuring Plan involved both (i) divesting Wave Wireless' legacy product lines for the licensed market that were expected to result in continued substantial operating losses, and (ii) refocusing Wave Wireless' product strategy around its SPEEDLAN product line and the market for robust license-exempt and licensed public safety band wireless applications. Wave Wireless will also continue to provide repair and maintenance ("RMA") support services to its installed base of legacy products for the licensed wireless backhaul market.

Our revenues decreased from \$24.2 million in 2004 to \$11.8 million in 2005. The decrease was primarily due to our decision to discontinue our license products and concentrate on our unlicensed products as part of the Restructuring Plan, and a substantial decrease attributable to our RMA Business.

We are focused on increasing sales of our SPEEDLAN product line and on maintaining our RMA Business. In addition, on November 16, 2005, Wave Wireless announced its intent to merge with WaveRider Communications Inc. (the "WaveRider Merger"). The WaveRider Merger is a strategic fit that brings together complementary business lines, engineering, sales and marketing compatibilities and innovative technology. The combination of Wave Wireless' SPEEDLAN family of mesh networking products and WaveRider's Last Mile Solution<sup>®</sup> non-line-of-sight, fixed and mobile wireless 900 MHz products will provide customers with a wide range of line-of-sight fixed and non-line-of-sight products and services, and positions the combined company as a worldwide provider of robust wireless broadband applications and solutions. A definitive Agreement and Plan of Merger was executed on January 3, 2006. The WaveRider Merger was approved by WaveRider stockholders, at a special meeting of stockholders of WaveRider, held on March 20, 2006. It is currently anticipated that the WaveRider Merger will close on or before the end of the quarter ending March 31, 2006.

In order to provide for its immediate working capital needs prior to, and after the proposed WaveRider Merger, Wave Wireless will be required to obtain additional financing. See "*Liquidity and Capital Resources*" below.

### **Summary of Liquidity and Capital Resources.**

We used (\$4.9) million and (\$9.1) million in cash, respectively, in supporting our operating activities during the years ended December 31, 2005 and 2004, respectively. Our financing activities generated \$2.4 million and \$4.7 million during the years ended December 31, 2005 and 2004, respectively. Based upon current internal projections at current operating levels, and taking account of current working capital, we will have a significant cash shortfall in our operations during the year ended December 31, 2006. In addition, our current cash reserves will be exhausted by the first quarter of the year ending December 31, 2006. There are currently no committed funding arrangements to support this projected cash shortfall. Our projected sources of working capital that are utilized in our operating model includes the following:

We have a \$2.0 million line of credit with Silicon Valley Bank that expires on March 30, 2006. This Credit Facility has significant terms and conditions that will limit our ability to draw funds. Available borrowing under the Credit Facility is based on our accounts receivable. At March 1, 2006, we had \$208,000 in additional borrowing availability under the Credit Facility.

We are currently seeking debt or equity financing in order to meet our immediate working capital needs, and in order to provide adequate working capital following consummation of the proposed WaveRider Merger. Our ability to continue as a going concern is dependent upon acquiring additional cash through financing arrangements, as well as upon negotiating a settlement with certain of our largest creditors. While we are actively seeking additional equity and/or debt financing, as well as negotiating settlements with certain of our largest creditors, there are currently no commitments. There can be no assurances that any additional financing will be available on acceptable terms, if at all, or that we will be successful in our ability to enter into settlement agreements to reduce our short-term working capital requirements.

### **YEARS ENDED 2005 AND 2004**

#### **Sales**

In 2005 and 2004, our sales were approximately \$11.8 million and \$24.2 million, respectively. As discussed below, the 51% decrease in sales from 2004 to 2005 was primarily due to our decision to exit the licensed business and focus on our unlicensed business. In addition, sales of refurbished radios in connection with our RMA Business declined to approximately \$6.4 million in 2005 compared to \$11.2 million in 2004.

Sales of licensed products in 2005, including refurbished radios, was \$9.1 million, or 77% of total sales, while sales of unlicensed products was \$2.7 million, or 23% of total sales. Sales of licensed products in 2004, including refurbished radios, was \$19.1 million, or 79% of total sales, while sales of unlicensed products was \$5.1 million, or 21% of total sales. Sales of unlicensed products declined by approximately \$2.4 million from 2004 to 2005, principally as a result of the discontinuation of the sale of certain legacy unlicensed product lines. While no assurances can be given, we currently expect that revenue attributable to unlicensed wireless equipment sales to increase, given Wave Wireless' focus on the SPEEDLAN product line as a result of the Restructuring Plan announced in April 2005. As a result of the Restructuring Plan, we discontinued our licensed product line because demand for licensed wireless equipment had not significantly increased since 2000, when spending on telecommunications equipment peaked, and competition had intensified. We continue, however, to sell refurbished licensed radio products in connection with our repair and maintenance business. See "*Restructuring Activities*", below.

The significant decrease in revenue in 2005 as compared to the comparable period last year is attributable to substantially lower revenue in certain licensed product lines and lower than anticipated refurbished licensed product

revenue associated with our RMA Business. The lower revenue attributable to our licensed product lines principally reflects the exiting of an unprofitable product line contemplated in our Restructuring Plan. Because of the significant decline in sales attributable to our licensed product lines, a substantial portion of our product sales continue to come from our RMA Business, which generated approximately \$6.4 million, or 54% of total sales, and 70% of total sales of licensed products for 2005, but were down from the \$11.2 million, or 46% of total sales, and 58% of total sales of licensed products for 2004.

The decrease in sales attributable to our RMA Business in 2005 is principally caused by lower sales volume attributable to the loss of a single customer in Europe, as well as by the decommissioning of certain of our licensed radio products from another customer's network. Management anticipates that, as our customers' networks age, and the cost to replace these networks decrease, our customers may similarly elect to decommission our licensed radio products installed in their networks. In addition, competition from other repair and maintenance service providers may negatively affect sales attributable to our RMA Business. Wave Wireless entered into an agreement with one of its customers to secure the sale of refurbished licensed radio products to this customer through March 2006, and with another customer to provide RMA services through December 31, 2006. Nevertheless, it is anticipated that our RMA Business will decline over time.

Sales to Orange Personal Communications Services accounted for 27% and 13% of total sales in 2005 and 2004, respectively. Sales to T-Mobile (previously known as Mercury-One-to-One) accounted for 10% and 12% of 2005 and 2004 sales, respectively. Wave Wireless did not derive revenue from sales to T-Mobile during the quarter ended December 31, 2005, and it is currently anticipated that sales to this customer will not recur. Wave Wireless will continue to be dependent on a few customers, specifically in connection with its RMA Business, for a substantial portion of its sales in 2006.

During 2005, we generated 9% of our sales in the United States, 38% in the United Kingdom, 11% in continental Europe, 7% in Asia, 15% in the Middle East, 16% in Latin America, and 4% in other geographical regions. During 2004, we generated 11% of our sales in the United States, 23% in the United Kingdom, 21% in continental Europe, 8% in Asia, 6% in the Middle East, 26% in Latin America, and 4% in other geographical regions.

### **Gross Profit**

Cost of sales consists primarily of costs related to materials, labor and overhead, freight and duty. Cost of sales amounted to \$8.5 million and \$18.7 million during the years ended December 31, 2005 and 2004, respectively. In 2005 and 2004, gross profit was \$3.3 million and \$5.5 million, respectively, or 28% and 23% of sales, respectively.

The higher gross margin in 2005 was principally attributable to non-recurring adjustment items consisting of a favorable accrued inventory liability adjustment of \$243,000, shipments of inventory on terminated purchase orders which reduced our accrued cancellation cost by \$116,000 and a reduction in inventory reserves of \$368,000 due to sales of licensed products which were previously reserved.

As discussed under “*Summary of Operations*” above, the proposed WaveRider Merger will have the effect of further reducing our overall operating costs.

### **Research and Development**

Research and development expenses consist primarily of costs associated with new product development. Our research and development activities include the development of additional radio products, frequencies and upgrading operating features, and related software tools. Software development costs incurred prior to the establishment of technological feasibility are expensed as incurred. Software development costs incurred after the establishment of technological feasibility and before general release to customers are capitalized, if material.

In 2005 and 2004, research and development expenses were approximately \$3.0 million and \$5.0 million, respectively. As a percentage of product sales, research and development expenses increased from 20% in 2004 to 25% in 2005, primarily due to the lower revenues from exiting the licensed products business, though the dollar amount has decreased as a result of headcount reductions and other related expense reductions caused by the implementation of the Restructuring Plan, and the resulting focus on unlicensed product development.

### **Selling and Marketing**

Selling and marketing expenses consist of salaries, sales commissions, travel expenses, customer service and support expenses, and costs related to business development and trade shows. In 2005 and 2004, selling and marketing expenses were \$3.1 million and \$6.8 million, respectively. As a percentage of sales, selling and marketing expenses were consistent at 28% in 2004 to 27% in 2005, though the dollar amount has decreased due to the implementation of the Restructuring Plan, which included substantial cost reductions.

### **General and Administrative**

General and administrative expenses consist primarily of salaries and other expenses for management, as well as finance, accounting, data processing, public company costs, legal, and other professional services. In 2005 and 2004, general and administrative expenses, were \$3.5 million and \$4.6 million, respectively. As a percentage of sales, general and administrative expenses increased from 19% in 2004 to 30% in 2005, primarily due to lower revenues resulting from exiting the licensed product business, though the dollar amount has decreased due the realization of savings from cost reduction efforts caused by implementation of the Restructuring Plan, including reduced consulting and legal expenses, and facilities consolidation.

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## **Restructuring Activities**

In the event that certain facts and circumstances indicate that the long-lived assets may be impaired, an evaluation of recoverability would be performed. When an evaluation occurs, management conducts a probability analysis based on the weighted future undiscounted cash flows associated with the asset. The results are then compared to the asset's carrying amount to determine if impairment is necessary. The cash flow analysis for the property and equipment is performed over the shorter of the expected useful lives of the assets, or the expected life cycles of our product line. An impairment charge is recorded if the net cash flows derived from the analysis are less than the asset's carrying value. We deem that the property and equipment is fairly stated if the future undiscounted cash flows exceed its carrying amount.

In April 2005, we announced the adoption of the Restructuring Plan that significantly curtailed current spending, and substantially reduced liabilities and operating and other costs. The Restructuring Plan included the divestiture of certain unprofitable product lines, workforce reductions, write-down of certain inventory, and a loss associated with the divestiture of Wave Wireless' research and development operations in Italy. A restructuring charge of nearly \$5.3 million was taken as of March 31, 2005, to cover the costs associated with the Restructuring Plan.

At September 30, 2005, we recorded \$310,000 in restructuring expense resulting from the termination of the Sublease Agreement, dated January 3, 2005, between Wave Wireless and Lakewood Ranch Properties, Inc. ("Sublease"). The Termination Agreement, dated October 17, 2005, is intended to result in the dismissal of a Complaint filed September 16, 2005 by Lakewood Ranch Properties for the failure to pay one month's rent due under the terms of the Sublease, in the amount of \$26,771.43. Lakewood Ranch Properties also alleged that we were liable under the Sublease for accelerated future monthly rent through September 30, 2016.

On October 17, 2005, both parties entered into a Lease Termination Agreement and Lakewood Ranch has agreed to dismiss the Complaint filed in the amount of \$3,533,828.70, after payments totaling \$310,000 are made. On January 30, 2006, Wave Wireless and the Landlord entered into an Amendment to Addendum of Termination Agreement ("Amendment"). Under the term of the Amendment, Wave Wireless paid \$30,000 to Landlord on February 1, 2006, and is required to pay \$30,000 to Landlord on or before February 28, 2006, and \$180,000 on or before March 31, 2006. Wave Wireless intends to seek financing to make the required payments. No assurances can be given that Wave Wireless will be able to obtain the necessary financing to make the remaining required payments. We intend to seek financing to make the required payments and no assurances can be given that we will be able to obtain the necessary financing to make the required payments. \$240,000 remains outstanding as of December 31, 2005.

## **Goodwill Amortization and Impairment**

We accounted for the SPEEDCOM purchase transaction using the purchase method of accounting. Under the purchase method of accounting, the total purchase price, plus the fair value of assumed liabilities, is allocated to the net tangible and identifiable intangible assets acquired, based upon their respective fair values. The total purchase price of approximately \$7,514,000 consisted of 2,116,666 shares of our Common Stock, valued using market values for such shares around the commitment date (\$3.42). The acquisition resulted in goodwill of approximately \$11.9 million, because the value of the assumed liabilities exceeded the value of the tangible assets acquired.

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill resulting from the purchase, if any, will not be amortized into operations. Rather, such amounts will be tested for impairment at least annually. In the event that we determine that the value of goodwill has become impaired, an accounting charge for the amount of the impairment will be recorded. No impairment of goodwill was recorded in 2005 because the fair value of the combined business units exceeded the goodwill-carrying amount. We based our determination on a valuation completed by an outside consulting firm using estimates and assumptions provided by management, which we believe to be reasonable but that are unpredictable and inherently uncertain. Actual results may differ from those estimates.

**Interest Expense**

In 2005 and 2004, interest expense was \$1.0 million and \$0.7 million, respectively. In 2005, interest expense was primarily on short-term bank borrowings and interest on debentures and promissory notes. As a result of Wave Wireless' dependence on the Credit Facility to meet its working capital needs, as well as the issuance of the Notes and Convertible Notes, interest expense is anticipated to increase in subsequent periods relative to the levels incurred in 2005. In 2004, interest expense primarily related to the borrowings on the Credit Facility with the Bank, the issuance of the Convertible Notes, amortization of discount on promissory notes, and interest on equipment leases.

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### Other Income (Expense), Net

In 2005, other income, net was \$271,000 which primarily is due to a gain of \$238,000 from the sales of fixed assets, and \$400,000 resulting from the sale of patents related to our licensed products netted against losses from transactions denominated against foreign currencies. In 2004, other income, net, related primarily to a gain on the settlement of a contract, of \$7.5 million.

### Provision (Benefit) For Income Taxes

There was no provision for income tax in 2005 and 2004, because Wave Wireless incurred net operating losses during the year and the realization of benefits in future years does not rise to the more likely than not standard.

## LIQUIDITY AND CAPITAL RESOURCES

Since our inception in August 1991, we have financed our operations and capital requirements principally through net proceeds of approximately \$97.2 million from its initial and two follow-on public offerings of our common stock; \$113.1 million from private placements of our common stock and the exercise of warrants; \$44.6 million from five preferred stock financings; \$97.5 million from the 4.25% Notes issued in 1997; \$5.0 million from the issuance of debentures; and borrowings under bank lines of credit and equipment lease arrangements.

### Cash Used in Operations

In 2005, we used approximately \$4.9 million of cash in operating activities, primarily due to our net loss of \$12.6 million. In 2004, we used approximately \$9.1 million of cash in operating activities, primarily due to our net loss of \$3.3 million, a non-recurring gain on vendor settlements of approximately \$8.5 million, and reductions in accounts payable and other accrued liabilities of \$2.3 million, offset by depreciation expenses and inventory charges of \$2.4 million and lower receivables, and other assets of \$2.4 million.

### Cash from Investing Activities

During 2005, we received \$0.5 million from the sale of fixed assets. During 2004, we received \$0.8 million from the sale of property and equipment of \$0.9 million, offset by new acquisitions of \$0.3 million.

### Cash from Financing Activities

In 2005, we received \$2.4 million through financing activities primarily from \$0.8 million in advances under the Credit Facility, \$1.7 million in Note proceeds from the Debenture Financing, and \$0.9 million from the issuance of Convertible Notes, offset by \$0.9 million in repayments related to outstanding Notes and debentures. In 2004, we received \$4.7 million through financing activities. This was due primarily to \$3.3 million of proceeds from the issuance of Notes from the Debenture Financing, and \$2.4 million net proceeds from the Special Warrant Offering, offset by \$1.0 million of capital lease payments.

### Contractual Obligations

The following summarizes Wave Wireless' contractual obligations at December 31, 2005, and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

Obligations (in \$000):	Less Than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Non-cancelable operating lease obligations	\$ 220	\$ 820	\$ 158	-- \$	1,198

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Agilent note payable	272	--	--	--	272
Siemens note payable	350	--	--	--	350
Able note payable	305	--	--	--	305
Landlord note payable	43	30	--	--	73
Promissory note	2,529	2,714	--	--	5,243
Purchase order commitments	621	--	--	--	621
Total	\$ 4,340	\$ 3,564	\$ 158	\$ --	8,062

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During the first and second quarter of 2005, Wave Wireless entered into several payment plan agreements with vendors and creditors requiring Wave Wireless to pay off balances past due, or amounts agreed to between Wave Wireless and such vendors or creditors under settlement agreements. At December 31, 2005, the total amount remaining to be paid under those agreements totaled approximately \$310,000, of which, approximately \$272,000 is remaining for one creditor which will be paid over seven equal monthly installments, and \$305,000 to a vendor which was obligated to be paid over 9 equal monthly installments. Wave Wireless failed to make the required payment to this vendor on October 1, 2005, and is negotiating a revised payment plan taking into consideration Wave Wireless' current liquidity. These amounts are reflected as other accrued liabilities on Wave Wireless' balance sheet.

Wave Wireless also entered into a Settlement Agreement and Release ("Settlement Agreement") on September 15, 2004 with Seimans Aktiengesellschaft ("Siemens") with respect to certain claims between Siemens and Wave Wireless arising under a Joint Development and License Agreement and Original Equipment Manufacturer Agreement entered into between the parties. Under the terms of the Settlement Agreement, Wave Wireless agreed to pay Siemens \$500,000, of which it paid \$100,000 on October 1, 2004. Wave Wireless was obligated to pay an additional \$100,000 upon the earlier of the receipt of financing by Wave Wireless equal to at least \$100,000 or December 31, 2004, and \$300,000 in twelve monthly installments of \$25,000 per month beginning January 1, 2005. Wave Wireless did not make the December 31, 2004 \$100,000 payment but did make the first two monthly payments of \$25,000 each in January and February 2005. Wave Wireless has made no other payments to Siemens. The amount due Siemens as of December 31, 2005, \$350,000, is reflected as a short-term liability on Wave Wireless' balance sheet. In the event of a default, all amounts due Siemens are immediately payable and interest is accrued at 7%.

We do not have any material commitments for capital equipment. Additional future capital requirements will depend on many factors, including our working capital requirements for our operations and our internal free cash flow from operations.

### **Current Liquidity**

At December 31, 2005, we had negative working capital of approximately \$7.1 million, compared to working capital of approximately \$1.3 million at December 31, 2004. Our principal sources of liquidity at December 31, 2005 consisted of available borrowings under our Credit Facility, approximately \$380,000 of cash and cash equivalents, compared to approximately \$2.3 million in cash and cash equivalents at December 31, 2004, and proceeds from the issuance of Convertible Notes. The Convertible Notes mature on March 31, 2006.

Considering our projected cash requirements, our available cash will be inadequate to satisfy Wave Wireless' cash requirements through the end of the quarter ending March 31, 2006. To address our immediate working capital requirements, we will continue to access available borrowings under our existing Credit Facility, which has limitations, and will continue to seek additional equity and/or debt financing through the issuance of additional Convertible Notes. There are currently no formal committed financing arrangements to support Wave Wireless' projected cash shortfall, including commitments to purchase additional Convertible Notes. These negative trends and conditions raise substantial doubt about our ability to continue as a going concern.

It is currently anticipated that the Convertible Notes issued to date, as well as any additional Convertible Notes issued to provide for Wave Wireless' immediate working capital needs, will convert into an equity-based financing that Wave Wireless intends to consummate in connection with or promptly following consummation with the proposed WaveRider Merger ("Equity Financing"). Wave Wireless intends to use the proceeds from the proposed Equity Financing to settle certain commitments of Wave Wireless, and to provide for Wave Wireless' working capital requirements. While we are actively seeking additional equity and/or debt financing, and negotiating with certain of our largest creditors, there are currently no commitments. In the event Wave Wireless is unable to consummate the Equity Financing prior to March 31, 2006, the Convertible Notes will become due and payable. There can be no assurances that Wave Wireless will be successful in closing an Equity Financing prior to March 31, 2006. In the event Wave Wireless is unsuccessful in closing an Equity Financing, we intend to seek waivers of default from the holders

of the Convertible Notes. There can be no assurances that we will be successful in obtaining such waivers. In the event management is unsuccessful in its plans to issue additional Convertible Notes, raise additional capital in the immediate term, or obtain waivers from the holders of the Convertible Notes in the event an Equity Financing is not consummated by March 31, 2006, Wave Wireless will no longer be able to continue as a going concern. 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 Wave Wireless is unable to continue as a going concern.

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## **CERTAIN RISK FACTORS AFFECTING WAVE WIRELESS**

An investment in our Common Stock is subject to many risks. You should carefully consider the risks described below, together with all of the other information included in this Annual Report, including the financial statements and the related notes, before you decide whether to invest in our Common Stock. Our business, operating results and financial condition could be harmed by any of the following risks. The trading price of our Common Stock could decline due to any of these risks, and you could lose all or part of your investment.

### **RISKS RELATED TO WAVE WIRELESS' FINANCIAL CONDITION AND OPERATIONS**

#### **WE NEED ADDITIONAL FINANCING.**

Our core business product sales are still significantly below levels necessary to achieve positive cash flow. From inception to December 31, 2005, our aggregate net loss is approximately \$384.0 million. Our cash position was approximately \$380,000 at December 31, 2005, and is declining. We had negative working capital of \$6.9 million as of December 31, 2005. As of January 31, 2006, we have issued \$1,325,000 in Convertible Notes due March 31, 2006. To continue as a going concern, we need to immediately secure additional debt or equity capital. To address our liquidity requirements, we are aggressively reducing expenses in connection with the implementation of our Restructuring Plan and also need to conduct additional debt or equity financings to meet our current and anticipated working capital needs. No assurances can be given that we will be successful in our attempts to issue additional debt or raise additional equity financing.

#### **OUR PROSPECTS FOR OBTAINING ADDITIONAL FINANCING ARE UNCERTAIN AND FAILURE TO OBTAIN NEEDED FINANCING WILL RESULT IN OUR INABILITY TO CONTINUE AS A GOING CONCERN.**

Our independent registered public accountants' opinion on our 2004 and 2005 consolidated financial statements include an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern. To continue as a going concern, we will have to increase sales, and induce our creditors to forebear or to convert to equity, raise additional equity financing, and/or raise new debt financing. We may not accomplish these tasks. In the event we are unable to raise additional debt or equity financing, or otherwise improve our liquidity position, we will not be able to continue as a going concern. Our future capital requirements will depend upon many factors, including the success of our Restructuring Plan, the continuation of our RMA Business, development costs of new products and related software, potential acquisition opportunities, maintenance of adequate manufacturing facilities and contract manufacturing agreements, progress of research and development efforts, expansion of marketing and sales efforts, and status of competitive products. Additional financing may not be available in the future on acceptable terms or at all. Our history of substantial operating losses could also severely limit our ability to raise additional financing. If we are unable to obtain additional financing, we may need to seek the protection of the bankruptcy courts and your Wave Wireless shares may become worthless.

#### **WE MAY NOT BE ABLE TO REPAY OUR EXISTING DEBT AND ANY REPAYMENT OF OUR DEBT WITH SHARES OR BY RAISING ADDITIONAL FUNDS MAY RESULT IN SIGNIFICANT DILUTION TO OUR STOCKHOLDERS.**

At December 31, 2005, we owed, including accrued but unpaid interest, an aggregate amount of \$3.6 million to SDS Capital Group SPC, Ltd ("SDS"). Interest accrues on such debt at an annual interest rate of 8%, and this rate increases to 10% on April 1, 2006 through the maturity date of the loan, December 31, 2007. We may make the principal and interest payments under our Debenture Facility in either shares of our common stock, cash or a combination of both. In addition, given the recent price for Wave Wireless' common stock, if we make the required amortization payments using Wave Wireless' common stock, or raise additional funds by issuing equity securities, additional significant dilution to its stockholders will result.

In addition, as of January 31, 2006, we owed approximately \$1,325,000 under the terms of certain Convertible Notes, and it is currently anticipated that Wave Wireless will issue additional Convertible Notes to satisfy its immediate working capital needs. Principal and accrued interest under the terms of the Convertible Notes mature on March 31, 2006. In the event Wave Wireless is unable to consummate an Equity Financing prior to March 31, 2006, resulting in the conversion of amounts due under the Convertible Notes into shares of common stock of Wave Wireless, we will not be able to make the required payments to the holders of the Convertible Notes on such date. In the event we are not able to close the Equity Financing, and the holders of the Convertible Notes do not therefore convert the Convertible Notes into shares of Wave Wireless' common stock, or otherwise provide a waiver to defaults under the Convertible Notes, we will be unable to repay principal and accrued interest under the Convertible Notes upon maturity.

**WE MAY NOT BE ABLE TO REPAY THE DEBENTURE FACILITY INSTALLMENT PAYMENTS IN SHARES OF OUR COMMON STOCK, AND OUR FAILURE TO DO SO WOULD ADVERSELY AFFECT OUR BUSINESS.**

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Under our Debenture Facility, we may not issue shares of common stock to make the quarterly installment p