

WAVE WIRELESS CORP
Form 10QSB
May 22, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006**

Commission File Number **0-25356**

WAVE WIRELESS CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

77-0289371

(IRS Employer Identification No.)

255 Consumers Road, Toronto, Ontario M2J 1R4

(Address of principal executive offices and Zip (Postal) code)

416-502-3200

(Issuer's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x No
o

As of March 31, 2006, there were 70,524,516 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 26 pages of which this is Page 1. The Exhibit Index appears on Page 21.

WAVE WIRELESS CORPORATION

TABLE OF CONTENTS

	<u>Page Number</u>
PART I. FINANCIAL STATEMENTS	3
Item 1	Condensed Consolidated Financial Statements (unaudited)
	Condensed Consolidated Balance Sheet
	Condensed Consolidated Statements of Operations
	Condensed Consolidated Statements of Cash Flows
	Notes to Condensed Consolidated Financial Statements
Item 2	Management's Discussion and Analysis
Item 3	Controls and Procedures
PART II. OTHER INFORMATION	
Item 1	Legal Proceedings
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3	Defaults Upon Senior Securities
Item 4	Submission of Matters to a Vote of Securities Holders
Item 5	Other Information
Item 6	Exhibits and Reports on Form 8-K
Signatures	23
Certifications	24-26

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

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

(In thousands)

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 626	\$ 380
Accounts receivable, net of allowances of \$756	1,351	1,152
Inventory	1,190	197
Prepaid expenses and notes receivable	346	447
Total current assets	3,513	2,176
Property and equipment, net	757	622
WaveRider note receivable	—	250
Excess of purchase price and goodwill	26,738	11,990
Total assets	\$ 31,008	\$ 15,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank loan	\$ 41	\$ 759
Accounts payable	3,295	1,683
Other accrued liabilities	3,677	2,521
Deferred revenue	1,376	862
Liabilities of discontinued operations	184	184
Notes payable	878	898
Current maturities of long-term debt	966	2,379
Total current liabilities	10,417	9,286
Long-term debt, less current maturities	1,515	1,544
Total liabilities	11,932	10,830
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Series E Preferred Stock	332	332
Series F Preferred Stock	661	661
Series G Preferred Stock	3,344	3,344
Series H Preferred Stock	1,882	—
Series I Preferred Stock	2,823	—

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Series J Preferred Stock	9,612	—
Common stock, par value \$0.0001 per share 250 million shares authorized; 70,525 shares issued; 70,525 shares outstanding	7	2
Treasury stock, at cost; 30 shares	(74)	(74)
Additional paid-in capital	395,124	383,778
Accumulated deficit	(394,635)	(383,835)
Total stockholders' equity	19,076	4,208
Total liabilities and stockholders' equity	\$ 31,008	\$ 15,038

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

WAVE WIRELESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2006	2005
Sales	\$ 1,989	\$ 2,497
Cost of sales	1,588	2,545
Gross profit	401	(48)
Operating expense:		
Research and development	540	1,197
Selling and marketing	518	1,235
General and administrative	636	924
Restructuring charges	—	5,362
Total operating expenses	1,694	8,718
Loss from operations	(1,293)	(8,766)
Other income (expenses):		
Interest expense	(9,507)	(219)
Other income, net	—	187
Net loss	(10,800)	(8,798)
Preferred stock accretions	—	(580)
Net loss attributable to common stockholders	\$ (10,800)	\$ (9,378)
Basic and diluted loss per common share	\$ (0.45)	\$ (0.79)
Shares used in basic and diluted per share computation	23,774	11,816

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

WAVE WIRELESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	2006	March 31, 2005
Cash flows from operating activities:		
Net loss	\$ (10,800)	\$ (8,798)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	65	244
Loss on conversion of promissory notes	7,643	—
Amortization of discounts on promissory notes and warrants	870	23
Securities issued to consultants	733	—
Gain on disposal of property and equipment	(30)	(242)
Gain on vendor settlements	(26)	(92)
Loss on restructuring	—	5,362
Changes in operating assets and liabilities:		
Accounts receivable	519	(651)
Inventory	263	(727)
Prepaid expenses and other assets	132	(116)
Accounts payable	310	552
Other accrued liabilities	108	1,744
Net cash provided (used) in operating activities	(213)	(2,701)
Cash flows from investing activities:		
Acquisition of property and equipment	—	(2)
Proceeds from sale of patents	30	—
Net cash received on acquisition of WaveRider	169	—
Proceeds from sale of property and equipment	—	192
Net cash used in vesting activities	199	190
Cash flows from financing activities:		
Proceeds (payments) on bank loan	(729)	974
Proceeds from debt financing (net of cash fees of \$101)	989	850
Payments under capital lease obligations	—	(327)
Net cash provided by (used in) financing activities	260	1,497
Effect of exchange rate changes on cash	—	(2)
Net decrease in cash and cash equivalents	246	(1,016)
Cash and cash equivalents at beginning of the period	380	2,280
Cash and cash equivalents at end of the period	\$ 626	\$ 1,264

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

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

(In thousands, unaudited)

Supplemental cash flow disclosures:

Cash paid for interest	\$	140	\$	25
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Non-cash investing and financing activities:

Warrants issued in connection with convertible promissory notes	\$	261	\$	19
Warrants issued in connection with lease termination	\$	—	\$	233
Conversion of Series C Preferred stock into Common stock	\$	—	\$	10
Conversion of debt into Series J Preferred stock	\$	2,869	\$	—

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

WAVE WIRELESS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

1. BASIS OF PRESENTATION

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

On March 28, 2006, the Company merged a wholly-owned subsidiary of the Company with and into WaveRider Communications Inc. (the "WaveRider Merger"). As a result of the WaveRider Merger, the financial statements for the three months ended March 31, 2006 reflect the financial condition of the consolidated companies at March 31, 2006. The results of operations reflect WaveRider's operating results for the last four days during the quarter ended March 31, 2006. As a result, the results of operations reflected in the financial statements for the three months ended March 31, 2006 are not necessarily indicative of the operating results that may be expected for future periods.

Liquidity and Management's Plan

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As reflected in the financial statements, for the three-month period ended March 31, 2006, the Company incurred a net loss attributable to common stockholders of \$10.8 million. As of March 31, 2006, the Company had a surplus in stockholders' equity of \$19.1 million and accumulated deficit of \$394.6 million. Also, as of March 31, 2006, the Company had approximately \$626 thousand in cash and cash equivalents, and a working capital deficiency of approximately \$6.9 million. In addition, the requirements to continue investing in research and development activities to meet the Company's growth objectives, without assurance of broad commercial acceptance of the Company's products, create significant doubt as to the ability of the Company to continue normal business operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's current working capital requirements are being met principally from the private placement of equity securities, and available borrowings under a credit facility ("Credit Facility") with Silicon Valley Bank (the "Bank"), discussed below, and cash from operations. The amount outstanding under the Credit Facility was \$41,470 at March 31, 2006.

The Company's plan of restructuring announced in April 2005 ("Restructuring Plan"), together with the operating and other cost reduction initiatives resulting from the WaveRider Merger, is intended to eliminate the Company's dependence on external sources of financing. While the Restructuring Plan has resulted in substantial reductions in operating losses, and cash used in operations, the Company currently remains dependent on external sources of financing to continue operations. As a result, the Company privately placed equity securities to address its liquidity needs, and has issued and continues to intend to issue additional equity and/or debt securities during the quarter ending June 30, 2006 to meet its short-term working capital requirements.

There can be no assurance that the Company will be successful in issuing additional equity or debt securities on acceptable terms, if at all. If the Company is unable to obtain additional financing and achieve its planned cash flow positive operations and profitability, it will, in all likelihood, be obliged to seek protection under the bankruptcy laws; in which event the Company believes it is unlikely that its common stock will have any value. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going

concern.

7

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, costs for 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 months ended March 31, 2006. As of March 31, 2006, there is no material liability related to unvested share-based compensation awards granted.

2. ACQUISITION OF SUBSIDIARY

Effective March 28, 2006, the Company acquired WaveRider Communications Inc. ("WaveRider"), a Nevada corporation. The Company undertook this acquisition to bring together complementary business lines, engineering skills, sales and marketing capabilities and innovative technology. The combination of Wave Wireless' SPEEDLAN family of mesh networking products and WaveRider's Last Mile Solution® non-line-of-sight, fixed and mobile wireless 900 MHz products will provide customers with a wide range of line-of-sight and non-line-of-sight products and services, and position the combined company as a worldwide provider of robust, wireless broadband applications and solutions. The combined company will offer wireless