

Edgar Filing: NextWave Wireless Inc. - Form 10-Q

NextWave Wireless Inc.  
Form 10-Q  
November 13, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION TO PERIOD FROM

COMMISSION FILE NUMBER 000-51958

NEXTWAVE WIRELESS INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

20-5361360  
(IRS Employer  
Identification No.)

12670 HIGH BLUFF DRIVE, SAN DIEGO, CALIFORNIA  
(Address of principal executive offices)

92130  
(Zip Code)

(858) 480-3100  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if  
changed since last report)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined  
in Rule 12b-2 of the Exchange Act). Yes  No

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of November 5, 2007, there were approximately 92,667,000 shares of the Registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEXTWAVE WIRELESS INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PAR VALUE DATA)

	SEPTEMBER 29, 2007	DECEMBER 30, 2006
	-----	-----
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 72,871	\$ 32,980
Marketable securities	188,854	167,705
Accounts receivable, net of allowance for doubtful accounts of \$375 and \$321, respectively	22,722	5,056
Inventory	4,638	266
Deferred contract costs	20,821	2,397
Prepaid expenses and other current assets	12,145	7,571
	-----	-----
Total current assets	322,051	215,975
Restricted cash	75,000	75,000
Wireless spectrum licenses, net	574,931	527,998
Goodwill	140,262	32,184
Other intangible assets, net	80,813	18,570
Property and equipment, net	43,547	17,529
Other noncurrent assets	6,782	9,823
	-----	-----
Total assets	\$ 1,243,386	\$ 897,079
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 28,785	\$ 1,630
Accrued expenses	57,829	33,537
Current portion of long-term obligations	6,223	3,065
Deferred revenue	49,592	10,253
Other current liabilities and deferred credits	3,034	1,240
	-----	-----
Total current liabilities	145,463	49,725
	-----	-----
Deferred income tax liabilities	85,556	75,774
Long-term obligations, net of current portion	316,552	298,030
Other long-term obligations, deferred credits and reserves	5,924	3,324
	-----	-----

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Total liabilities	553,495	426,853
Minority interest in subsidiary	--	1,048
Commitments and contingencies		
Redeemable Series A Senior Convertible Preferred Stock, \$0.001 par value; 355 shares authorized; 355 shares issued and outstanding, liquidation preference of \$368,814 at September 29, 2007	364,919	--
	-----	-----
Stockholders' equity:		
Preferred stock, \$0.001 par value; 25,000 shares authorized; 355 shares designated as Series A Senior Convertible Preferred Stock; no other shares issued or outstanding	--	--
Common stock, \$0.001 par value; 400,000 shares authorized; 92,666 and 83,716 issued and outstanding at September 29, 2007, and December 30, 2006, respectively	93	84
Additional paid-in-capital	691,315	620,423
Accumulated other comprehensive income (loss)	48	(357)
Accumulated deficit	(366,484)	(150,972)
	-----	-----
Total stockholders' equity	324,972	469,178
	-----	-----
Total liabilities and stockholders' equity	\$ 1,243,386	\$ 897,079
	=====	=====

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

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NEXTWAVE WIRELESS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER	SEPTEMBER	SEPTEMBER	SEPTEMBER
	29,	30,	29,	30,
	2007	2006	2007	2006
	-----	-----	-----	-----
Revenues	\$ 17,752	\$ 6,670	\$ 38,330	\$ 16,868
	-----	-----	-----	-----
Operating expenses:				
Cost of revenues	17,324	3,506	31,538	7,951
Engineering, research and development	42,556	11,634	99,953	36,017
General and administrative	30,939	14,896	70,351	35,528
Sales and marketing	7,449	2,992	16,684	7,144
Purchased in-process research and development costs	11,200	--	12,060	1,648
	-----	-----	-----	-----
Total operating expenses	109,468	33,028	230,586	88,288

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Loss from operations	(91,716)	(26,358)	(192,256)	(71,420)
Other income (expense):				
Interest income	4,870	3,419	12,387	9,803
Interest expense	(12,033)	(9,010)	(34,619)	(9,684)
Other income (expense), net	(1,622)	(26)	(1,320)	98
Total other income (expense), net	(8,785)	(5,617)	(23,552)	217
Loss before provision for income taxes and minority interest	(100,501)	(31,975)	(215,808)	(71,203)
Income tax benefit (provision)	(351)	(93)	(752)	116
Minority interest	--	265	1,048	1,136
Net loss	(100,852)	(31,803)	(215,512)	(69,951)
Less: Preferred stock dividends	(6,862)	--	(13,814)	--
Accretion of issuance costs on preferred stock	(69)	--	(139)	--
Net loss applicable to common shares	<u>\$ (107,783)</u>	<u>\$ (31,803)</u>	<u>\$ (229,465)</u>	<u>\$ (69,951)</u>
Net loss per common share - basic and diluted	\$ (1.17)	\$ (0.39)	\$ (2.60)	\$ (0.86)
Weighted average shares used in per share calculation	92,468	81,833	88,413	81,722

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

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NEXTWAVE WIRELESS INC.  
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY  
(IN THOUSANDS) (UNAUDITED)

REDEEMABLE SERIES A SENIOR CONVERTIBLE		COMMON STOCK		ADDITIONAL	ACCUMULATED
PREFERRED STOCK				PAID-IN	OTHER
SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPREHENSIVE INCOME (LOSS)
-----	-----	-----	-----	-----	-----

BALANCE AT DECEMBER 30,

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2006	--	\$ --	83,716	\$	84	\$ 620,423	\$	(3)
Shares issued for cash, net of issuance costs and embedded derivatives of \$ 4,035	355	350,966	--	--	--	--	--	--
Shares issued in business combinations	--	--	7,651	8	74,514	--	--	--
Shares issued under stock incentive plans	--	--	629	--	2,171	--	--	--
Shares issued for warrants exercised	--	--	670	1	3	--	--	--
Share-based compensation expense	--	--	--	--	8,157	--	--	--
Imputed dividends on Series A Senior Convertible Preferred Stock	--	13,814	--	--	(13,814)	--	--	--
Accretion of issuance costs on Series A Senior Convertible Preferred Stock	--	139	--	--	(139)	--	--	--
Unrealized net gains on marketable securities	--	--	--	--	--	--	--	4
Net loss	--	--	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE AT SEPTEMBER 29, 2007	355	364,919	92,666	93	691,315	\$	-----	-----
	=====	=====	=====	=====	=====	=====	=====	=====

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

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NEXTWAVE WIRELESS INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS) (UNAUDITED)

NINE MONTHS ENDED

-----	-----
SEPTEMBER	SEPTEMBER
29,	30,
2007	2006
-----	-----

OPERATING ACTIVITIES

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Net loss	\$ (215,512)	\$ (69,951)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	8,023	4,235
Amortization of intangible assets	15,418	3,752
Non-cash share-based compensation	8,157	3,548
In-process research and development	12,060	1,648
Accretion of interest expense	15,647	4,643
Minority interest	(1,048)	(1,136)
Other non-cash adjustments	2,626	2,387
Changes in operating assets and liabilities:		
Accounts receivable	(2,631)	(2,221)
Inventory	1,143	(59)
Deferred contract costs	(16,546)	(2,116)
Prepaid expenses and other current assets	(813)	(1,938)
Other assets	2,123	1,336
Accounts payable and accrued liabilities	(3,584)	11,604
Deferred revenue	25,979	3,950
Other current liabilities and deferred credits	219	(238)
	-----	-----
Net cash used in operating activities	(148,739)	(40,556)
	-----	-----
INVESTING ACTIVITIES		
Proceeds from maturities of marketable securities	19,273	192,226
Proceeds from sales of marketable securities	865,234	452,951
Purchases of marketable securities	(905,251)	(477,927)
Payments for wireless spectrum licenses	(34,607)	(397,817)
Cash paid for business combinations, net of cash acquired	(80,332)	(4,950)
Purchase of property and equipment	(22,422)	(10,990)
Other, net	(500)	(1,866)
	-----	-----
Net cash used in investing activities	(158,605)	(248,373)
	-----	-----
FINANCING ACTIVITIES		
Proceeds from the sale of Series A Senior Convertible Preferred Stock, net of costs to issue	351,146	--
Proceeds from long-term obligations, net of costs to issue	--	295,098
Payment to restricted cash account securing long-term obligations	--	(75,000)
Payments on long-term obligations	(4,052)	(2,374)
Proceeds from the sale of common equity interests	2,175	2,379
Proceeds from investment by joint venture partner	--	1,995
Cash distributions paid to members	(2,034)	(1,447)
	-----	-----
Net cash provided by financing activities	347,235	220,651
	-----	-----
Net increase (decrease) in cash and cash equivalents	39,891	(68,278)
Cash and cash equivalents, beginning of period	32,980	93,649
	-----	-----
Cash and cash equivalents, end of period	\$ 72,871	\$ 25,371
	=====	=====

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

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## NEXTWAVE WIRELESS INC. NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

#### FINANCIAL STATEMENT PREPARATION

The unaudited consolidated financial statements have been prepared by NextWave Wireless Inc. ("NextWave") according to the rules and regulations of the United States Securities and Exchange Commission ("SEC"), and therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state NextWave's financial position, results of operations and cash flows. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 30, 2006, included in NextWave's Annual Report on Form 10-K filed with the SEC on March 30, 2007.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NextWave operates on a 52-53 week fiscal year ending on the Saturday nearest to December 31 of the current calendar year or the following calendar year. Normally, each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks. Fiscal year 2007 will be a 52-week year ending on December 29, 2007 and the first 53-week year will occur in 2009. The three month periods ended September 29, 2007 and September 30, 2006 include 13 weeks each and the nine month periods ended September 29, 2007 and September 30, 2006 include 39 weeks each.

#### COMPREHENSIVE LOSS

Accumulated other comprehensive loss represents unrealized gains and losses on available-for-sale marketable securities that are excluded from the consolidated statements of operations and are reported as a separate component in stockholders' equity. Comprehensive loss consists of the following:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER	SEPTEMBER	SEPTEMBER	SEPTEMBER
	29,	30,	29,	30,
(in thousands)	2007	2006	2007	2006



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	-----	-----	-----	-----
Net loss	\$ (100,852)	\$ (31,803)	\$ (215,512)	\$ (69,951)
Other comprehensive income (loss):				
Net unrealized gains on marketable securities	131	507	405	261
	-----	-----	-----	-----
Total comprehensive loss	\$ (100,721)	\$ (31,296)	\$ (215,107)	\$ (69,690)
	=====	=====	=====	=====

NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share for the three and nine months ended September 29, 2007 is computed by dividing net loss applicable to common shares for the respective periods by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents. Basic and diluted net loss per common share for the three and nine months ended September 30, 2006 is computed by dividing net loss applicable to common shares for the period by the weighted average number of membership units outstanding during the respective periods, on a converted basis as if NextWave's holding company merger to implement its conversion to corporate form occurred on January 1, 2006.

The following securities that could potentially dilute earnings per share in the future are not included in the determination of diluted loss per share as they are antidilutive. The share amounts are determined using a weighted average of the shares outstanding during the respective periods and assume that September 29, 2007 was the end of the contingency period for any contingently issuable shares in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share.

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	THREE MONTHS ENDED		NINE MONTHS ENDED	
	-----	-----	-----	-----
	SEPTEMBER	SEPTEMBER	SEPTEMBER	SEPTEMBER
	29,	30,	29,	30,
(in thousands)	2007	2006	2007	2006
	-----	-----	-----	-----
Outstanding stock				
options	18,314	9,988	15,524	8,801
Common stock warrants	2,436	3,888	2,522	1,629
Contingently issuable shares under advisory contract	833	833	833	833
Restricted stock	216	204	212	113
Contingent merger consideration for two acquisitions and related contingent stock bonus plan shares	24,700	--	12,495	--
Series A Senior Convertible Preferred Stock	32,763	--	22,110	--

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### REDEEMABLE SERIES A SENIOR CONVERTIBLE PREFERRED STOCK

Costs incurred to issue the Series A Preferred Stock are deferred and recorded as a reduction to the reported balance of the preferred stock in the consolidated balance sheet. The costs are accreted using the effective interest method over the period from the date of issuance through March 28, 2017, the stated redemption date. In accordance with Emerging Issues Task Force ("EITF") Issue No. D-98, Classification and Measurement of Redeemable Securities, the resulting increases from the accretion of the issue costs and accrued dividends on the preferred stock are affected by charges against retained earnings or, in the absence of retained earnings, by charges against paid-in capital. This increases loss applicable to common stockholders in the calculation of loss per common share.

NextWave's obligations to pay contingent cash dividends and cash premiums upon redemption or liquidation of the preferred shares constitute embedded derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). The initial estimated fair values of the respective embedded derivative were recorded as long-term liabilities in the consolidated balance sheet, reducing the reported value of the Series A Preferred Stock. In accordance with SFAS No. 133, these derivatives will be measured at fair value at each reporting date and any subsequent changes in the estimated fair value of the embedded derivative are recorded as a charge to other income (expense) in the consolidated statements of operations.

### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for NextWave's fiscal year that begins on December 30, 2007, with early adoption permitted. NextWave's management is in the process of evaluating the impact of the adoption of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective for NextWave's fiscal year that begins on December 30, 2007, with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS No. 159. NextWave's management is currently evaluating whether or not to elect the option provided for in this standard.

### RECLASSIFICATION

Certain amounts in the previously reported financial statements have been reclassified to conform to the current period presentation.

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2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT ITEMS

MARKETABLE SECURITIES AND RESTRICTED CASH

Marketable securities and restricted cash consist of the following:

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(in thousands)	SEPTEMBER 29,	DECEMBER 30,
	2007	2006
Municipal securities	\$ 178,784	\$ 177,436
Commercial paper	79,680	--
Equity securities	5,079	--
Money market funds	311	500
U.S. Treasury and Agency obligations	--	39,051
Corporate notes	--	25,694
Cash	--	24
Total portfolio of marketable securities	263,854	242,705
Less restricted portion	(75,000)	(75,000)
Total unrestricted marketable securities	\$ 188,854	\$ 167,705

INVENTORY

Inventory consists of the following:

(in thousands)	SEPTEMBER 29,	DECEMBER 30,
	2007	2006
Raw materials	\$ 1,169	\$ --
Work in process	67	266
Finished goods	3,402	--
	\$ 4,638	\$ 266

WIRELESS SPECTRUM LICENSES, GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following:

(dollars in thousands)	SEPTEMBER 29, 2007			DECEMBER 30, 2006		
	WEIGHTED AVERAGE LIFE (IN YEARS)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	WEIGHTED AVERAGE LIFE (IN YEARS)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Amortized intangible assets:						
Leased wireless spectrum licenses	16.2	\$97,801	\$ 9,051	14.1	\$82,385	\$ 4,43
Purchased technology	7.0	67,704	9,676	7.0	9,614	1,82
Purchased customer base	8.5	10,120	1,998	8.0	5,960	1,04
Purchased tradenames and						

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trademarks	5.7	9,484	818	--	--	--
Non-compete agreements	3.5	4,420	2,203	4.0	2,800	1,19
Other	7.1	1,792	412	7.4	2,002	25
		-----	-----		-----	-----
		\$191,321	\$ 24,158		\$102,761	\$ 8,74
		=====	=====		=====	=====
Intangible assets not subject to amortization:						
Wireless spectrum licenses		\$486,181			\$450,051	
Goodwill		140,262			32,184	
Purchased tradenames and trademarks		2,400			2,504	
		-----			-----	
		\$628,843			\$484,739	
		=====			=====	

In March 2007, NextWave acquired all of the outstanding shares of common stock of 4253311 Canada Inc., a Canadian company, which resulted in the addition of \$36.0 million of wireless spectrum licenses not subject to amortization. The assets of 4253311 Canada Inc. are comprised almost entirely of wireless spectrum and therefore the acquisition was accounted for as an asset purchase rather than as the purchase of a business based on guidance under EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business. The value assigned to the wireless spectrum includes the cash purchase price of \$26.0 million, closing costs of \$0.2 million, and \$9.8 million in associated deferred tax liabilities as determined in accordance with EITF Issue No. 98-11, Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations ("EITF 98-11").

During the nine months ended September 29, 2007, NextWave acquired other licensed spectrum rights for \$8.4 million in cash and \$5.6 million through the assumption of lease liabilities.

The \$108.1 million increase in goodwill in the consolidated balance sheets from December 30, 2006 to September 29, 2007, resulted from \$108.9 million from current year business acquisitions, reduced by \$0.8 million for reductions to accrued liabilities related to 2005 and 2006 acquisitions.

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The estimated aggregate amortization expense for amortized intangible assets owned as of September 29, 2007, is expected to be \$6.7 million during the remainder of 2007 and \$25.0 million, \$22.4 million, \$20.0 million, \$17.9 million and \$75.2 million during fiscal years 2008, 2009, 2010, 2011 and thereafter, respectively.

PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

(in thousands)	SEPTEMBER 29, 2007	DECEMBER 30, 2006
	-----	-----
Furniture and equipment	\$ 32,061	\$ 13,626
Purchased software	8,941	7,296
Building and improvements	6,231	--
Leasehold improvements	4,863	2,358
Land	4,109	--
Construction in progress	1,496	846

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	-----	-----
	57,701	24,126
Less: Accumulated depreciation	(14,154)	(6,597)
	-----	-----
Total property and equipment, net	\$ 43,547	\$ 17,529
	=====	=====

ACCRUED EXPENSES

Accrued expenses consist of the following:

	SEPTEMBER 29,	DECEMBER 30,
	-----	-----
(in thousands)	2007	2006
Accrued payroll and related expenses	\$17,714	\$ 9,417
Accrued contract losses	14,223	528
Accrued interest	5,043	11,178
Accrued expenses	9,245	4,870
Value of put/call option to acquire WiMax Telecom AG minority interest, net of \$174 discount	4,685	--
Accrued professional fees	3,250	3,746
Accrued equity distributions payable	72	2,034
Other	3,597	1,764
	-----	-----
Total accrued liabilities	\$57,829	\$33,537
	=====	=====

3. BUSINESS COMBINATIONS

During the nine months ended September 29, 2007, NextWave completed the following business combinations which were accounted for in accordance with SFAS No. 141, Business Combinations:

- o IPWIRELESS - In May 2007, NextWave acquired all of the equity interests in IPWireless, Inc., a privately-held company that supplies TD-CDMA network equipment and subscriber terminals. The IPWireless Tdtv solution, based on 3GPP Multimedia Broadcast Multicast Service (MBMS), is being designed to allow UMTS Operators to deliver mobile television and other multimedia services using their existing 3G spectrum and networks, without impacting their current voice and data services. The primary reason for the acquisition was to provide customers with cost-effective and high-performance mobile broadband products and solutions by expanding IPWireless' product portfolio to incorporate WiMAX and/or Wi-Fi technologies.
- o WIMAX TELECOM AG - In July 2007, NextWave's subsidiary, Inquam Broadband GmbH, acquired a 65% controlling interest in WiMax Telecom AG, a privately-held company domiciled in Zurich, Switzerland. WiMax Telecom AG, through its subsidiaries, has obtained nationwide wireless broadband spectrum concessions in Austria and Slovakia, and a major spectrum concession in Croatia and currently operates WiMAX networks in Austria and Slovakia. Contemporaneously with the acquisition of WiMax Telecom AG, Inquam Broadband GmbH was granted an exclusive and irrevocable call option and the remaining minority shareholders were granted an exclusive and irrevocable put option, both of which expire in December 2007, for the shares held by the remaining minority shareholders of WiMax Telecom AG for 3.6 million Euros (\$5.1 million at September 29, 2007). Based on the guidance provided by EITF Issue No. 00-4, Majority Owner's Accounting for a Transaction in the Shares of Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary, NextWave has treated the WiMax Telecom AG put/call option as a

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derivative contract that is viewed on a combined basis with the minority interest and accounted for the derivative as a financing of its acquisition of the minority interest in WiMax Telecom AG. Accordingly, NextWave has consolidated 100% of WiMax Telecom AG since the acquisition date. At acquisition, NextWave recognized a liability for the fair value of the derivative of \$4.5 million which

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was included in the determination of the purchase price of WiMax Telecom AG. NextWave is accreting the imputed interest on the liability to interest expense over the stated term of the put/call option.

- o SDC SECURE DIGITAL CONTAINER - In January 2007, NextWave, through its wholly-owned subsidiary, PacketVideo Corporation, acquired all of the shares of SDC Secure Digital Container AG ("SDC"), a privately held company headquartered in Basel, Switzerland that develops Java music clients for mobile phones. The primary reason for the acquisition was to complement PacketVideo's software for native operating systems, such as Symbian and Linux, with a solution that can address the large number of handsets that support Java applications, expanding the number of mobile operators and music services supported by PacketVideo.
  
- o GO NETWORKS - In February 2007, NextWave acquired all of the outstanding common stock and warrants of GO Networks, Inc., a privately-held company with research and development facilities in Tel Aviv, Israel. GO Networks develops advanced mobile Wi-Fi network solutions for service providers. The primary reason for the acquisition was to complement NextWave's WiMAX product line with wide-area and local-area wireless broadband services using stand-alone or integrated Wi-Fi/WiMAX solutions that utilize both licensed and license-exempt spectrum.

In addition to the above acquisitions, NextWave completed an immaterial acquisition during the nine months ended September 29, 2007. NextWave also acquired a 69.2% interest in IPMobile, a Tokyo-based telecommunications company, for \$0.6 million in August 2007. In September 2007, NextWave exercised its contractual right to rescind the transaction and the seller repaid in full NextWave's original cash payment. Accordingly, these consolidated financial statements exclude all transactions and accounts of IPMobile.

The consolidated financial statements include the operating results of each business from their respective dates of acquisition.

The total cost of each acquisition was as follows:

(in thousands)	IPWIRELESS	WIMAX TELECOM AG	SDC	GO NETWORKS	IMMATERIA ACQUISITI
	-----	-----	-----	-----	-----
Cash, including closing costs	\$ 28,804	\$ 9,812	\$ 19,110	\$ 15,795	\$ 5,96
Fair value of common stock issued	74,522	--	--	--	--
Accrual for contingent consideration	--	--	--	223	--

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Debt assumed and paid at closing	--	5,825	--	1,338	--
Value of put/call option to acquire WiMax Telecom AG minority interest	--	4,509	--	--	--
Less cash acquired	(3,768)	(676)	(1,340)	(462)	--
Total acquisition cost	\$ 99,558	\$ 19,470	\$ 17,770	\$ 16,894	\$ 5,960

The fair value of common stock issued was based upon the actual number of shares issued to the IPWireless shareholders using the average closing trading price of NextWave common stock on Nasdaq during a five-day trading period beginning two trading days prior to the announcement of the acquisition on April 9, 2007.

Under the purchase method of accounting, the purchase prices were preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the respective dates of acquisition in accordance with SFAS No. 141 as follows:

(in thousands)	IPWIRELESS	WIMAX TELECOM AG	SDC	GO NETWORKS	IMMATERIA ACQUISITI
Accounts receivable, net	\$ 13,474	\$ 442	\$ 665	\$ 86	\$ --
Inventory	4,643	505	--	366	--
Deferred contract costs	1,687	--	--	--	--
Prepaid and other current assets	1,623	1,852	221	180	--
Property and equipment	1,996	9,107	56	1,110	--
Wireless spectrum	--	1,773	--	--	--
Intangible assets	54,610	--	8,410	22,180	--
Goodwill	74,696	19,107	9,129	--	5,965
Other noncurrent assets	413	--	--	87	--
Accounts payable and other current liabilities	(26,843)	(11,551)	(677)	(1,938)	--
Deferred revenue	(13,301)	(114)	(34)	--	--
Provision for loss contract	(13,440)	--	--	--	--
Long-term obligations and deferred credits	--	(1,651)	--	(5,177)	--
Total acquisition cost	\$ 99,558	\$ 19,470	\$ 17,770	\$ 16,894	\$ 5,960

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The amounts allocated to intangible assets and their respective amortizable lives are attributed to the following categories:

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(dollars in thousands)	YEARS)	IPWIRELESS	SDC	NETWORKS
	-----	-----	-----	-----
Purchased technology	7.0	\$34,240	\$ 5,650	\$18,200
Purchased trade names and	6.0	5,850	760	2,660
Non-compete agreements	2.6	680	100	840
Purchased customer base	8.8	2,640	1,040	480
In-process research and development	--	11,200	860	--
		-----	-----	-----
		\$54,610	\$ 8,410	\$22,180
		=====	=====	=====

The fair values assigned to purchased technology and purchased in-process research and development costs were determined by applying the income approach using the excess earnings methodology which involves estimating the future discounted cash flows to be derived from the currently existing technologies. The purchased trade names and trademarks were valued using the income approach using the relief from royalty method, which assumes value to the extent that the acquired company is relieved of the obligation to pay royalties for the benefits received from them. The fair values assigned to the purchased customer base existing on the acquisition date was determined by applying the income approach using the excess earnings methodology based upon estimated future discounted cash flows attributable to revenues project to be generated from those customers. The non-compete agreements were valued using the with-and-without method, based on the present value of cash flows associated with the savings due to having the agreements in place.

Purchased in-process research and development costs include IPWireless' next-generation backwards compatible chip for use in wireless devices and six of SDC's video and audio software projects valued at \$11.2 million and \$0.9 million, respectively, which had not yet reached technological feasibility and had no alternative future uses at the date of acquisition. These costs were expensed in the consolidated statement of operations at the respective dates of acquisition.

Experienced employees with expertise in wireless technology and operations in specialized niches in the wireless industry were among the factors that contributed to purchase prices that resulted in the recognition of goodwill.

The excess of the purchase price over the acquired net tangible assets of \$25.1 million for two of our acquisitions has been preliminarily allocated to goodwill in the consolidated balance sheet and is expected to be allocated between goodwill and identifiable intangible assets during the fourth quarter of 2007 once NextWave has completed a purchased intangible asset valuation. The related impact from value assigned to in-process research and development costs or to amortization expense, if any, will be adjusted on a prospective basis.

In connection with the acquisition of IPWireless, NextWave recorded an accrual for severance totaling \$0.6 million for four IPWireless employees whose employment terminated as a result of the acquisition. As of September 29, 2007, \$0.5 million of the accrued severance has been paid.

Additional purchase consideration of up to \$135.0 million may be paid to the selling shareholders of IPWireless based upon the achievement of certain revenue milestones between 2007 and 2009, inclusive, as specified in the agreement, with potential payments of up to \$50.0 million in late 2007 or 2008, up to \$7.5 million in 2008, up to \$24.2 million in 2009 and up to \$53.3 million in 2010. If earned, up to approximately \$113.8 million of such additional consideration will be payable in cash or shares of common stock at NextWave's election and up to approximately \$21.2 million of such amounts will be payable in cash or shares of common stock at the election of the representative of



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IPWireless shareholders. In accordance with SFAS No. 141, the contingent consideration, if any, paid to non-employee and employee stockholders will be recorded as additional purchase price when the contingency is resolved and the consideration is determinable and becomes issuable. Contingent consideration, if any, paid to employee shareholders is regarded as additional purchase price rather than compensation as payment of the contingent consideration is not contingent upon continuing employment.

Additional purchase consideration of up to \$25.6 million and \$0.1 million may be paid to the selling shareholders of GO Networks in shares of NextWave common stock and cash, respectively, subject to the achievement of specified operational milestones in February and August 2008, which include customer acceptance of certain product units and the continued employment of certain key employees. In accordance with SFAS No. 141, the contingent consideration, if any, paid to non-employee stockholders and to employee stockholders whose consideration is not contingent upon continuing employment will be recorded as

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additional purchase price when the contingency is resolved and the consideration is determinable and becomes issuable. In accordance with EITF Issue No. 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination, contingent consideration, if any, paid to employee stockholders that is contingent upon continuing employment will be expensed over any remaining earnout period as compensation when the payment becomes probable. The probability of achievement of the performance conditions will be reassessed at each reporting date. As of September 29, 2007, management assessed the probability of achievement of the performance conditions and concluded that an accrual was not necessary.

NextWave has also adopted the IPWireless, Inc. Employee Stock Bonus Plan and the GO Networks Employee Stock Bonus Plan which provide the respective employees with shares of NextWave common stock having an aggregate value of up to \$12.0 million, to be valued at the time of grant. The awards are contingent upon the achievement of certain revenue milestones from 2007 to 2009 relating to IPWireless' public safety business and TDTV business and the achievement of specified operational milestones for GO Networks in February and August 2008, which include customer acceptance of certain product units and the continued employment of the employee in addition to key employees. In accordance with SFAS No. 123(R), Share-Based Payment, the fair value of the stock bonuses will be determined on the date of grant and amortized to compensation expense over the requisite service period once the achievement of the milestones becomes probable. The probability of achievement of the performance conditions will be reassessed at each reporting date. At September 29, 2007, management concluded that a stock bonus under the IPWireless, Inc. Employee Stock Bonus Plan was probable of payment and accordingly recognized \$1.2 million of share-based compensation expense based on the portion of the requisite service period elapsed through September 29, 2007. As of September 29, 2007, management assessed the probability of achievement of the milestones under the GO Networks Employee Stock Bonus Plan and concluded that an accrual was not necessary.

### PRO FORMA RESULTS

The following unaudited pro forma financial information assumes that the acquisitions of IPWireless, SDC, GO Networks and WiMax Telecom AG occurred at the beginning of the respective fiscal years presented. The unaudited pro forma financial information does not reflect any other acquisitions, as the effect of those acquisitions were not significant on an individual basis or in the aggregate. These unaudited pro forma financial results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have actually resulted had the acquisitions occurred on

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these dates, or of future results of operations. The unaudited pro forma results for the three and nine months ended September 29, 2007 and September 30, 2006, are as follows:

(in thousands)	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER	SEPTEMBER	SEPTEMBER	SEPTEMBER
	29, 2007	30, 2006	29, 2007	30, 2006
Revenues	\$ 17,752	\$ 7,957	\$ 42,228	\$ 20,714
Net loss	(87,837)	(49,089)	(249,312)	(140,085)
Net loss applicable to common shares	(94,762)	(49,089)	(263,259)	(140,085)
Net loss per common share - basic and diluted	\$ (1.02)	\$ (0.55)	\$ (2.86)	\$ (1.57)

The pro forma amounts above include interest expense on debt assumed that is calculated using NextWave's effective borrowing rate at the date of acquisition and nonrecurring charges for in-process research and development of \$12.1 million for the nine months ended September 29, 2007 and September 30, 2006.

#### 4. RELATED PARTY TRANSACTIONS

On March 28, 2007, NextWave issued and sold 355,000 shares of its Series A Senior Convertible Preferred Stock at a price of \$1,000 per share. In addition to other investment funds and institutional investors, 14%, 14% and 28% of the Series A Senior Convertible Preferred Stock was sold respectively to Navation, Inc., an entity owned by Allen Salmasi, NextWave's Chairman and Chief Executive Officer, Manchester Financial Group, L.P., an entity indirectly owned and controlled by Douglas F. Manchester, a member of NextWave's Board of Directors, and affiliates of Avenue Capital, of which a member of NextWave's Board of Directors, Robert Symington, is a portfolio manager. Kevin Finn, NextWave's Chief Compliance Officer, also purchased less than 1% of the Series A Senior Convertible Preferred Stock.

#### 5. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

(dollars in thousands)	SEPTEMBER 29, 2007	DECEMBER 30, 2006
7% Senior Secured Notes, \$350,000 due 2010, net of unamortized discount and fair value of warrants of \$55,989 and \$69,325 at September 29, 2007 and December 30, 2006, respectively, interest payable semiannually in January and July each year, secured by \$488,300 in FCC licenses and spectrum leases and \$75,000 in restricted cash	\$ 294,011	\$ 280,675
Wireless spectrum leases, weighted average imputed interest rates of 9.65% and 8.43% at September 29, 2007 and December 30, 2006, respectively, scheduled		

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maturities ranging from 2011 through 2036, net of unamortized discounts of \$19,121 and \$9,758 at September 29, 2007 and December 30, 2006, respectively, with three to five renewal options ranging from 10 to 15 years each.	24,370	20,091
9.08% note, due June 1, 2009, principal and interest of \$214 payable monthly, net of unamortized discount of \$81, secured by \$24,139 in assets held by GO Networks	4,050	--
Other	344	329
	-----	-----
Total long-term obligations	322,775	301,095
Less current portion	(6,223)	(3,065)
	-----	-----
Long-term portion	\$ 316,552	\$ 298,030
	=====	=====

Payments due on these obligations during each of the five years subsequent to September 29, 2007 are as follows:

(in thousands)	
Fiscal Years:	
2007 (remaining three months)	\$ 739
2008	6,272
2009	4,799
2010	353,506
2011	3,326
Thereafter	29,324
	-----
	397,966
Less unamortized discount	(75,191)
Less current portion	(6,223)
	-----
Total long-term obligations	\$ 316,552
	=====

The purchase agreement for the 7% Senior Secured Notes contains representations and warranties, affirmative and negative covenants including, without limitation, NextWave's obligation to not become liable to any additional indebtedness, subject to certain exceptions including the ability to enter into spectrum leases or to incur \$25.0 million of acquired company debt or purchase money indebtedness. As of September 29, 2007, NextWave has become liable for additional indebtedness totaling \$16.9 million. Therefore, management believes that NextWave is in compliance with its debt covenants at September 29, 2007.

In connection with the issuance of the 7% Senior Secured Notes, NextWave issued warrants to the purchasers of the Notes to purchase an aggregate of 2.6 million shares of common stock at an exercise price of \$0.01 per share. The warrants were exercisable from and after the date of issuance, November 13, 2006. During the three and nine months ended September 29, 2007, warrants to purchase 0.7 million shares of common stock were exercised and at September 29, 2007, 1.9 million shares of common stock remained subject to issuance upon exercise of outstanding and exercisable warrants.

6. INCOME TAXES

The provision for income taxes during interim quarterly reporting periods is based on NextWave's estimate of the annual effective tax rate for the full fiscal year. NextWave determines the annual effective tax rate based upon its estimated "ordinary" income (loss), which is its annual income (loss) from continuing operations before tax, excluding unusual or infrequently occurring

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items. Significant management judgment is required in projecting NextWave's annual income and determining its annual effective tax rate. NextWave provides for income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax expense and any deferred income tax expense resulting from temporary differences arising from differing treatments of items for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. Deferred tax assets are also established for the expected future tax benefits to be derived from net operating loss and tax credit carryforwards.

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NextWave must then assess the likelihood that its deferred tax assets will be recovered from future taxable income. To the extent that NextWave believes it is more likely than not that its deferred tax assets will not be recovered, it must establish a valuation allowance. NextWave considers all available evidence, both positive and negative, to determine the need for a valuation allowance, including its historical operating losses. NextWave has recorded a full valuation allowance on its net deferred tax asset balances for all periods presented because of uncertainties related to utilization of the deferred tax assets. Deferred tax liabilities associated with certain wireless licenses held in the U.S. and Canada cannot be considered a source of taxable income to support the realization of deferred tax assets, because these deferred tax liabilities will not reverse until some indefinite future period. The deferred tax liability and the related assigned value of certain wireless license assets were determined in accordance with EITF 98-11.

For each of the three and nine months ended September 29, 2007, NextWave's effective tax rate was 0.35%. For the three and nine months ended September 29, 2007, NextWave recorded a provision for income taxes of \$0.4 million and \$0.8 million, respectively.

NextWave adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN No. 48"), on December 31, 2006, the beginning of its 2007 fiscal year. The adoption of FIN No. 48 did not have an effect on NextWave's effective income tax rate for the three and nine months ended September 29, 2007.

As of December 31, 2006, NextWave did not have any unrecognized tax benefits or related accrued interest or penalties and no cumulative effect adjustment was recorded to retained earnings as a result of adopting FIN No. 48. NextWave did not generate any unrecognized tax benefits during the three and nine months ended September 29, 2007 and does not believe any material adjustments will be made related to unrecognized tax benefits for the remainder of 2007. NextWave does not believe it will generate any material unrecognized tax benefits within the next 12 months.

Interest and penalties related to income tax matters are recognized in income tax expense. We did not incur any expense related to interest or penalties for income tax matters during the nine months ended September 29, 2007, and no such amounts were accrued as of June 30, 2007.

As of September 29, 2007, NextWave is not subject to any material United States federal, state, local or foreign income tax examinations by tax authorities for the current or any prior reporting periods.

### 7. COMMITMENTS AND CONTINGENCIES

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### Services and Other Agreements

NextWave enters into non-cancelable inventory purchase agreements, software license agreements and agreements for the purchase of software development and engineering services to facilitate and expedite the development of software modules and applications required in its WiMAX development activities. At September 29, 2007, estimated future minimum payments due under the terms of these agreements, which expire on various dates through 2011, are as follows:

(in thousands)	
Fiscal Years:	
2007 (remaining three months)	\$ 6,592
2008	14,311
2009	2,474
2010	2,700
2011	4,361
	-----
Total	\$30,438
	=====

### Capital Expenditures

In connection with its leased facilities in San Diego, California, NextWave entered into an agreement in 2007 for the construction of interior improvements aggregating \$2.4 million, of which \$0.5 million remains to be paid under this contract at September 29, 2007.

### Operating Leases

NextWave leases its office and research facilities, cell sites and certain office equipment under noncancellable operating leases expiring on various dates through 2015. Certain commitments have renewal options extending through the year 2031. One of the new facility lease agreements requires a \$2.5 million letter of credit which will be reduced gradually until termination of the lease

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in 2012. Future minimum lease payments under noncancellable operating leases, net of sublease rentals at September 29, 2007, are as follows:

(in thousands)	LEASE COMMITMENTS	SUBLEASE RENTALS	NET
	-----	-----	-----
Fiscal Years:			
2007 (remaining three months)	\$ 2,508	\$ (65)	\$ 2,443
2008	10,119	(198)	9,921
2009	8,770	--	8,770
2010	7,369	--	7,369
2011	4,989	--	4,989
Thereafter	2,312	--	2,312
	-----	-----	-----
	\$ 36,067	\$ (263)	\$ 35,804
	=====	=====	=====

### LEGAL PROCEEDINGS

From time to time, NextWave is a party to various legal proceedings that

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arise in the ordinary course of its business. While management presently believes that the ultimate outcome of any such proceedings, individually and in the aggregate, will not have a material adverse effect on NextWave's financial position, cash flows or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur.

PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE. On June 8, 1998, NextWave Personal Communications Inc., NextWave Power Partners Inc. and the predecessor to NextWave Wireless Inc., all direct and indirect wholly owned subsidiaries of NextWave Telecom Inc., filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the southern District of New York. On December 23, 1998, NextWave Telecom Inc. filed its voluntary petition, in order to implement an overall corporate restructuring. On March 1, 2005, the Bankruptcy Court confirmed the Third Joint Plan of Reorganization, dated January 21, 2005. The cornerstone of the Plan of Reorganization was the sale of NextWave Telecom and its subsidiaries, excluding the predecessor to NextWave Wireless inc., to Verizon Wireless for approximately \$3.0 billion. Pursuant to the Plan of Reorganization, on April 13, 2005, all non-PCS assets and liabilities of the NextWave Telecom group were contributed to the predecessor to NextWave Wireless Inc., and the predecessor to NextWave Wireless Inc. was capitalized with \$550.0 million in cash. Through this process, the predecessor to NextWave Wireless Inc. was reconstituted as a company with a new capitalization and a new wireless technology business plan. All claims made in connection with the Chapter 11 case have been resolved, and NextWave has received a decree of final judgment closing the Chapter 11 case.

### 8. SERIES A SENIOR CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

#### PREFERRED AND COMMON STOCK

NextWave has authorized 25 million shares of preferred stock, of which 355,000 shares have been designated as Series A Senior Convertible Preferred Stock. Shares of the preferred stock may be issued in any number of series as determined by the board of directors. The board of directors is also authorized to define the terms of the preferred shares, including voting rights, liquidation preferences, conversion and redemption provisions and dividend rates.

NextWave has authorized 400 million shares of common stock, of which 92.7 million shares were issued and outstanding at September 29, 2007, including 0.2 million restricted shares. At September 29, 2007, NextWave had the following common shares reserved for future issuance upon the exercise or issuance of the respective equity instruments:

(in thousands)	
Series A Senior Convertible Preferred Stock	33,377
Stock options:	
Granted and outstanding	19,926
Available for future grants	13,959
Warrants	2,436
Contingently issuable shares under advisory contract	833
	-----
	70,531
	=====

Additionally, NextWave may issue up to \$25.6 million and \$5.0 million in shares of NextWave common stock, to be valued at the time of issuance, under the GO Networks Merger Agreement and the GO Networks Employee Stock Bonus Plan, respectively, upon the achievement of specified operational milestones in February and August 2008. NextWave may also issue up to \$135.0 million and \$7.0 million in shares of NextWave common stock, to be valued at the time of

issuance, under the IPWireless Agreement and Plan of Merger and the IPWireless, Inc. Employee Stock Bonus Plan, respectively, upon the achievement of specified revenue and operational milestones during 2007 through 2009.

SERIES A SENIOR CONVERTIBLE PREFERRED STOCK

On March 28, 2007, NextWave issued and sold 355,000 shares of its Series A Senior Convertible Preferred Stock (the "Series A Preferred Stock") at a price of \$1,000 per share. The Series A Preferred Stock was issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933. NextWave received \$351.1 million in net proceeds from the sale of the Series A Preferred Stock. Costs incurred to issue the shares totaled \$3.9 million. The net proceeds are used to fund operations, accelerate the development of new wireless technologies, expand NextWave's business and enable strategic acquisitions.

**DIVIDEND RIGHTS.** Holders of the Series A Preferred Stock are entitled to receive quarterly dividends on the liquidation preference at a rate of 7.5% per annum. Until March 2011, NextWave can elect whether to declare dividends in cash or to not declare and pay dividends, in which case the per share dividend amount will be added to the liquidation preference. From and after March 2011, NextWave must declare dividends in cash each quarter, subject to applicable law. The terms of NextWave's 7% Senior Secured Notes due 2010 currently prevent the payment of cash dividends on the Series A Preferred Stock. The dividend rate is subject to adjustment to 10% per annum if NextWave defaults on its dividend payment obligations or fails to cause its shelf registration statement filed with the Securities and Exchange Commission to be declared effective on or prior to November 30, 2007. The dividend rate is also subject to adjustment to 15% per annum if NextWave fails to comply with the protective covenants of the Series A Preferred Stock described below and to 18% per annum if NextWave fails to convert or redeem the Series A Preferred Stock when required to do so, as described below.

NextWave accrued for \$6.9 million and \$13.8 million in undeclared dividends during the three and nine months ended September 29, 2007, respectively.

**VOTING RIGHTS.** Pursuant to the terms of the Series A Preferred Stock, so long as at least 25% of the issued shares of Series A Preferred Stock remain outstanding, and until the date on which NextWave elects to redeem all shares of Series A Preferred Stock in connection with an asset sale, as described below, NextWave must receive the approval of the holders of shares representing at least 75% of the Series A Preferred Stock then outstanding to (i) incur indebtedness in excess of \$500 million, subject to certain adjustments and exceptions, (ii) create any capital stock that is senior to or on a parity with the Series A Preferred Stock in terms of dividends, distributions or other rights, or (iii) consummate asset sales involving the receipt of gross proceeds of, or the disposition of assets worth, \$500 million or more based on their fair market value. In addition, so long as at least 25% of the issued shares of Series A Preferred Stock remain outstanding, NextWave may not distribute rights or warrants to all holders of its common stock entitling them to purchase shares of its common stock, or consummate any sale of its common stock, for an amount less than the fair market value on the date of issuance, with certain exceptions. With respect to other matters requiring stockholder approval, the shares of Series A Preferred Stock will be entitled to vote as one class with the common stock on an as-converted basis.

**CONVERSION RIGHTS AND REDEMPTION RIGHTS.** Each share of Series A Preferred Stock is convertible into a number of shares of NextWave's common stock equal to

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the liquidation preference then in effect divided by \$11.05. The Series A Preferred Stock is convertible at any time at the option of the holder, or at NextWave's election after September 28, 2008, subject to the trading price of its common stock reaching \$22.10 for a specified period of time, except that such threshold price will be reduced to \$16.575 on the earlier of March 28, 2010, or NextWave's consummation of a qualified public offering. NextWave will not be entitled to convert the Series A Preferred Stock at its election unless a shelf registration statement covering the shares of common stock to be issued upon conversion is then effective or the shares are no longer considered restricted securities under the Securities Act. At September 29, 2007, the liquidation preference totaled \$368.8 million. If all shares of Series A Preferred Stock were converted at September 29, 2007, NextWave would be obligated to issue 33.4 million shares of its common stock.

NextWave will be required to redeem all outstanding shares of Series A Preferred Stock, if any, on March 28, 2017, at a price equal to the liquidation preference plus unpaid dividends. If NextWave elects to convert the Series A Preferred Stock after its common stock price has reached the qualifying threshold, NextWave must redeem the shares of holders of Series A Preferred Stock who elect not to convert into common stock at a price equal to 130% of the liquidation preference. However, NextWave is not required to redeem more than 50% of the shares of Series A Preferred Stock subject to any particular conversion notice. In the event that NextWave fails to obtain approval of the holders of Series A Preferred Stock to an asset sale transaction, NextWave must either not consummate such asset sale or elect to redeem all shares of Series A Preferred Stock at a redemption price equal to 120% of the liquidation preference. Holders will be entitled to opt-out of such a redemption.

**RIGHT TO RECEIVE LIQUIDATION DISTRIBUTIONS.** The Series A Preferred Stock has an initial liquidation preference of \$1,000 per share, subject to increase for accrued dividends as described above. The liquidation preference would become payable upon redemption, as described above, upon a liquidation or

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dissolution of our company, or upon deemed liquidation events including a change in control, merger or sale of all or substantially all of NextWave's assets, unless the holders of Series A Preferred Stock provide a 75% vote to not treat a covered event as a deemed liquidation. Upon a deemed liquidation event, the Series A Preferred Stock will be entitled to receive an amount per share equal to the greater of 120% of the liquidation preference or the amount that would have been received if such share had converted into common stock in connection with such event.

NextWave's obligations to pay contingent cash dividends and cash premiums upon redemption or liquidation of the preferred shares constitute embedded derivatives, the initial estimated fair values of which aggregated \$0.2 million, and were recorded as long-term liabilities in the consolidated balance sheet, reducing the carrying value of the Series A Preferred Stock. At September 29, 2007, the estimated fair values of the embedded derivatives totaled \$0.8 million. Changes in the estimated fair value of the embedded derivatives of \$0.4 million and \$0.6 million during the three and nine months ended September 29, 2007, respectively, were recorded as a charge to other income (expense) in the consolidated statements of operations.

### 9. EQUITY COMPENSATION PLANS

During the nine months ended September 29, 2007, NextWave added four



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share-based compensation plans that provide for awards to acquire shares of NextWave's common stock, increasing the total number of plans from two to six: the PacketVideo 2005 Equity Incentive Plan, the NextWave 2007 New Employee Stock Incentive Plan, the GO Networks Employee Stock Bonus Plan and the IPWireless, Inc. Employee Stock Bonus Plan.

On January 3, 2007, concurrent with the listing of NextWave's common stock on Nasdaq, an option to purchase one share of common stock of NextWave with an exercise price of \$6.00 per share was issued for every six options to purchase shares of common stock of NextWave's wholly-owned subsidiary, PacketVideo, outstanding under the PacketVideo 2005 Equity Incentive Plan, resulting in the issuance of options to purchase approximately 1.6 million shares of NextWave common stock. The exchange of options was accounted for as a modification of the cancelled stock options under SFAS No. 123(R). Accordingly, because the grant-date fair value of the NextWave options issued in the exchange was less than the fair value of the exchanged PacketVideo options measured immediately before the exchange, no incremental share-based compensation expense resulted from the exchange.

In February 2007, the board of directors for NextWave adopted the NextWave 2007 New Employee Stock Incentive Plan. The plan, as amended in June 2007, provides for an aggregate of 5.0 million shares of common stock to be available for future grants of nonqualified stock options, or restricted, bonus, phantom or other share-based awards to employees or directors of NextWave.

In February 2007, concurrent with NextWave's acquisition of GO Networks Inc., NextWave established the GO Networks Employee Stock Bonus Plan whereby a select group of employees may receive up to an aggregate of \$5.0 million in shares of NextWave common stock, valued at the time of issuance, upon the achievement of specified operational milestones in February and August 2008.

In May 2007, concurrent with NextWave's acquisition of IPWireless, Inc., NextWave established the IPWireless, Inc. Employee Stock Bonus Plan whereby employees and consultants may receive up to an aggregate of \$7.0 million in shares of NextWave common stock, valued at the time of issuance, payable upon the achievement of certain revenue milestones in 2007 through 2009.

In May 2007, NextWave stockholders approved an amendment to the NextWave Wireless Inc. 2005 Stock Incentive Plan to provide for an additional 15.0 million common shares for awards under the plan.

At September 29, 2007, NextWave may issue up to \$5.0 million in shares of NextWave common stock under the GO Networks plan, \$7.0 million in shares of common stock under the IPWireless plan and an aggregate of approximately 33,885,000 shares of common stock under its remaining plans, of which approximately 19,926,000 shares are reserved for issuance upon exercise of granted and outstanding options and approximately 13,959,000 shares are available for future grants.

The following table summarizes stock option activity under these plans during the nine months ended September 29, 2007:

	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding at December 30, 2006	10,934	\$ 6.20

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PacketVideo options exchanged	1,566	\$ 6.00
Granted	8,478	\$ 8.65
Exercised	(377)	\$ 5.75
Canceled	(675)	\$ 7.20
	-----	
Outstanding at September 29, 2007	19,926	\$ 7.21
	=====	
Exercisable at September 29, 2007	10,325	\$ 5.98

Employee Share-Based Compensation

NextWave recognized employee share-based compensation expense from stock options of \$2.0 million and \$4.4 million for the three and nine months ended September 29, 2007, respectively, and \$0.5 million and \$2.2 million for the three and nine months ended September 30, 2006, respectively, under the provisions of SFAS No. 123(R).

NextWave utilized the Black-Scholes option-pricing model for estimating the grant-date fair value of NextWave employee stock options, with the following assumptions:

	NINE MONTHS ENDED	
	SEPTEMBER	SEPTEMBER
	29,	30,
	-----	-----
	2007	2006
Risk-free interest rate	4.05%-4.99%	4.36%-5.11%
Expected term (in years)	3.5-5.5	1.5-5.5
Weighted average expected stock price volatility	50%	50%
Expected dividend yield	0%	0%
Weighted average grant-date fair value of options granted	\$3.54	\$2.34

Total unrecognized compensation cost of unvested options granted to employees as of September 29, 2007, was \$23.7 million, which is expected to be recognized over a weighted average period of 3.3 years.

In addition to the employee share-based compensation expense resulting from stock options, in May 2007, NextWave recognized share-based compensation expense of \$2.3 million from the issuance of approximately 0.2 million shares of its common stock to certain employees as additional compensation in lieu of annual cash bonuses.

NON-EMPLOYEE SHARE-BASED COMPENSATION

Share-based compensation expense from non-employee stock options, warrants and restricted shares totaled \$0.2 million and \$1.5 million during the three and nine months ended September 29, 2007, respectively, and \$0.4 million and \$1.1 million during the three and nine months ended September 30, 2006, respectively. The fair value assigned to the vested increments of these awards was estimated at the date of vesting and, for the unvested increments, at the respective reporting date, using the Black-Scholes option-pricing model with the following assumptions:

	OPTIONS	WARRANTS	RESTRICTED COMMON SHARES
	-----	-----	-----
NINE MONTHS ENDED SEPTEMBER 29, 2007:			
	-----	-----	-----
Risk-free interest rate	4.54%-5.14%	4.16%	4.12%-4.95%
Expected life (in years)	6.0-9.9	3.0	0.5-4.0

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Weighted average expected stock price volatility	50%	50%	50%
Expected dividend yield	0%	0%	0%
Weighted average fair value of awards NINE MONTHS ENDED SEPTEMBER 30, 2006:	\$3.84	\$2.72	\$2.22
-----			
Risk-free interest rate	4.60%-4.79%	4.68%-4.69%	4.58%-4.78%
Expected life (in years)	6.0-9.9	3.0-4.0	0.1-4.0
Expected stock price volatility	50%	50%	50%
Expected dividend yield	0%	0%	0%
Weighted average fair value of awards	\$3.62	\$2.48	\$1.77

The fair value of the unvested increments will be remeasured at the end of each reporting period until vested, when the final fair value of the vesting increment is determined. Unamortized estimated share-based compensation totaled \$1.9 million at September 29, 2007, which is expected to be recognized over a weighted average period of 1.6 years.

### 10. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information is as follows:

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(in thousands)	NINE MONTHS ENDED	
	SEPTEMBER 29, 2007	SEPTEMBER 30, 2006
	-----	-----
Cash paid for income taxes	\$ 282	\$ 109
Cash paid for interest	24,789	--
Noncash investing and financing activities:		
Equity interests issued for business acquisitions	74,522	1,558
Wireless spectrum licenses acquired with lease obligations	5,569	2,478
Fair value of warrants issued in connection with the issuance of 7% Senior Secured Notes	--	24,600

### 11. SUBSEQUENT EVENTS

In November 2007, NextWave entered into definitive agreements to lease spectrum located in California for initial payments aggregating \$20.0 million, plus annual lease payments approximating \$0.8 million through 2017. The initial terms of the leases expire on various dates from 2015-2017 and each provides for three consecutive 10-year renewals for a total lease term for each license not to exceed 30 years.

In October 2007, NextWave acquired Websky Argentina S.A., a developer and operator of wireless broadband services over licensed frequencies in Argentina, for \$12.5 million in cash from Websky, Inc. The change in control of the wireless licenses remains subject to governmental approval and approximately \$2.4 million of the purchase price is held in escrow to cover, among other things, any liabilities relating to failure to obtain governmental approval. In connection with this acquisition, NextWave also entered into a one-year advisory services agreement with Websky, Inc. under which NextWave will pay to Websky, Inc. an aggregate of \$2.5 million, payable in monthly installments, with up to

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\$2.0 million upon the consummation of long-term contracts for wireless services as specified in the services agreement and royalties equal to 7% of revenues derived over a period of up to four years from any supply contracts with companies specified in the services agreement. The acquisition will be accounted for in the fourth quarter of 2007 using the purchase method of accounting whereby the total purchase price, including any transaction related expenses, will be allocated to tangible and intangible assets acquired based upon their respective fair values.

In April 2007, Inquam-BMR GP, the minority shareholder of NextWave's majority-owned subsidiary, Inquam Broadband Holding Limited, exercised its contractual option to put its shares of Inquam Broadband Holding Limited to NextWave, thereby requiring NextWave to acquire the minority interest. In October 2007, NextWave closed the acquisition of the remaining 44% interest in Inquam Broadband Holding Limited for a cash payment of \$0.9 million and the assignment to Inquam-BMR GP of a \$2.1 million receivable owned by Inquam Broadband Holding Limited. Additionally, in connection with the acquisition, NextWave's subsidiary Inquam Broadband GmbH agreed to provide certain project management and support services to a subsidiary of Inquam-BMR GP for a period of up to two years. The performance of the services by Inquam Broadband GmbH is secured by a \$0.6 million cash deposit from NextWave. The acquisition of this minority interest will be accounted for using the purchase method of accounting by stepping-up to fair value the portion of assets acquired and liabilities assumed based on the percentage interest acquired.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Risk Factors and elsewhere in this Quarterly Report. Additionally, the following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 30, 2006, contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2007.

#### OVERVIEW

#### THIRD QUARTER OF 2007 HIGHLIGHTS

- o Our revenues, net loss and net loss applicable to common shares for the third quarter of 2007 totaled \$17.8 million, \$100.9 million and \$107.8 million, or \$1.17 per share, respectively, compared to \$6.7 million, \$31.8 million, \$31.8 million, or \$0.39 per share, respectively, for the third quarter of 2006.
- o Our revenues, net loss and net loss applicable to common shares for

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the first nine months of 2007 totaled \$38.3 million, \$215.5 million and \$229.5 million, or \$2.60 per share, respectively, compared to \$16.9 million, \$70.0 million, \$70.0 million, or \$0.86 per share, respectively for the first nine months of 2006.

- o In July 2007, our majority owned subsidiary, Inquam Broadband GmbH, acquired a 65% controlling interest in WiMax Telecom AG, a privately-held company domiciled in Zurich, Switzerland for \$19.5 million. WiMax Telecom AG, through its subsidiaries, has obtained nationwide wireless broadband spectrum concessions in Austria and Slovakia, and a major spectrum concession in Croatia and currently operates WiMAX networks in Austria and Slovakia.

### OUR BUSINESS

We are a wireless technology company that develops and markets next-generation mobile broadband and wireless multimedia products and technologies. Our products and technologies are designed to make wireless broadband faster, more reliable, more accessible and more affordable. At present, our customers include many of the largest mobile handset and wireless service providers in the world.

We believe that mobile broadband represents the next logical step in the evolution of the Internet and that consumer demand for fully-mobile, wireless broadband service will transform the global wireless communications industry from one driven primarily by circuit-switched voice to one driven by IP-based broadband connectivity. In addition, we believe that wireless will play a major role in facilitating digital media convergence and provide people the ability to easily access and share multimedia content across multiple types of mobile device and consumer electronics platforms. Our business activities are focused on developing products, technologies and network solutions to enable affordable, fully-mobile broadband access and seamless digital media convergence solutions that will allow individuals to access the information and multimedia content they want, where they want, when they want, on virtually any type of digital communications device.

Our wireless broadband products and technologies are developed and marketed through our operating subsidiaries. While, on a stand-alone basis, each subsidiary is focused on providing customers with competitive products and technologies targeted at a specific aspect of the mobile broadband ecosystem, we expect that the combined offerings of our operating companies will form a complete, end-to-end, next-generation wireless broadband solution. The following is a summary of each of our major subsidiaries products and capabilities:

NEXTWAVE BROADBAND INC. - Mobile broadband semiconductors and network components based on WiMAX and Wi-Fi technologies, terminal device reference designs and network implementation services;

PACKETVIDEO CORPORATION - Multimedia software applications for wireless handsets and digital media convergence software solutions;

GO NETWORKS, INC. - Carrier-class, wide-area, mobile Wi-Fi systems; and

IPWIRELESS, INC. - Commercial and public service mobile broadband systems, access devices, and mobile broadcast systems based on TD-CDMA technology.

NEXTWAVE BROADBAND INC. Through its Advanced Technology Group, NextWave Broadband is developing a family of mobile broadband semiconductor products based on WiMAX and Wi-Fi technologies including multi-band RF chips and high-performance, digital baseband WiMAX chips. Our chipsets are intended to provide wireless device and network equipment manufacturers with an advanced

platform to develop next-generation WiMAX mobile terminal and infrastructure products. Samples of our first-generation, NW1000 chipset family which includes a WiMAX baseband system-on-a-chip (SOC) and matched multi-band RFIC were made available in the third quarter of 2007. Initial availability of our second-generation, NW2000 chipset family, the company's first chipset family designed for high-volume commercial production, is planned for the first half of 2008. In addition, the Advanced Technology Group is developing wireless network components and a family of handset and media player reference designs to highlight the features of its subscriber station semiconductor products.

The primary design objectives of the Advanced Technology Group's products and technologies, which are intended to be sold or licensed to network infrastructure vendors, device manufacturers and service providers worldwide, are to:

- o Improve the performance, service quality and economics of WiMAX networks and enhance their ability to cost-effectively handle the large volume of network traffic associated with bandwidth-intensive, multimedia applications such as mobile television, video-on-demand, streaming audio, two-way video telephony and real-time gaming;
- o Improve the performance, power consumption and cost characteristics of WiMAX subscriber terminals;
- o Improve the degree of interoperability and integration between Wi-Fi and WiMAX systems for both Local Area Networks (LANs) and Wide Area Networks (WANs); and
- o Improve service provider economics and roaming capabilities by enabling WiMAX networks and WiMAX enabled devices to seamlessly operate across multiple frequency bands including certain unlicensed bands.

Through its Network Solutions Group, NextWave Broadband intends to offer a full array of network services, including RF and core network design services, network implementation and management services, and back-office service solutions to service providers who deploy our WiMAX, Wi-Fi, and TD-CDMA network solutions. To demonstrate the capabilities of our network service capabilities and our wireless broadband products, the Network Solutions Group is implementing a mobile WiMAX/Wi-Fi/TD-CDMA test site in Las Vegas, Nevada.

PACKETVIDEO CORPORATION. Through our PacketVideo subsidiary, we supply device-embedded multimedia software to many of the world's largest wireless carriers and wireless handset manufacturers, who use it to transform a mobile phone into a feature-rich multimedia device that provides people with the ability to stream, download and play video and music, receive live TV broadcasts, and engage in two-way video telephony. PacketVideo's software is compatible with virtually all network technologies, including WiMAX, CDMA, WCDMA, and GSM. PacketVideo has been contracted by some of the world's largest carriers, such as Verizon Wireless, Vodafone, NTT DoCoMo, Orange and T-Mobile to design and implement the embedded multimedia software capabilities contained in their handsets. To date, over 160 million PacketVideo-powered handsets have been shipped by PacketVideo's service provider and device OEM customers.

To further enhance its market position, PacketVideo has invested in the development and acquisition of a wide range of technologies and capabilities to provide its customers with software solutions to enable home/office digital media convergence using communication protocols standardized by the Digital

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Living Network Alliance (TM) (DLNA (TM)). An example is PacketVideo's network-based PacketVideo Experience (TM) platform that provides for content search, discovery, organization and content delivery/sharing between mobile devices and consumer electronics products connected to an IP-based network. This innovative platform is designed to provide an enhanced user experience by intelligently responding to user preferences based on content type, day-part, and content storage location. In addition, PacketVideo's patented Digital Rights Management (DRM) solutions, already in use by many carriers globally, represent a key enabler of digital media convergence by preventing the unauthorized access or duplication of multimedia content used or shared by PacketVideo-enabled devices.

We believe that the continued growth in global shipments of high-end handsets with multimedia capabilities, increasing demand for home/office digital media convergence solutions, and the acceleration of global deployments of mobile broadband enabled networks will substantially expand the opportunity for PacketVideo to license its suite of multimedia software solutions to service providers and to handset and consumer electronic device manufacturers.

GO NETWORKS, INC. Through our GO Networks subsidiary, which was acquired in February 2007, we offer carrier-class mobile Wi-Fi network systems to commercial and municipal service providers worldwide. GO Networks' family of micro, pico and femto Wi-Fi base stations utilize advanced xRFTM adaptive beamforming smart-antenna technology and a cellular-mesh Wi-Fi architecture to deliver superior Wi-Fi coverage, performance, and economics and provide service providers with a cost-effective solution to support bandwidth-intensive mobile broadband services such as video streaming, real-time gaming, web browsing, and other types of multimedia applications on a wide-area basis.

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IPWIRELESS, INC. Our IPWireless subsidiary, which was acquired in May 2007, played a leading role in the development of 3GPP TDD Universal Mobile Telecommunications Systems (UMTS) standards and currently provides customers with an assortment of TD-CDMA mobile broadband products and technologies. Mobile broadband networks that utilize IPWireless' TD-CDMA technology, one of the first standards-based mobile broadband technologies in the world, have been commercially deployed in more than a dozen countries, including the Czech Republic, New Zealand, Germany, South Africa, Sweden, and the United Kingdom.

The IPWireless TDtv solution, based on 3GPP Multimedia Broadcast Multicast Service (MBMS), allows UMTS operators to deliver mobile television and other multimedia services using their existing 3G spectrum and networks, with little impact on their current voice and data services. A trial of TDtv technology, recently conducted in the UK by several of the largest mobile operators in Europe, successfully demonstrated its ability to deliver high-quality, multi-channel broadcast services using the trial participants' existing spectrum. TDtv supports key consumer requirements including fast channel change times, operation at high travel speeds, and seamless integration into small profile handsets.

In September 2006, IPWireless' TD-CDMA mobile broadband wireless technology was selected by New York City's Department of Information Technology and Telecommunications as part of a five-year contract awarded to Northrop Grumman for the deployment of a citywide, public safety, mobile wireless network. IPWireless has received an initial purchase order to deliver network equipment through November 2007 in connection with this network deployment. We believe that IPWireless' technology, as optimized for public safety applications, can be utilized to deliver cost-effective and reliable public

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safety network solutions in the 700MHz spectrum band plan currently under consideration by the FCC for public safety purposes.

We believe the breadth of products, technologies, spectrum assets and services offered by our various subsidiaries represents a unique platform to provide advanced wireless broadband solutions to the market. While our subsidiaries are intended to be operated as stand-alone businesses, we also believe that they will provide synergistic value to each other and collectively drive accelerated market penetration and share of the wireless broadband market for us.

To help accelerate global market adoption of our mobile broadband products, we intend to make our significant spectrum holdings available, under a variety of business arrangements, to customers of our wireless broadband products and technologies. Our spectrum footprint in the U.S. covers over 248 million people and includes many of the largest metropolitan areas in the country. In addition, we have also acquired nationwide spectrum in numerous international markets including Germany, Switzerland, Austria, Slovakia, Croatia and Canada.

### THIRD QUARTER OF 2007 COMPARED TO THE THIRD QUARTER OF 2006

REVENUES. Revenues for the third quarter of 2007 were \$17.8 million compared to \$6.7 million for third quarter of 2006, an increase of \$11.1 million. Of the increase in revenue, \$6.9 million resulted from sales of infrastructure products by our newly acquired subsidiaries, IPWireless and GO Networks.. PacketVideo accounted for \$3.4 million of the increase and reflects increases in revenue from unit sales growth and market penetration of mobile subscriber services by PacketVideo's customer base, which includes wireless operators and device manufacturers. Our July 2007 acquisition of WiMax Telecom AG accounted for the remaining increase in revenues of \$0.8 million during 2007.

Sales to Verizon Wireless Communications and T-Mobile International accounted for 32% and 27%, respectively, of our revenues during the three months ended September 29, 2007.

In general, the financial consideration received from wireless carriers and mobile phone and wireless device manufacturers is primarily derived from a combination of technology development contracts, royalties, and wireless broadband products.

Since our inception in April 2005, substantially all of our revenues have been generated by our PacketVideo subsidiary, which we acquired in July 2005, and our newly acquired subsidiaries, IPWireless and GO Networks. We believe that PacketVideo, IPWireless and GO Networks will continue to account for a substantial portion of our revenues in 2007. Following the development and expected commercialization of our mobile broadband semiconductors, network components, and technologies by the Advanced Technology Group of NextWave, we believe that the sale or licensing of our proprietary chipsets, network components and device technologies will become an additional source of recurring revenue.

We expect that future revenues will be affected by, among other things, new product and service introductions, competitive conditions, customer marketing budgets for introduction of new subscriber products, the rate of expansion of our customer base, the build out rate of networks that utilize our Wi-Fi and WiMAX technologies, services and products, price increases, subscriber device life cycles, demand for wireless data services and acquisitions or dispositions of businesses or product lines.



## OPERATING EXPENSES.

(in millions)	THREE MONTHS ENDED		INCREASE
	SEPTEMBER 29, ----- 2007	SEPTEMBER 30, ----- 2006	
Cost of revenues	\$ 17.3	\$ 3.5	\$ 13.8
Engineering, research and development	42.6	11.6	31.0
General and administrative	30.9	14.9	16.0
Sales and marketing	7.5	3.0	4.5
Purchased in-process research and development	11.2	--	11.2
	-----	-----	-----
Total operating expenses	\$ 109.5	\$ 33.0	\$ 76.5
	=====	=====	=====

COST OF REVENUES. Cost of revenues from our products sold by IPWireless and GO Networks, which we acquired in May and February 2007, respectively, accounted for \$11.1 million of the increase during the third quarter of 2007 and primarily includes costs associated with product mix and the ramp up of manufacturing subcontractor operations.

The increase in cost of revenues for our PacketVideo subsidiary, which accounted for \$1.0 million of the increase during the third quarter of 2007, includes higher amortization expenses of \$0.2 million for the purchase of intangible assets related to our 2007 and 2006 business acquisitions. Cost of revenues for PacketVideo includes direct engineering labor expenses, allocated overhead costs, costs associated with offshore contract labor costs, other direct costs related to the execution of technology development contracts as well as amortization of acquired software and other costs.

Our July 2007 acquisition of WiMax Telecom AG accounted for the remaining increase in cost of goods sold of \$1.7 million during 2007.

We believe that cost of revenues as a percentage of revenue for future periods will be affected by, among other things, the integration of acquired businesses in addition to sales volumes, competitive conditions, royalty payments by us on licensed technologies, changes in average selling prices, and our ability to make productivity improvements through continual cost reduction programs.

ENGINEERING, RESEARCH AND DEVELOPMENT. Costs for the internal and external development of our wireless broadband products and technologies, including our chipsets, for the third quarter of 2007 were \$26.5 million compared to \$9.0 million for the third quarter of 2006, an increase of \$17.5 million which is due primarily to the expansion of the engineering development organization and development activities relating to the pre-commercialization of our 65 nanometer WiMAX baseband and RFIC integrated circuits.

The acquisitions of our infrastructure products subsidiaries, GO Networks in February 2007 and IPWireless in May 2007, accounted for \$10.9 million of the increase during the third quarter of 2007.

Over the past twelve months, NextWave Broadband has progressed from early

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stage WiMAX development to pre-commercialization of its family of WiMAX integrated circuit products. To accomplish our business and financial objectives of commercializing these products in 2008 and beyond, we have added the required complement of engineering and product development staff. In addition to augmenting the staff of our Base Station Development teams in IPWireless and GO Networks, we have increased the staff of our Advanced Technology Group to produce WiMAX Baseband, Network and radio frequency integrated circuit products.

Costs for the internal and external development of our PacketVideo software for the third quarter of 2007 were \$5.2 million compared to \$2.6 million for the third quarter of 2006, an increase of \$2.6 million, of which \$0.6 million is due to 2006 and 2007 acquisitions by PacketVideo and the remainder is due to an increase in headcount in the engineering development organization.

Largely due to our planned increase in engineering personnel coupled with our business acquisitions to further our WiMAX related and other technology development initiatives, we expect our engineering, research and development expenses to increase over the next twelve months.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased \$16.0 million during the third quarter of 2007 when compared to 2006, of which \$9.1 million resulted from our business acquisitions since October 2006, including IPWireless and GO Networks, which accounted for \$7.2 million of the increase and WiMax Telecom AG, which accounted for \$1.4 million of the increase.

The increase in general and administrative expenses reflects increases in spending for compensation and associated costs of general and administrative personnel of \$7.5 million, amortization of intangible assets of \$6.5 million, professional fees of \$1.6 million and share-based compensation of \$0.4 million.

We expect that general and administrative costs will increase in absolute terms due to our business acquisitions and as we hire additional personnel and incur costs related to the anticipated growth of our business and our global operations. We also expect an increase in our general and administrative expenses to occur as a result of our efforts to develop and protect intellectual property rights, including expenses associated with the identification and documentation of intellectual property, the preparation and prosecution of patent applications and as we incur additional expenses associated with being a publicly traded company, including expenses associated with comprehensively analyzing, documenting and testing our system of internal controls and maintaining our disclosure controls and procedures as a result of the regulatory requirements of the Sarbanes-Oxley Act.

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SALES AND MARKETING. Sales and marketing expenses increased \$4.5 million during the third quarter of 2007 when compared to 2006, of which \$3.7 million resulted from our acquisitions since October 2006, including IPWireless and GO Networks, which accounted for \$3.4 million of the increase, and WiMax Telecom AG, which accounted for \$0.1 million of the increase.

The increase in sales and marketing expenses reflects increases in spending for compensation and associated costs for marketing and sales personnel of \$3.6 million, expenses associated with marketing and promotional activities of \$0.5 million, share-based compensation of \$0.3 million and amortization of intangible assets of \$0.1 million.

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We expect sales and marketing expenses to increase in absolute terms with the growth of our global business in the upcoming year, primarily from the addition of international sales offices and related personnel costs to support company products and services.

**PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT COSTS.** Purchased in-process research and development costs during the third quarter of 2007 include IPWireless' next-generation backwards compatible chip for use in wireless devices, a development project valued at \$11.2 million, which had not yet reached technological feasibility and had no alternative future uses at the date of acquisition. These costs were expensed at the date of acquisition.

**INTEREST INCOME.** Interest income for the third quarter of 2007 was \$4.9 million compared to \$3.4 million for the third quarter of 2006, an increase of \$1.5 million, and consisted of interest earned during the respective periods on our unrestricted and restricted cash, cash equivalents and marketable securities balances, which totaled \$336.7 million and \$299.0 million at September 29, 2007 and September 30, 2006, respectively.

Interest income in the future will be affected by changes in short-term interest rates and changes in our cash, cash equivalents and marketable securities balances, which may be materially impacted by development plans, acquisitions and other financial or equity activities.

**INTEREST EXPENSE.** Interest expense for the third quarter of 2007 was \$12.0 million compared to \$9.0 million for the third quarter of 2006, an increase of \$3.0 million. Our issuance of \$350.0 million in principal amount of 7% Senior Secured Notes in July 2006 accounted for \$2.1 million of the increase and the accretion of discounted wireless spectrum license lease liabilities acquired during 2006 and 2007 accounted for \$0.2 million of the increase. The remainder of the increase of \$0.7 million consists primarily of interest on debt assumed in connection with our acquisitions during 2007 and the accretion of the value of the put/call option to acquire the WiMax Telecom AG minority interest.

Our interest expense will continue to increase during 2007 primarily due to the accrual of interest for a full year on our 7% Senior Secured Notes, amortization of the discount and debt issue costs related to our 7% Senior Secured Notes, interest on debt assumed in connection with our 2007 acquisitions and interest accreted on our newly acquired spectrum lease liabilities and the value of the put/call option to acquire the WiMax Telecom AG minority interest.

**OTHER INCOME (EXPENSE), NET.** Other expense, net, for the third quarter of 2007 was \$1.6 million compared to \$26,000 for the third quarter of 2006, an increase of \$1.6 million. Net foreign currency exchange losses accounted for \$1.2 million of the increase and the change in the estimated fair value of the Series A Senior Convertible Preferred Stock embedded derivatives accounted for the remaining \$0.4 million of the increase.

**PROVISION FOR INCOME TAXES.** During the third quarter of 2007, substantially all of our U.S. subsidiaries had net losses for tax purposes and, therefore, no material income tax provision or benefit was recognized for these subsidiaries. Certain of our controlled foreign corporations had net income for tax purposes based on cost sharing and transfer pricing arrangements with our U.S. subsidiaries in relation to research and development expenses incurred. An income tax provision of \$0.1 million was recorded during the third quarter of 2007 for these controlled foreign corporations. An additional income tax provision of \$0.3 million was recorded for foreign withholding tax on accrued interest on intercompany debt between one of our United States subsidiaries and a German subsidiary and for royalty payments received from our PacketVideo customers.

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MINORITY INTEREST. Minority interest for the third quarter of 2006 of \$0.3 million represents the minority shareholder's share of losses to the extent of their capital contributions in Inquam Broadband Holding Limited.

### FIRST NINE MONTHS OF 2007 COMPARED TO THE FIRST NINE MONTHS OF 2006

REVENUES. Revenues for the first nine months of 2007 were \$38.3 million compared to \$16.9 million for first nine months of 2006, an increase of \$21.4 million. PacketVideo accounted for \$8.7 million of the increase and reflects increases in revenue from unit sales growth and market penetration of mobile subscriber services by PacketVideo's customer base, which includes wireless operators and device manufacturers, and higher contract revenues which resulted from growth in technology development contracts, addressing an increasing number of wireless devices in which PacketVideo technology is embedded.

Sales of infrastructure products by our newly acquired subsidiaries, IPWireless and GO Networks, accounted for \$11.9 million of the increase in revenues. Our July 2007 acquisition of WiMax Telecom AG accounted for the remaining increase in revenues of \$0.8 million during 2007.

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Sales to Verizon Wireless Communications and T-Mobile International accounted for 44% and 24%, respectively, of our revenues during the nine months ended September 29, 2007.

### OPERATING EXPENSES.

(in millions)	NINE MONTHS ENDED		INCREASE
	SEPTEMBER 29, 2007	SEPTEMBER 30, 2006	
Cost of revenues	\$ 31.5	\$ 8.0	\$ 23.5
Engineering, research and development	100.0	36.0	64.0
General and administrative	70.3	35.5	34.8
Sales and marketing	16.7	7.2	9.5
Purchased in-process research and development	12.1	1.6	10.5
 Total operating expenses	 \$ 230.6	 \$ 88.3	 \$ 142.3

COST OF REVENUES. Cost of revenues from our infrastructure products sold by IPWireless and GO Networks accounted for \$17.8 million of the increase during the first nine months of 2007 when compared to 2006.

The increase in cost of revenues for our PacketVideo subsidiary accounted for \$4.1 million of the increase during the first nine months of 2007 and includes higher amortization expenses of \$0.7 million for the purchase of intangible assets related to our 2007 and 2006 business acquisitions.

Our July 2007 acquisition of WiMax Telecom AG accounted for the remaining increase in cost of goods sold of \$1.6 million during 2007.

ENGINEERING, RESEARCH AND DEVELOPMENT. Costs for the internal and external development of our wireless broadband products and technologies, including our chipsets, for the first nine months of 2007 were \$67.0 million compared to \$28.2 million for the first nine months of 2006, an increase of \$38.8 million which is

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due primarily to the expansion of the engineering development organization and development activities relating to the pre-commercialization of our 65 nanometer WiMAX baseband and RFIC integrated circuits.

Our acquisitions of our infrastructure products subsidiaries, IPWireless and GO Networks in 2007, accounted for \$17.2 million of the increase during the first nine months of 2007.

Over the past twelve months, NextWave Broadband has progressed from early stage WiMAX development to pre-commercialization of its family of WiMAX integrated circuit products. To accomplish our business and financial objectives of commercializing these products in 2008 and beyond, we have added the required complement of engineering and product development staff. In addition to augmenting the staff of our Base Station Development teams in IPWireless and GO Networks, we have increased the staff of our Advanced Technology Group to produce WiMAX Baseband, Network and radio frequency integrated circuit products.

Costs for the internal and external development of our PacketVideo software for the first nine months of 2007 were \$15.8 million compared to \$7.8 million for the first nine months of 2006, an increase of \$8.0 million, of which \$1.7 million is due to 2006 and 2007 business acquisitions by PacketVideo and the remainder is due primarily to an increase in headcount in the engineering development organization.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased \$34.8 million during first nine months of 2007 when compared to 2006, of which \$13.4 million resulted from our acquisitions since October 2006, including IPWireless and GO Networks, which accounted for \$10.4 million of the increase and WiMax Telecom AG, which accounted for \$1.4 million of the increase.

The increase in general and administrative expenses reflects increases in spending for compensation and associated costs of general and administrative personnel of \$19.1 million, professional fees of \$5.1 million, amortization of intangible assets of \$10.2 million and share-based compensation of \$0.4 million.

SALES AND MARKETING. Sales and marketing expenses increased \$9.5 million during the first nine months of 2007 when compared to 2006, of which \$6.6 million resulted from our acquisitions since October 2006, including IPWireless and GO Networks, which accounted for \$5.8 million of the increase and WiMax Telecom AG, which accounted for \$0.1 million of the increase.

The increase in sales and marketing expenses reflects increases in spending for compensation and associated costs for marketing and sales personnel of \$7.6 million, expenses associated with marketing and promotional activities of \$1.3 million, share-based compensation of \$0.4 million and amortization of intangible assets of \$0.2 million.

PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT COSTS. Purchased in-process research and development costs during the first nine months of 2007 include IPWireless' next-generation backwards compatible chip for use in wireless devices and six of SDC's video and audio software projects, valued at \$11.2 million and \$0.9 million, respectively, which had not yet reached technological feasibility and had no alternative future uses at the date of acquisition. We also purchased similar in-process project costs associated with one of our immaterial acquisitions during the second quarter of 2006 valued at \$1.6 million. These costs were expensed at the respective dates of acquisition.

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INTEREST INCOME. Interest income for the first nine months of 2007 was \$12.4 million compared to \$9.8 million for the first nine months of 2006, an increase of \$2.6 million, and consisted of interest earned during the respective

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periods on our unrestricted and restricted cash, cash equivalent and marketable securities balances, which totaled \$336.7 million and \$299.0 million at September 29, 2007 and September 30, 2006, respectively.

**INTEREST EXPENSE.** Interest expense for the first nine months of 2007 was \$34.6 million compared to \$9.7 million for the first nine months of 2006, an increase of \$24.9 million. Our issuance of \$350.0 million in principal amount of 7% Senior Secured Notes in July 2006 accounted for \$23.5 million of the increase and the accretion of discounted wireless spectrum license lease liabilities acquired during 2006 and 2007 accounted for \$0.6 million of the increase. The remainder of the increase of \$0.8 million consists primarily of interest on debt assumed in connection with our acquisitions during 2007 and the accretion of the value of the put/call option to acquire the WiMax Telecom AG minority interest.

**OTHER INCOME (EXPENSE), NET.** Other expense, net, for the first nine months of 2007 was \$1.3 million compared to other income, net of \$0.1 million for the first nine months of 2006, an increase of \$1.4 million. Net foreign currency exchange losses accounted for \$0.7 million of the increase and the change in the estimated fair value of the Series A Senior Convertible Preferred Stock embedded derivatives accounted for an additional \$0.6 million of the increase.

**PROVISION FOR INCOME TAXES.** During the first nine months of 2007 substantially all of our U.S. subsidiaries had net losses for tax purposes and, therefore, no material income tax provision or benefit was recognized for these subsidiaries. Certain of our controlled foreign corporations had net income for tax purposes based on cost sharing and transfer pricing arrangements with our U.S. subsidiaries in relation to research and development expenses incurred. An income tax provision of \$0.2 million was recorded during the first nine months of 2007 for these controlled foreign corporations. An additional income tax provision of \$0.6 million was recorded for foreign withholding tax on accrued interest on intercompany debt between one of our U.S. subsidiaries and a German subsidiary and for royalty payments received from our PacketVideo customers.

**MINORITY INTEREST.** Minority interest for the first nine months of 2007 was \$1.0 million compared to \$1.1 million for the first nine months of 2006 and primarily represents the minority shareholder's share of losses to the extent of their capital contributions in Inquam Broadband Holding Limited.

### LIQUIDITY AND CAPITAL RESOURCES

Since our inception (April 13, 2005), we have incurred operating losses and negative cash flows and had an accumulated deficit of \$366.5 million at September 29, 2007. We have funded our operations, strategic investments and wireless license acquisitions primarily with the \$550.0 million in cash received in our initial capitalization in April 2005, the net proceeds of \$295.1 million from the issuance of our 7% Senior Secured Notes in July 2006 and the net proceeds of \$351.1 million from our issuance of Series A Senior Convertible Preferred Stock in March 2007. Our total unrestricted cash, cash equivalents and marketable securities at September 29, 2007 totaled \$261.7 million.

The following table presents working capital, cash, cash equivalents and marketable securities:

		INCREASE (DECREASE) FOR THE THREE MONTHS ENDED		INCREASE (DECREASE) FOR THE NINE MONTHS ENDED
SEPTEMBER	JUNE	SEPTEMBER	DECEMBER	SEPTEMBER

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(in millions)	29, 2007	30, 2007	29, 2007	30, 2006	29, 2007
Working capital	\$ 176.6	\$ 289.5	\$ (112.9)	\$ 166.3	\$ 10.3
Cash and cash equivalents	72.9	167.2	(94.3)	33.0	39.9
Marketable securities	188.8	189.0	(0.2)	167.7	21.1
Total cash, cash equivalents and marketable securities	\$ 261.7	\$ 356.2	\$ (94.5)	\$ 200.7	\$ 61.0

The following table presents our utilization of cash, cash equivalents and marketable securities for the three and nine months ended September 29, 2007, compared to the three and nine months ended September 30, 2006:

(in millions)	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER	SEPTEMBER	SEPTEMBER	SEPTEMBER
	29, 2007	30, 2006	29, 2007	30, 2006
Beginning cash, cash equivalents and marketable securities	\$ 356.2	\$ 340.4	\$ 200.7	\$ 459.2
Proceeds from the issuance of Series A Senior Convertible Preferred Stock, net of costs to issue	--	--	351.1	--
Proceeds from 7% Senior Secured Notes	--	295.1	--	295.1
Payment to restricted cash account securing long-term obligation	--	(75.0)	--	(75.0)

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Cash paid for business combinations, net of cash acquired	(20.9)	(0.1)	(80.3)	(5.0)
Cash paid for acquisition of wireless spectrum licenses and subsequent lease obligations	(0.5)	(317.6)	(37.4)	(400.0)
Cash used by operating activities	(66.0)	(17.4)	(148.7)	(40.6)
Cash paid for property and equipment	(8.2)	(3.8)	(22.4)	(11.0)
Other, net	1.1	0.6	(1.3)	(0.5)
Ending cash, cash equivalents and marketable securities	\$ 261.7	\$ 222.2	\$ 261.7	\$ 222.2

The decrease in cash, cash equivalents and marketable securities of \$94.5

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million during the third quarter of 2007 is primarily due to \$20.9 million paid for business combinations, \$0.5 million paid for wireless spectrum licenses and subsequent lease obligations, cash used in operating activities of \$66.0 million and \$8.2 million in cash paid for capital expenditures.

The increase in cash, cash equivalents and marketable securities of \$61.0 million during the first nine months of 2007 is primarily due to the net proceeds of \$351.1 million from our issuance of Series A Senior Convertible Preferred Stock in March 2007, offset by \$80.3 million paid for business combinations, \$37.4 million paid for wireless spectrum licenses and subsequent lease obligations, cash used in operating activities of \$148.7 million and \$22.4 million in cash paid for capital expenditures.

### INVESTING ACTIVITIES

During the first nine months of 2007, we consummated transactions to acquire licensed spectrum rights totaling \$40.2 million, which includes the acquisition of all of the outstanding shares of common stock of 4253311 Canada Inc., a Canadian company whose assets are comprised almost entirely of wireless spectrum, for \$26.2 million in cash and the acquisitions of spectrum in other locations, including Switzerland, Texas and Illinois, for a total of \$8.4 million in cash and \$5.6 million in future lease obligations.

Capital expenditures totaled \$22.4 million during the first nine months of 2007 and were primarily related to our acquisition of a build-to-suit office building in Las Vegas, Nevada and our lease facilities in San Diego, California. In connection with our San Diego facilities, we entered into an agreement in 2007 for the construction of interior improvements aggregating \$2.4 million, of which \$0.5 million remains to be paid under this contract at September 29, 2007.

During the first nine months of 2007, we acquired ownership interests in five companies for net cash of \$80.3 million which includes cash paid to the respective shareholders of \$74.8 million, closing costs of \$4.6 million, the assumption of \$7.1 million in debt which was paid at closing, less cash acquired of \$6.2 million.

Additional purchase consideration of up to \$135.0 million may be payable to the selling shareholders of IPWireless upon the achievement of certain revenue milestones between 2007 and 2009, as specified in the agreement, with potential payments of up to \$50.0 million in late 2007 or 2008, up to \$7.5 million in 2008, up to \$24.2 million in 2009 and up to \$53.3 million in 2010. If earned, up to \$113.8 million of such additional consideration will be payable in cash or shares of common stock at our election and up to \$21.2 million of such amounts will be payable in cash or shares of common stock at the election of representatives of IPWireless shareholders. Additional purchase consideration of up to \$25.6 million and \$0.1 million may be paid to the selling shareholders of GO Networks in shares of our common stock and cash, respectively, subject to the achievement of certain operational milestones in February and August 2008.

Contemporaneously with the acquisition of WiMax Telecom AG, our then majority-owned subsidiary, Inquam Broadband GmbH, was granted an exclusive and irrevocable call option and the remaining minority shareholders of WiMax Telecom AG were granted an exclusive and irrevocable put option, both of which expire in December 2007, for the shares held by the remaining minority shareholders for 3.6 million Euros (\$5.1 million at September 29, 2007).

In October 2007, we acquired the remaining 44% interest in Inquam Broadband Holding Limited, a joint venture with Inquam-BMR GP, for a cash payment of \$0.9 million and the assignment to Inquam-BMR GP of a \$2.1 million receivable owned by Inquam Broadband Holding Limited. Additionally, in connection with the acquisition, our subsidiary Inquam Broadband GmbH agreed to provide certain project management and support services to a subsidiary of



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Inquam-BMR GP for a period of up to two years. The performance of the services by Inquam Broadband GmbH is secured by a \$0.6 million cash deposit from NextWave.

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In October 2007, we acquired Websky Argentina S.A., a developer and operator of wireless broadband services over licensed frequencies in Argentina, for \$12.5 million in cash from Websky, Inc. The change in control of the wireless licenses remains subject to governmental approval and approximately \$2.4 million of the purchase price is held in escrow to cover, among other things, any liabilities relating to failure to obtain governmental approval. In connection with this acquisition, we also entered into a one-year advisory services agreement with Websky, Inc. under which we will pay to Websky, Inc. an aggregate of \$2.5 million, payable in monthly installments, with up to \$2.0 million upon the consummation of long-term contracts for wireless services as specified in the services agreement and royalties equal to 7% of revenues derived over a period of up to four years from any supply contracts with companies specified in the services agreement.

In November 2007, we entered into definitive agreements to lease spectrum located in California for initial payments aggregating \$20.0 million, plus annual lease payments approximating \$0.8 million through 2017. The leases expire on various dates through 2017 and each provides for three consecutive 10-year renewals.

### FINANCING ACTIVITIES

On March 28, 2007, we issued and sold 355,000 shares of our Series A Senior Convertible Preferred Stock (the "Series A Preferred Stock") at a price of \$1,000 per share. We received \$351.1 million in net proceeds from the sale of the Series A Preferred Stock. Costs incurred to issue the shares totaled \$3.9 million. The net proceeds will be used to fund operations, accelerate the development of new wireless technologies, expand the company's business, and enable future strategic acquisitions. In addition to other investment funds and institutional investors, we sold 14%, 14% and 28% of the Series A Senior Convertible Preferred Stock respectively to Navation, Inc., an entity owned by Allen Salmasi, NextWave's Chairman and Chief Executive Officer, Manchester Financial Group, L.P., an entity indirectly owned and controlled by Douglas F. Manchester, a member of NextWave's Board of Directors, and affiliates of Avenue Capital, of which a member of NextWave's Board of Directors, Robert Symington, is a portfolio manager. Kevin Finn, NextWave's Chief Compliance Officer, also purchased less than 1% of the Series A Senior Convertible Preferred Stock.

Dividend Rights. Holders of the Series A Preferred Stock are entitled to receive quarterly dividends on the liquidation preference at a rate of 7.5% per annum. Until March 2011, we can elect whether to declare dividends in cash or to not declare and pay dividends, in which case the per share dividend amount will be added to the liquidation preference. From and after March 2011, we must declare dividends in cash each quarter, subject to applicable law. The dividend rate is subject to adjustment to 10% per annum if NextWave defaults on its dividend payment obligations or fails to cause its shelf registration statement filed with the Securities and Exchange Commission to be declared effective on or prior to November 30, 2007. The dividend rate is also subject to adjustment to 15% per annum if we fail to comply with the protective covenants of the Series A Preferred Stock described below and to 18% per annum if we fail to convert or redeem the Series A Preferred Stock when required to do so, as described below.

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We accrued for \$6.9 million and \$13.8 million in undeclared dividends during the three and nine months ended September 29, 2007, respectively.

**Voting Rights.** Pursuant to the terms of the Series A Preferred Stock, so long as at least 25% of the issued shares of Series A Preferred Stock remain outstanding, and until the date on which we elect to redeem all shares of Series A Preferred Stock in connection with an asset sale, as described below, we must receive the approval of the holders of shares representing at least 75% of the Series A Preferred Stock then outstanding to (i) incur indebtedness in excess of \$500 million, subject to certain adjustments and exceptions, (ii) create any capital stock that is senior to or on a parity with the Series A Preferred Stock in terms of dividends, distributions or other rights, or (iii) consummate asset sales involving the receipt of gross proceeds of, or the disposition of assets worth, \$500 million or more based on their fair market value. In addition, so long as at least 25% of the issued shares of Series A Preferred Stock remain outstanding, we may not distribute rights or warrants to all holders of our common stock entitling them to purchase shares of our common stock, or consummate any sale of our common stock, for an amount less than the fair market value on the date of issuance, with certain exceptions. With respect to other matters requiring stockholder approval, the shares of Series A Preferred Stock will be entitled to vote as one class with the common stock on an as-converted basis.

**Conversion Rights and Redemption Rights.** Each share of Series A Preferred Stock is convertible into a number of shares of our common stock equal to the liquidation preference then in effect divided by \$11.05. The Series A Preferred Stock is convertible at any time at the option of the holder, or at our election after September 28, 2008, subject to the trading price of our common stock reaching \$22.10 for a specified period of time, except that such threshold price will be reduced to \$16.575 on the earlier of March 28, 2010, or our consummation of a qualified public offering. We will not be entitled to convert the Series A Preferred Stock at our election unless a shelf registration statement covering the shares of common stock issued upon conversion is then effective or the shares are no longer considered restricted securities under the Securities Act. At September 29, 2007, the liquidation preference totaled \$368.8 million. If all shares of Series A Preferred Stock were converted at September 29, 2007, we would be obligated to issue 33.4 million shares of our common stock.

We will be required to redeem all outstanding shares of Series A Preferred Stock, if any, on March 28, 2017, at a price equal to the liquidation preference plus unpaid dividends. If we elect to convert the Series A Preferred Stock after our common stock price has reached the qualifying threshold, we must redeem the shares of holders of Series A Preferred Stock who elect not to convert into common stock at a price equal to 130% of the liquidation preference. However, we are not required to redeem more than 50% of the shares of Series A Preferred Stock subject to any particular conversion notice. In the event that we fail to obtain approval of the holders of Series A Preferred Stock to an asset sale transaction, we must either not consummate such asset sale or elect to redeem

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all shares of Series A Preferred Stock at a redemption price equal to 120% of the liquidation preference. Holders will be entitled to opt-out of such a redemption.

**Right to Receive Liquidation Distributions.** The Series A Preferred Stock has an initial liquidation preference of \$1,000 per share, subject to increase for accrued dividends as described above. The liquidation preference would

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become payable upon redemption, as described above, upon a liquidation or dissolution of our company, or upon deemed liquidation events including a change in control, merger or sale of all or substantially all our assets, unless the holders of Series A Preferred Stock provide a 75% vote to not treat a covered event as a deemed liquidation. Upon a deemed liquidation event, the Series A Preferred Stock will be entitled to receive an amount per share equal to the greater of 120% of the liquidation preference or the amount that would have been received if such share had converted into common stock in connection with such event.

During the nine months ended September 29, 2007, we paid \$24.5 million in interest on our 7% Senior Secured Notes due 2010, principal amount of \$350.0 million. We are obligated to pay interest of 7% per annum semiannually in January and July each year, or \$24.5 million per year. The purchase agreement for the 7% Senior Secured Notes contains representations and warranties, affirmative and negative covenants including, without limitation, our obligation to not become liable to any additional indebtedness, subject to certain exceptions including the ability to enter into spectrum leases or to incur \$25.0 million of acquired company debt or purchase money indebtedness. As of September 29, 2007, we have become liable for additional indebtedness totaling \$16.9 million.

During the nine months ended September 29, 2007, we paid \$2.0 million in cash distributions that were accrued for in 2006 to the former NextWave Wireless LLC membership holders.

### LOOKING FORWARD

As of September 29, 2007, we had \$261.7 million of unrestricted cash, cash equivalents and marketable securities, and \$75.0 million in restricted cash required to be reserved under our Senior Secured Notes financing.

We anticipate that our businesses, other than the multimedia software business of our PacketVideo subsidiary, will require further substantial investment before our revenues are sufficient to fund our expenses and generate earnings:

- o Our wireless broadband products, services and technologies are in the pre-commercialization stage of development and will require a substantial investment before they may become commercially viable. Although we currently anticipate that our second generation NextWave Broadband WiMAX technologies designed for high volume commercial production will initially be available in the first half of 2008, we are currently unable to project when our chipsets, network components and related technology licensing agreements based on WiMAX and Wi-Fi technologies will be commercially deployed.
- o GO Networks, Inc., acquired in February 2007, develops high-performance mobile Wi-Fi systems for commercial and municipal service providers. GO Networks will continue to require working capital funding through 2008 to invest in establishing worldwide sales and distribution channels, along with high volume manufacturing capabilities and related administrative and information technology systems to support anticipated unit volume growth.
- o IPWireless, Inc., acquired in May 2007, is a leading supplier of TD-CDMA based mobile broadband network equipment and subscriber terminals. We expect increased investment through 2008 in augmenting sales and distribution channels, working capital, capital equipment and research and development with respect to the commercialization of TDTV, WiMAX, and additional public safety products.

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- o Inquam Broadband GmbH and WiMax Telecom AG are strategic investments in European wireless spectrum and wireless broadband network operations and we are presently exploring alternative plans in order to further enhance these investments in 2008. If these plans are successful, we do expect further working capital investments will be needed to expand these businesses.

Based upon our current plans, we believe that our existing cash, cash equivalents, working capital and strategic financing alternatives, together with the incremental gross margins forecasted from our newly acquired GO Networks and IPWireless wireless broadband network businesses, along with incremental margins from revenue growth in our PacketVideo multimedia software business, will be sufficient to cover our estimated liquidity needs for at least the next twelve months.

We will need to secure significant additional capital to implement changes to, or expansions of, our business plan and to continue to fund our research and development activities and our operating losses until we become cash flow positive. We may also require additional cash resources for other future developments, including any investments or acquisitions we may pursue, such as investments or acquisitions of other business or technologies. To augment our existing working capital resources in order to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or to obtain a

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credit facility. Our Senior Secured Notes and our Series A Senior Convertible Preferred Stock prohibit our incurrence of additional indebtedness, subject to certain exceptions. The sale of equity securities or convertible debt securities could result in additional dilution to our stockholders.

The incurrence of additional indebtedness would result in additional debt service obligations and the requirement that we comply with operating and financial covenants that would restrict our operations. In addition, there can be no assurance that any additional financing will be available on acceptable terms, if at all.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 30, 2006. There have been no significant changes in our critical accounting policies and estimates from December 31, 2006, other than as described below.

Revenue Recognition. Included in revenue recognized during the nine months ended September 29, 2007 is revenue from sales of infrastructure products by our newly acquired IPWireless, Inc. and GO Networks, Inc. subsidiaries. These infrastructure products are generally integrated with software. For products where the software component is considered incidental and not essential to the functionality of the hardware, revenue from the sale of infrastructure products is recognized in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, Revenue Recognition. Accordingly, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product is specified by the customer, revenue is deferred

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until all acceptance criteria have been met.

For arrangements where the software is considered more than incidental and essential to the functionality of the hardware, revenue from the sale of infrastructure products is recognized pursuant to American Institute of Certified Public Accountants Statement of Position ("SOP") No. 97-2, Software Revenue Recognition, and Emerging Issues Task Force ("EITF") Issue No. 00-21, Multiple Element Arrangements ("EITF No. 00-21"). Accordingly, we evaluate each deliverable in the arrangement to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control. If objective and reliable evidence of fair value ("VSOE") exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is VSOE of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. So long as elements otherwise governed by separate authoritative accounting standards cannot be treated as separate units of accounting under the guidance in EITF No. 00-21, the elements are combined into a single unit of accounting for revenue recognition purposes and the associated revenue is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

**Income Taxes.** We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN No. 48"), effective December 31, 2006, the beginning of our 2007 fiscal year. FIN No. 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires that we determine whether the benefits of our tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. We recognize the impact of an uncertain income tax position taken on our income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position is not recognized if it has less than a 50% likelihood of being sustained.

### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS No. 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for our fiscal year that begins on December 30, 2007. We are in the process of evaluating the impact of the adoption of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure

items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective for our fiscal year that begins on December 30, 2007, with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS No. 159. We are currently evaluating whether or not to elect the option provided for in this standard.

#### CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at September 29, 2007 as well as significant contractual obligations entered into subsequent to that date, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

(in thousands)	PAYMENTS DUE BY PERIOD(1)				
	TOTAL	REMAINDER OF 2007	YEARS 2008-2009	YEARS 2010-2011	YEARS 2012 AND THEREAFTER
Long-term obligations	\$397,966	\$ 739	\$ 11,071	\$356,832	\$ 29,324
Services and other purchase agreements	30,438	6,592	16,785	7,061	--
Capital expenditures	542	542	--	--	--
Operating leases	36,067	2,508	18,889	12,358	2,312
Pending business investment (2)	853	853	--	--	--
Series A Senior Convertible Preferred Stock (3)	355,000	--	--	--	355,000
<b>Total</b>	<b>\$820,866</b>	<b>\$ 11,234</b>	<b>\$ 46,745</b>	<b>\$376,251</b>	<b>\$386,636</b>
Significant contractual obligations entered into subsequent to September 29, 2007:					
Pending business investment (4)	\$ 14,655	\$ 12,780	\$ 1,875	\$ --	\$ --
Pending spectrum lease obligations (5)	27,571	20,131	1,754	1,612	4,074

(1) Amounts presented do not include interest or dividend payments. Please refer to the accompanying notes to the consolidated financials statements for information on respective interest rates, interest and dividend payment dates.

(2) In April 2007, Inquam-BMR GP, the minority shareholder of our majority-owned subsidiary, Inquam Broadband Holding Limited, exercised its contractual option to put its shares of Inquam Broadband Holding Limited to NextWave, thereby requiring NextWave to acquire the minority

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interest. In October 2007, we closed the acquisition of the remaining 44% interest in Inquam Broadband Holding Limited for a cash payment of \$0.9 million and the assignment to Inquam-BMR GP of a \$2.1 million receivable owned by Inquam Broadband Holding Limited. Additionally, in connection with the acquisition, Inquam Broadband GmbH agreed to provide certain project management and support services to a subsidiary of Inquam-BMR GP for a period of up to two years. The performance of the services by Inquam Broadband GmbH is secured by a \$0.6 million cash deposit from NextWave.

- (3) We will be required to redeem all outstanding shares of Series A Preferred Stock, if any, on March 28, 2017, at a price equal to the liquidation preference plus unpaid dividends. Each share of Series A Preferred Stock is convertible into a number of shares of our common stock equal to the liquidation preference then in effect divided by \$11.05 and is convertible at any time at the option of the holder, or at our election after September 28, 2008, subject to the trading price of our common stock reaching \$22.10 for a specified period of time, subject to adjustment. The Series A Preferred Stock is entitled to receive quarterly dividends on the liquidation preference at a rate of 7.5% per annum. Until March 28, 2011, we can elect whether to declare dividends in cash or to not declare and pay dividends, in which case the per share dividend amount will be added to the liquidation preference. At September 29, 2007, the liquidation preference totaled \$368.8 million. If all shares of Series A Preferred Stock were converted at September 29, 2007, we would be obligated to issue 33.4 million shares of our common stock.
- (4) In October 2007, we acquired Websky Argentina S.A., a developer and operator of wireless broadband services over licensed frequencies in Argentina, from Websky, Inc. for \$12.5 million in cash, of which \$0.3 million was paid in September 2007. The change in control of the wireless licenses remains subject to governmental approval and approximately \$2.4 million of the purchase price is held in escrow to cover, among other things, any liabilities relating to failure to obtain governmental approval. In connection with this acquisition, we also entered into a one-year advisory services agreement with Websky, Inc. under which we will pay to Websky, Inc. an aggregate of \$2.5 million payable in monthly

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installments, with up to \$2.0 million upon the consummation of long-term contracts for wireless services as specified in the services agreement and royalties equal to 7% of revenues derived over a period of up to four years from any supply contracts with companies specified in the services agreement.

- (5) In November 2007, we entered into definitive agreements to lease spectrum located in California for initial payments aggregating \$20.0 million, plus annual lease payments approximating \$0.8 million through 2017. The leases expire on various dates through 2017 and each provides for three consecutive 10-year renewals.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 30, 2006. Our exposures to market risk have not changed materially since December 31, 2006, other than as

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described below.

Foreign Currency Risk. In addition to our U.S. operations, we conduct business through subsidiaries in Europe, Israel, Asia-Pacific, Canada and South America. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates, particularly fluctuations in the pound sterling, Euro and Swiss franc exchange rates. Additionally, a portion of our sales to customers located in foreign countries, specifically certain sales by our IPWireless subsidiary, are denominated in Euros, which subjects us to foreign currency risks related to those transactions. We analyze our exposure to currency fluctuations and may engage in financial hedging techniques in the future to reduce the effect of these potential fluctuations. We do not currently have hedging contracts in effect.

### ITEM 4. CONTROLS AND PROCEDURES

#### CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures. Because of inherent limitations, our disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met.

As more fully described in Item 9A of our Annual Report on Form 10-K for the year ended December 30, 2006, in connection with the preparation of our annual financial statements, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of December 30, 2006. In particular, in connection with the restatement of our previously issued unaudited quarterly financial statements for the year ended December 30, 2006, management identified certain control deficiencies that represent a material weakness in our internal control over financial reporting, as more fully described below. Subsequently, we amended our quarterly report filed on Form 10-Q for the quarterly period ended on September 30, 2006, and included corrected interim unaudited condensed consolidated financial statements for the first three quarters of 2006, together with restatement adjustments, in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 30, 2007. Because all material information relating to the restatement was provided in our 2006 Form 10-K, and because our predecessor NextWave Wireless LLC has terminated its SEC reporting obligations, the Form 10-Qs filed by our predecessor NextWave Wireless LLC for the fiscal quarters ended April 1, 2006 and July 1, 2006 have not been amended to reflect the restatement and accordingly should not be relied upon.

The material weakness in our internal control over financial reporting relates to revenue recognition pursuant to software contracts at our PacketVideo subsidiary. Our failure to properly apply software revenue recognition principles resulted from a lack of a sufficient number of employees with appropriate levels of knowledge, expertise and training in the application of generally accepted accounting principles relevant to software revenue recognition. We will be required to provide an assessment of the effectiveness



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of our internal control structure and procedures for financial reporting when we files our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

In 2007, in order to remediate the identified material weakness in our internal control over financial reporting at PacketVideo, we initiated the following remediation actions:

- (1) We hired two senior-level accounting employees in September and October 2007 who have significant expertise in financial controls and the application of generally accepted accounting principles relevant to our business, including software revenue recognition.
- (2) We implemented an enhanced sales contracts review process to include additional levels of analysis and review by legal and accounting personnel.

Notwithstanding the initiation of these remediation actions, the identified material weaknesses in our internal control over financial reporting will not be considered remediated until the new controls are fully implemented, in operation for a sufficient period of time, are tested and our management concludes that the new controls are operating effectively.

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In order to provide our assessment of the effectiveness of our internal control structure and procedures for financial reporting as of December 29, 2007, management has commenced a Sarbanes-Oxley Section 404 compliance project under which management has engaged outside consultants and adopted a detailed project work plan to assess the adequacy of our internal control over financial reporting, remediate any control deficiencies that may be identified (aside from the deficiency relating to our PacketVideo subsidiary described herein), validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting.

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based on this evaluation, our principal executive officer and principal financial officer concluded that, although the remediation actions set forth above had been initiated as of September 29, 2007, these remediation actions had not been in operation for a sufficient period of time and had not yet been tested. Therefore, the identified material weaknesses in our internal control over financial reporting had not been fully remediated and, as a result, our disclosure controls and procedures were not considered to be effective as of September 29, 2007. As a result of the restatement of our previously issued unaudited quarterly financial statements and notwithstanding the material weaknesses described above, management believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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Except as described above, during the three months ended September 29, 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to various legal proceedings that arise in the ordinary course of our business. While we presently believe that the ultimate outcome of any such proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, cash flows or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur.

PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE. On June 8, 1998, NextWave Personal Communications Inc., NextWave Power Partners Inc. and the predecessor to NextWave Wireless Inc., all direct and indirect wholly owned subsidiaries of NextWave Telecom Inc., filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the southern District of New York. On December 23, 1998, NextWave Telecom Inc. filed its voluntary petition, in order to implement an overall corporate restructuring. On March 1, 2005, the Bankruptcy Court confirmed the Third Joint Plan of Reorganization, dated January 21, 2005. The cornerstone of the Plan of Reorganization was the sale of NextWave Telecom and its subsidiaries, excluding the predecessor to NextWave Wireless inc., to Verizon Wireless for approximately \$3.0 billion. Pursuant to the Plan of Reorganization, on April 13, 2005, all non-PCS assets and liabilities of the NextWave Telecom group were contributed to the predecessor to NextWave Wireless Inc., and the predecessor to NextWave Wireless Inc. was capitalized with \$550.0 million in cash. Through this process, the predecessor to NextWave Wireless Inc. was reconstituted as a company with a new capitalization and a new wireless technology business plan. All claims made in connection with the Chapter 11 case have been resolved, and NextWave has received a decree of final judgment closing the Chapter 11 case.

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### ITEM 1A. RISK FACTORS

Our business involves a high degree of risk. You should carefully consider the following risks together with all of the other information contained in or incorporated by reference into this quarterly report before making a future investment decision with respect to our securities. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially adversely affected, and the value of our securities could decline.

#### RISKS RELATING TO OUR BUSINESS

WE HAVE LIMITED RELEVANT OPERATING HISTORY AND A HISTORY OF LOSSES.

We emerged from our reorganization in April 2005 with a new business plan and have made several significant acquisitions and investments. As a result, we are at an early stage of our development and have had a limited relevant operating history and, consequently, limited historical financial information. Other than through our PacketVideo subsidiary, which we acquired in July 2005, and our IPWireless subsidiary, which we acquired in May 2007, we have never generated any material revenues and have limited commercial operations. While certain of our businesses are currently generating revenues, the revenues are not yet adequate to cover our operating expenses. In particular, although we currently anticipate that our second generation NextWave Broadband WiMAX technologies designed for high volume commercial production will initially be available in the first half of 2008, we are currently unable to project when our chipsets, network components and related technology licensing agreements based on WiMAX and Wi-Fi technologies will be commercially deployed and generated significant revenue. We, along with the companies we have acquired, have a history of losses. We will continue to incur significant expenses in advance of achieving broader commercial distribution of our IPWireless and GO Networks products and generating revenues from our NextWave Broadband businesses, particularly from our WiMAX/Wi-Fi semiconductor and network component products. We are expected to realize significant operating losses for the next few years. We are therefore subject to risks typically associated with a start-up entity.

If we are not able to successfully implement all key aspects of our business plan, including selling and/or licensing high volumes of our products to network operators and to device and network equipment manufacturers, we may not be able to develop a customer base sufficient to generate adequate revenues. If we are unable to successfully implement our business plan and grow our business, either as a result of the risks identified in this section or for any other reason, we may never achieve profitability, in which event our business would fail.

WE HAVE IDENTIFIED A MATERIAL WEAKNESS IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING, AND THE IDENTIFICATION OF ANY SIGNIFICANT DEFICIENCIES OR MATERIAL WEAKNESSES IN THE FUTURE COULD AFFECT OUR ABILITY TO ENSURE TIMELY AND RELIABLE FINANCIAL REPORTS.

In connection with our close process and the audit of our consolidated financial statements for the year ended December 30, 2006, our management concluded that a material weakness existed relating to revenue recognition pursuant to software contracts at our PacketVideo subsidiary. Our failure to correctly apply software revenue recognition principles resulted from a lack of a sufficient number of employees with appropriate levels of knowledge, expertise and training in the application of generally accepted accounting principles relevant to software revenue recognition. As a public company, our systems of internal controls over financial reporting are required to comply with the standards adopted by the SEC and the Public Company Accounting Oversight Board (the "PCAOB"). Both regulators currently define a material weakness as a single

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deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. We believe we have taken measures to remedy the material weakness, some of which are still in progress. For a discussion of our internal control over financial reporting and a description of the identified material weakness and the related remedial measures, see Item 9A of our Annual Report on Form 10-K for the year ended December 30, 2006, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 30, 2007.

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We will be required to make our first annual certification on our internal controls over financial reporting in our Annual Report on Form 10-K for the year ended December 29, 2007. In preparing for such certification, we are presently evaluating our internal controls for compliance with applicable SEC and PCAOB requirements. In addition to the material weakness related to revenue recognition at our PacketVideo subsidiary, we may identify other internal control processes and procedures that are deficient and, as a result, we may be required to design enhanced processes and controls to address the control deficiencies identified. This could result in significant delays and cost to us and require us to divert substantial resources, including management time, from other activities. We have commenced a review of our existing internal control structure and plan to hire additional personnel. Although our review is not complete, we have taken steps to improve our internal control structure by hiring dedicated, internal compliance personnel to analyze and improve our internal controls, to be supplemented periodically with outside consultants as needed. However, if we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls over financial reporting as of the end of our fiscal year 2007. Moreover, although our management will continue to review and evaluate the effectiveness of our internal controls, we can give you no assurance that there will be no material weaknesses in our internal control over financial reporting. We may in the future have material weaknesses or other control deficiencies in our internal control over financial reporting as a result of our controls becoming inadequate due to changes in conditions, the degree of compliance with our internal control policies and procedures deteriorating, or for other reasons. If we have significant deficiencies or material weaknesses or other control deficiencies in our internal control over financial reporting, our ability to record, process, summarize and report financial information within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could materially and adversely impact our business, our financial condition and the market value of our securities.

IF WE FAIL TO EFFECTIVELY MANAGE GROWTH IN OUR BUSINESS, OUR ABILITY TO DEVELOP AND COMMERCIALIZE OUR PRODUCTS WILL BE ADVERSELY AFFECTED.

Our business and operations have expanded rapidly since the completion of our reorganization in April 2005. For example, from April 13, 2005 through September 29, 2007, the number of our employees increased from 50 to 991 as a result of organic growth and acquisitions. In addition to various immaterial acquisitions in 2007 and 2006, we acquired Websky Argentina S.A. in October 2007, a 65% interest in WiMax Telecom AG in July 2007, IPWireless, Inc. in May 2007, GO Networks, Inc. in February 2007, SDC Secure Digital Container AG in January 2007, CYGNUS Communications, Inc. in February 2006 and PacketVideo Corporation in July 2005. We are still in the process of integrating WiMax Telecom, IPWireless and GO Networks.

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To support our expanded research and development activities for our NextWave Broadband business and the anticipated growth in our WiMax Telecom, IPWireless, PacketVideo and GO Networks businesses, we must continue to successfully hire, train, motivate and retain our employees. We expect that further expansion of our operations and employee base will be necessary. Our recent acquisitions have also expanded the geographic reach of our operations to countries including Argentina, Israel, Germany, Switzerland, the United Kingdom, Finland, Slovakia and Croatia. In order to manage the increased complexity of our expanded operations, we will need to continue to expand our management, operational and financial controls and strengthen our reporting systems and procedures. All of these measures will require significant expenditures and will demand the attention of management. Failure to fulfill any of the foregoing requirements could result in our failure to successfully manage our intended growth and development, and successfully integrate our acquired businesses, which would adversely affect our ability to develop and commercialize our products and achieve profitability.

WE OPERATE IN AN EXTREMELY COMPETITIVE ENVIRONMENT WHICH COULD MATERIALLY ADVERSELY AFFECT OUR ABILITY TO WIN MARKET ACCEPTANCE OF OUR PRODUCTS AND ACHIEVE PROFITABILITY.

We operate in an extremely competitive market and we expect such competition to increase in the future. Our businesses are developing and selling products and technologies based on WiMAX, Wi-Fi and UMTS standards. We will be competing with well established, international companies that are engaged in the development, manufacture and sale of products and technologies that support the same technologies, as well as alternative wireless standards such as GSM and CDMA2000. Companies that support these wireless technologies include well established industry leaders such as Alcatel, Cisco, Ericsson, Huawei, LGE, Lucent, Motorola, Nokia, Nortel, QUALCOMM, Samsung and Siemens. In addition, we also compete with small and medium size companies such as Alvarion, Tropos Networks, Strix Systems, and Belair Networks.

We also will be competing with numerous companies that are currently developing or marketing WiMAX products and technologies including Airspan, Beceem, Fujitsu, Intel, Motorola, Nortel, RunCom, Samsung, Sequans and WaveSat. Some of these companies have significantly greater financial, technical development, and marketing resources than we do, are already marketing commercial WiMAX semiconductor products, and have established a significant time to market advantage. These companies are also our potential customers and partners and may not be available to us if they develop competing products. In

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addition, we expect additional competition to emerge in the WiMAX semiconductor and components market including well-established companies such as Samsung and Broadcom.

In addition, our PacketVideo multimedia software products compete primarily with the internal multimedia design teams at the OEM handset manufacturers to whom PacketVideo markets its products and services. Importantly, these OEMs represent some of PacketVideo's largest customers. In addition several companies, including Flextronics/Emuzed, Hantro, Nextreaming, Philips Software, Sasken and Thin Multimedia also currently provide software products and services that directly or indirectly compete with our PacketVideo products and our IPWireless TDTV solution. As the market for embedded multimedia software evolves, we anticipate that additional competitors may emerge including

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Apple Computer, Real Networks and OpenWave.

Some of our competitors have significantly greater financial, technological development, marketing and other resources than we do, are already marketing commercial products and technologies and have established a significant time to market advantage. Our ability to generate earnings will depend, in part, upon our ability to effectively compete with these competitors.

THE SUCCESS OF OUR BUSINESSES DEPENDS ON THE ADOPTION OF DEVELOPING WIRELESS BROADBAND 4G TECHNOLOGIES, INCLUDING WIMAX AND TD-CDMA.

The success of our businesses depends on the deployment and market acceptance of fourth generation (4G) wireless broadband technologies, including WiMAX and TD-CDMA. We plan to generate most of our revenue from the sale of 4G products and the licensing of 4G technologies. The market for 4G networks and compatible products and technologies, as well as the technologies themselves, are in an early stage of development and are continuing to evolve. In particular, there are currently no mobile WiMAX networks in commercial operation and there can be no assurance that commercial mobile WiMAX networks will prove to be commercially viable. In order for 4G technologies to gain significant market acceptance among customers, network operators and telecommunications service providers will need to deploy 4G networks. However, many of the largest wireless telecommunications providers have made significant expenditures in incumbent technologies and may choose to develop these technologies rather than utilize 4G technologies. Certification standards for 4G technologies are controlled by industry groups. Accordingly, standard setting for 4G technologies is beyond our control. If standards for 4G technologies such as WiMAX and TD-CDMA, for example, change, the commercial viability of these technologies may be delayed or impaired and our development efforts may also be delayed or impaired or become more costly. If our 4G technologies and products do not receive industry certification, we may not be able to successfully market, license or sell our products or technologies. The development of 4G networks is also dependent on the availability of spectrum. Access to spectrum suitable for 4G networks is highly competitive. Future 4G networks may utilize multiple frequencies and this multi-spectrum approach is technologically challenging and will require the development of new software, integrated circuits and equipment, which will be time consuming and expensive and may not be successful. In order for our business to continue to grow and to become profitable, 4G technology and related services must gain acceptance among consumers, who tend to be less technically knowledgeable and more resistant to new technology or unfamiliar services. If consumers choose not to adopt 4G technologies, we will not be successful in selling 4G products and technologies and our ability to grow our business will be limited.

OUR NEXTWAVE BROADBAND WIRELESS BROADBAND PRODUCTS AND TECHNOLOGIES ARE IN THE EARLY STAGES OF DEVELOPMENT AND WILL REQUIRE A SUBSTANTIAL INVESTMENT BEFORE THEY MAY BECOME COMMERCIALY VIABLE.

Many of our wireless broadband products and technologies are in the early stages of development and will require a substantial investment before they may become commercially viable. While we have announced the initial availability of our first generation WiMAX baseband chip-on-a-chip and matched multiband RFIC, these products are not expected to be commercially distributed or generate significant revenue. We currently anticipate that our second generation NextWave Broadband WiMAX technologies designed for high volume commercial production will initially be available in the first quarter of 2008. However, we may not be able to meet this timeframe and therefore the commercial deployment of these products could be delayed, which could adversely affect our competitive position as well as our future profitability. In addition, unexpected expenses and delays in development could adversely affect our liquidity. Some of our other planned wireless broadband products and technologies have not been tested, even on a pre-commercial basis. Even if our new products and technologies function when

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tested, they may not produce sufficient performance and economic benefits to justify full commercial development efforts, or to ultimately attract customers. Failure to achieve high volume sales of our NextWave Broadband semiconductors and other wireless broadband products and technologies would adversely affect our ability to achieve profitability.

OUR CUSTOMER AGREEMENTS DO NOT CONTAIN MINIMUM PURCHASE REQUIREMENTS AND CAN BE CANCELLED ON TERMS THAT ARE NOT BENEFICIAL TO US.

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Our customer agreements with network providers and mobile phone and device manufacturers are not exclusive and many contain no minimum purchase requirements or flexible pricing terms. Accordingly, mobile phone and device manufacturers may effectively terminate these agreements by no longer purchasing our products or reducing the economic benefits of those arrangements. In many circumstances, we have indemnified these customers from certain claims that our products and technologies infringes third-party intellectual property rights. Our customer agreements are generally not exclusive and have a limited term of one to five years, in some cases with evergreen, or automatic renewal, provisions upon expiration of the initial term. These agreements set out the terms of our distribution relationships with the customers but generally do not obligate the customers to market or distribute any of our products or applications. In addition, in some cases customers can terminate these agreements early or at any time, without cause.

WE MAY EXPERIENCE DIFFICULTIES IN THE INTRODUCTION OF NEW OR ENHANCED PRODUCTS, WHICH COULD RESULT IN REDUCED SALES, UNEXPECTED EXPENSES OR DELAYS IN THE LAUNCH OF NEW OR ENHANCED PRODUCTS AND IN CERTAIN CASES, PENALTIES UNDER CUSTOMER AGREEMENTS.

The development of new or enhanced wireless products and technologies is a complex and uncertain process. We may experience design, manufacturing, marketing and other difficulties that could delay or prevent our development, introduction, commercialization or marketing of new products or product enhancements. The difficulties could result in reduced sales, unexpected expenses or delays in the launch of new or enhanced products, which may adversely affect our results or operations. In addition, in some cases we are required to provide liquidated damages and other penalty clauses in our customer contracts (for, e.g., late delivered product, failure to comply with service level agreements or defective products). If we are unable to perform in a timely manner under such customer agreements, we would face financial penalties.

WE DO NOT HAVE ANY MANUFACTURING CAPABILITIES AND DEPEND ON THIRD-PARTY MANUFACTURERS AND SUPPLIERS TO MANUFACTURE, ASSEMBLE AND PACKAGE OUR PRODUCTS.

NextWave Broadband is currently designing and developing semiconductor products including digital baseband ASICs and multi-band RFICs. If we are successful in our design and development activities and a market for these products develops, these products will need to be manufactured. Due to the expense and complexity associated with the manufacturer of digital baseband ASICs and multi-band RFICs, we intend to depend on third-party manufacturers to manufacture these products. In addition, GO Networks and IPWireless have each engaged third-party manufacturers to develop and manufacture their products and technologies, including ASICs, infrastructure equipment and end-user devices. The dependence on third-parties to manufacture, assemble and package these products involves a number of risks, including:

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- o a potential lack of capacity to meet demand;
- o reduced control over quality and delivery schedules;
- o risks of inadequate manufacturing yield or excessive costs;
- o difficulties in selecting and integrating subcontractors;
- o limited warranties in products supplied to us;
- o price increases; and
- o potential misappropriation of our intellectual property.

We may not be able to establish manufacturing relationships on reasonable terms or at all. The failure to establish these relationships on a timely basis and on attractive terms could delay our ability to launch these products or reduce our revenues and profitability.

DEFECTS OR ERRORS IN OUR PRODUCTS AND SERVICES OR IN PRODUCTS MADE BY OUR SUPPLIERS COULD HARM OUR RELATIONS WITH OUR CUSTOMERS AND EXPOSE US TO LIABILITY. SIMILAR PROBLEMS RELATED TO THE PRODUCTS OF OUR CUSTOMERS OR LICENSEES COULD HARM OUR BUSINESS.

Our mobile broadband products and technologies are inherently complex and may contain defects and errors that are detected only when the products are in use. Further, because our products and technologies serve as critical functions in our customers' products and/or networks, such defects or errors could have a serious impact on our customers, which could damage our reputation, harm our customer relationships and expose us to liability. Defects in our products and technologies or those used by our customers or licensees, equipment failures or other difficulties could adversely affect our ability and that of our customers and licensees to ship products on a timely basis as well as customer or licensee demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain desired levels of profitability. We and our customers or licensees may also experience component

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or software failures or defects which could require significant product recalls, reworks and/or repairs which are not covered by warranty reserves and which could consume a substantial portion of the capacity of our third-party manufacturers or those of our customers or licensees. Resolving any defect or failure related issues could consume financial and/or engineering resources that could affect future product release schedules. Additionally, a defect or failure in our products and technologies or the products of our customers or licensees could harm our reputation and/or adversely affect the growth of the market for mobile WiMAX, Wi-Fi, TD-CDMA, and other mobile broadband technologies.

WE MAY BE UNABLE TO PROTECT OUR OWN INTELLECTUAL PROPERTY AND COULD BECOME SUBJECT TO CLAIMS OF INFRINGEMENT, WHICH COULD ADVERSELY AFFECT THE VALUE OF OUR PRODUCTS AND TECHNOLOGIES AND HARM OUR REPUTATION.

As a technology company, we expect to incur expenditures to create and protect our intellectual property and, possibly, to assert infringement by others of our intellectual property. Other companies or entities also may commence actions or respond to an infringement action that we initiate by



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seeking to establish the invalidity or unenforceability of one or more of our patents or to dispute the patentability of one or more of our pending patent applications. In the event that one or more of our patents or applications are challenged, a court may invalidate the patent or determine that the patent is not enforceable or deny issuance of the application, which could harm our competitive position. If any of our patent claims are invalidated or deemed unenforceable, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing such patent claims. Even if such a patent challenge is not successful, it could be expensive and time consuming to address, divert management attention from our business and harm our reputation. Effective intellectual property protection may be unavailable or limited in certain foreign jurisdictions.

We also expect to incur expenditures to defend against claims by other persons asserting that the technology that is used and sold by our Company infringes upon the right of such other persons. From time to time we have received, and expect to continue to receive, notices from our competitors and others claiming that their proprietary technology is essential to our products and seeking the payment of a license fee. Any claims, with or without merit, could be time consuming to address, result in costly litigation and/or the payment of license fees, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have a material adverse effect upon our ability to commercially launch our products and technologies and on our ability to achieve profitability. If any of our products were found to infringe on another company's intellectual property rights or if we were found to have misappropriated technology, we could be required to redesign our products or license such rights and/or pay damages or other compensation to such other company. If we were unable to redesign our products or license such intellectual property rights used in our products, we could be prohibited from making and selling such products. In any potential dispute involving other companies' patents or other intellectual property, our customers and partners could also become the targets of litigation. Any such litigation could severely disrupt the business of our customers and partners, which in turn could hurt our relations with them and cause our revenues to decrease.

BECAUSE MOBILE WIMAX AND UMTS BASED TECHNOLOGIES SUCH AS TD-CDMA ARE EMERGING WIRELESS TECHNOLOGIES THAT ARE NOT FULLY DEVELOPED, THERE IS A RISK THAT STILL UNKNOWN PERSONS OR COMPANIES MAY ASSERT PROPRIETARY RIGHTS TO THE VARIOUS TECHNOLOGY COMPONENTS THAT WILL BE NECESSARY TO OPERATE A WIMAX OR UMTS-BASED WIRELESS BROADBAND NETWORK.

Because mobile WiMAX and UMTS based technologies such as TD-CDMA are emerging wireless technologies that are not fully developed, there may be a greater risk that persons or entities unknown to us will assert proprietary rights to technology components that are necessary to operate WiMAX or UMTS-based wireless broadband networks or products. Numerous companies have submitted letters of assurance related to IEEE 802.16 and amendments or various UMTS based technologies, including TD-CDMA, stating that they may hold or control patents or patent applications, the use of which would be unavoidable to create a compliant implementation of either mandatory or optional portions of the standard. In such letters, the patent holder typically asserts that it is prepared to grant a license to its essential IP to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions. If any companies asserting that they hold or control patents or patent applications necessary to implement the relevant technologies do not submit letters of assurance, or state in such letters that they do not expect to grant licenses, this could have an adverse effect on the implementation of mobile broadband networks utilizing such technologies as well as the sale of our mobile WiMAX or UMTS based products and technologies. In addition, we can not be certain of the validity of the patents or patent applications asserted in the letters of assurance submitted to date, or the terms of any licenses which may be demanded by the holders of such patents or patent applications. If we were

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required to pay substantial license fees to implement our mobile WiMAX or UMTS-based products and technologies, this could adversely affect the profitability of these products and technologies.

We anticipate that we will develop a patent portfolio related to our WiMAX and UMTS based products and technologies. However, there is no assurance that we will be able to obtain patents covering WiMAX or UMTS based products. Litigation may be required to enforce or protect our intellectual property rights. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to license, protect or enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively

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impact our operating results. In addition, failure to protect our trademark rights could impair our brand identity.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS.

We operate or hold spectrum through various subsidiaries and joint ventures in Argentina, Austria, Canada, Croatia, Germany, Slovakia and Switzerland and have additional operations located in Denmark, Finland, Germany, Israel, South Korea, Switzerland and the United Kingdom. We expect to continue to expand our international operations and potentially enter new international markets through acquisitions, joint ventures and strategic alliances. For example, we recently launched business operations in Latin America, where a new business unit headquartered in Sao Paulo, Brazil will deliver our mobile broadband and wireless technology solutions to customers throughout the Latin American region. Our activities outside the United States operate in different competitive and regulatory environments than we face in the United States, with many of our competitors having a dominant incumbent market position and/or greater operating experience in the specific geographic market. In addition, in some international markets, foreign governmental authorities may own or control the incumbent telecommunications companies operating under their jurisdiction. Established relationships between government-owned or government-controlled telecommunications companies and their traditional local telecommunications providers often limit access of third parties to these markets. In addition, owning and operating wireless spectrum in overseas jurisdictions may be subject to a changing regulatory environment. In particular, our ownership of wireless broadband spectrum in Argentina remains subject to obtaining government approval. We can not assure you that changes in foreign regulatory guidelines for the issuance of wireless licenses, foreign ownership of spectrum licenses, the adoption of wireless standards or the enforcement and licensing of intellectual property rights will not adversely impact our operating results. Due to these competitive and regulatory challenges, our activities outside the United States may require a disproportionate amount of our management and financial resources, which could disrupt our operations and adversely affect our business.

THE BUSINESS PLAN OF OUR NETWORK SOLUTIONS GROUP IS DEPENDENT ON ENTERING INTO OR MAINTAINING NETWORK PARTNER RELATIONSHIPS.

Our Network Solutions Group intends to build and operate WiMAX/Wi-Fi networks for wireless service providers, cable operators, multimedia content distributors, applications service providers and Internet service providers. At present, NSG has not entered into any such arrangements and may not be able to negotiate such arrangements on acceptable terms, or at all. If we are unable to

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establish and maintain these service arrangements, we may have to modify our plans for the Network Solutions Group.

OUR BUSINESSES WHICH CURRENTLY GENERATE REVENUE ARE DEPENDENT ON A LIMITED NUMBER OF CUSTOMERS.

Our PacketVideo, GO Networks and IPWireless businesses currently generate revenue but are dependent on a limited number of customers. For the nine months ended September 29, 2007, revenues from Verizon Wireless Communications and T-Mobile International accounted for 44% and 24%, respectively, of our total revenues. We expect that our PacketVideo subsidiary will continue to generate a significant portion of its revenues through a limited number of mobile phone and device manufacturers and wireless carriers for the foreseeable future, although these amounts may vary from period-to-period. If any of these customers terminate their relationships with us, our revenues and results of operations could be materially adversely affected.

WE ARE DEPENDENT ON A SMALL NUMBER OF INDIVIDUALS, AND IF WE LOSE KEY PERSONNEL UPON WHOM WE ARE DEPENDENT, OUR BUSINESS WILL BE ADVERSELY AFFECTED.

Our future success depends largely upon the continued service of our board members, executive officers and other key management and technical personnel, particularly Allen Salmasi, our Chairman and Chief Executive Officer. Mr. Salmasi has been a prominent executive and investor in the technology industry for over 20 years, and the Company has benefited from his industry relationships in attracting key personnel and in implementing acquisitions and strategic plans. In addition, in order to develop and achieve commercial deployment of our mobile broadband products and technologies in competition with well-established companies such as Intel, QUALCOMM and others, we must rely on highly specialized engineering and other talent. Our key employees represent a significant asset, and the competition for these employees is intense in the wireless communications industry. We continue to anticipate significant increases in human resources, particularly in engineering resources, through 2008. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

As a company without a significant operating history, we may have particular difficulty attracting and retaining key personnel in periods of poor operating performance given the significant use of incentive compensation by well-established competitors. We do not maintain key person life insurance on any of our personnel. We also have no covenants against competition or nonsolicitation agreements with certain of our key employees. The loss of one or

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more of our key employees or our inability to attract, retain and motivate qualified personnel could negatively impact our ability to design, develop and commercialize our products and technology.

WE WILL NEED TO SECURE SIGNIFICANT ADDITIONAL CAPITAL IN THE FUTURE TO IMPLEMENT CHANGES TO, OR EXPANSIONS OF, OUR BUSINESS PLAN AND TO CONTINUE TO FUND OUR RESEARCH AND DEVELOPMENT ACTIVITIES AN OUR OPERATING LOSSES UNTIL WE BECOME CASH FLOW POSITIVE AND GENERATE EARNINGS.

We will need to secure significant additional capital in the future to implement changes to, or expansions of, our business plan and to continue to fund our research and development activities and our operating losses until we become cash flow positive and generate earnings. We currently anticipate that

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our second generation NextWave Broadband WiMAX technologies designed for high volume commercial production will initially be available in the first quarter of 2008. However, we may not be able to meet this timeframe and therefore the commercial deployment of these products could be delayed, which could adversely affect our competitive position as well as our ability to become cash flow positive and show future profitability. Unexpected expenses and delays in development, or delays in the adoption of WiMAX and other 4G technologies by national telecommunications carriers and equipment manufacturers, could adversely affect our liquidity.

In addition, part of our strategy is to pursue acquisitions of and investments in businesses and technologies to expand our business and enhance our technology development capabilities. In addition to our IPWireless, CYGNUS, GO Networks, PacketVideo and WiMAX Telecom acquisitions, we have made investments in a number of companies including Hughes Systique and Inquam Broadband, and anticipate future investments in other companies or other technologies, businesses or spectrum licenses. Our recent and future acquisitions could result in substantial cash expenditures, potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, a decrease in our profit margins and amortization of intangibles and potential impairment of goodwill. In addition, our investments could result in substantial cash expenditures, fluctuations in our results of operations resulting from changes in the value of the investments and diversion of management's time and attention.

To augment our existing working capital resources in order to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or to obtain a credit facility. Our Senior Secured Notes and our Series A Senior Convertible Preferred Stock prohibit our incurrence of additional indebtedness, subject to certain exceptions. The sale of equity securities or convertible debt securities could result in additional dilution to our stockholders. The incurrence of additional indebtedness would also result in additional debt service obligations and the requirement that we comply with operating and financial covenants that would restrict our operations. In addition, there can be no assurance that any additional financing will be available on acceptable terms, if at all.

COVENANTS IN THE INDENTURE GOVERNING OUR SENIOR SECURED NOTE SAND THE TERMS OF OUR SERIES A PREFERRED STOCK IMPOSE OPERATING AND FINANCIAL RESTRICTIONS ON US.

Covenants in the indenture governing our senior secured notes and the terms of our Series A Preferred Stock impose operating and financial restrictions on us. These restrictions prohibit or limit our ability, and the ability of our subsidiaries, to, among other things:

- O pay dividends to our stockholders;
- O incur, or cause certain of our subsidiaries to incur, additional indebtedness;
- O permit liens on or conduct sales of any assets pledged as collateral;
- O sell significant amounts of our assets or consolidate or merge with or into other companies;
- O issue shares of our common stock at less than fair market value;
- O repay existing indebtedness; and
- O engage in transactions with affiliates.

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A breach of any covenants contained in the indenture could result in a default under our senior secured notes. If we are unable to repay or refinance those amounts, the holders of our senior secured notes could proceed against the assets pledged to secure these obligations, which include a substantial portion of our spectrum assets and substantially all of our other assets.

These restrictions may limit our ability to obtain additional financing, withstand downturns in our business and take advantage of business opportunities. Moreover, we may seek additional debt financing on terms that include more restrictive covenants, may require repayment on an accelerated schedule or may impose other obligations that limit our ability to grow our business, acquire needed assets, or take other actions we might otherwise consider appropriate or desirable.

WE MAY BE LIABLE FOR CERTAIN INDEMNIFICATION PAYMENTS PURSUANT TO THE PLAN OF REORGANIZATION.

In connection with the sale of NTI and its subsidiaries other than Old NextWave Wireless to Verizon Wireless, we agreed to indemnify NTI and its subsidiaries against all pre-closing liabilities of NTI and its subsidiaries and against any violation of the Bankruptcy Court injunction against persons having claims against NTI and its subsidiaries, with no limit on the amount of such indemnity. We are not currently aware of any such liabilities that remain following the plan of reorganization and Verizon Wireless has not made any indemnity claims. We have received a decree of final judgment closing the

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Chapter 11 case, and all claims made in connection with the Chapter 11 case have been resolved. Nonetheless, to the extent that we are required to fund amounts under the indemnification, our results of operations and our liquidity and capital resources could be materially adversely affected. In addition, we may not have sufficient cash reserves to pay the amounts required under the indemnification if any amounts were to become due.

### RISKS RELATING TO GOVERNMENT REGULATION

GOVERNMENT REGULATION COULD ADVERSELY IMPACT OUR DEVELOPMENT OF WIRELESS BROADBAND PRODUCTS AND SERVICES, OUR OFFERING OF PRODUCTS AND SERVICES TO CONSUMERS, AND OUR BUSINESS PROSPECTS.

The regulatory environment in which we operate is subject to significant change, the results and timing of which are uncertain. The FCC has jurisdiction over the grant, renewal, lease, assignment and sale of our wireless licenses, the use of wireless spectrum to provide communications services, and the resolution of interference between users of various spectrum bands. Other aspects of our business, including construction and operation of our wireless systems, and the offering of communications services, are regulated by the FCC and other federal, state and local governmental authorities. States may exercise authority over such things as billing practices and consumer-related issues.

Various governmental authorities could adopt regulations or take other actions that would adversely affect the value of our assets, increase our costs of doing business, and impact our business prospects. Changes in the regulation of our activities, including changes in how wireless, mobile, IP enabled services are regulated, changes in the allocation of available spectrum by the United States and/or exclusion or limitation of our technology or products by a

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government or standards body, could have a material adverse effect on our business, operating results, liquidity and financial position.

CHANGES IN LEGISLATION OR REGULATIONS MAY AFFECT OUR ABILITY TO CONDUCT OUR BUSINESS OR REDUCE OUR PROFITABILITY.

Future legislative, judicial or other regulatory actions could have a negative effect on our business. Some legislation and regulations applicable to the wireless broadband business, including how IP-enabled services are regulated, are the subject of ongoing judicial proceedings, legislative hearings and administrative proceedings that could change the manner in which our industry is regulated and the manner in which we operate. We cannot predict the outcome of any of these proceedings or their potential impact on our business.

If, as a result of regulatory changes, we become subject to the general common carrier rules and regulations applicable to telecommunications service providers, commercial mobile radio service providers offering certain switched services on a common carrier basis, and/or enhanced service providers, including providers of interconnected Voice Over the Internet service, at the federal level or in individual states, we may incur significant administrative, litigation and compliance costs, or we may have to restructure our service offerings, exit certain markets or raise the price of our services, any of which could cause our services to be less attractive to customers. In addition, future regulatory developments could increase our cost of doing business and limit our growth.

WE MAY NOT HAVE COMPLETE CONTROL OVER OUR TRANSITION OF EBS AND BRS SPECTRUM, WHICH COULD IMPACT COMPLIANCE WITH FCC RULES.

The FCC's rules require transition of EBS and BRS spectrum to the new band plan on a Basic Trading Area ("BTA") basis. See "Government Regulation-BRS-EBS License Conditions." We do not hold all of the EBS and BRS spectrum in the BTAs in which we hold spectrum. Consequently, we will need to coordinate with other EBS and BRS licensees in order to transition spectrum we hold or lease. Disagreements with other EBS or BRS licensees about how the spectrum should be transitioned may delay our efforts to transition spectrum, could result in increased costs to transition the spectrum, and could impact our efforts to comply with applicable FCC rules. On April 27, 2006, the FCC implemented new, amended rules related to transition of the spectrum, and it adopted rules that will permit us to self-transition to the reconfigured band plan if other spectrum holders in our BTAs do not timely transition their spectrum.

OUR USE OF EBS SPECTRUM IS SUBJECT TO PRIVATELY NEGOTIATED LEASE AGREEMENTS. CHANGES IN FCC RULES GOVERNING SUCH LEASE AGREEMENTS, CONTRACTUAL DISPUTES WITH EBS LICENSEES, OR FAILURES BY EBS LICENSEES TO COMPLY WITH FCC RULES COULD IMPACT OUR USE OF THE SPECTRUM.

All commercial enterprises are restricted from holding licenses for EBS spectrum. Eligibility for EBS spectrum is limited to accredited educational institutions, governmental organizations engaged in the formal education of enrolled students (e.g., school districts), and nonprofit organizations whose purposes are educational. Access to EBS spectrum can only be gained by commercial enterprises through privately-negotiated EBS lease agreements. FCC regulation of EBS leases, private interpretation of EBS lease terms, private contractual disputes, and failure of an EBS licensee to comply with FCC regulations all could impact our use of EBS spectrum and the value of our leased EBS spectrum. On April 27, 2006, the FCC released new rules governing EBS lease terms. EBS licensees are now permitted to enter into lease agreements with a maximum term of 30 years; lease agreements with terms longer than 15 years must contain a "right of review" by the EBS licensee every five years beginning in

year 15. The right of review must afford the EBS licensee with an opportunity to review its educational use requirements in light of changes in educational needs, technology, and other relevant factors and to obtain access to such additional services, capacity, support, and/or equipment as the parties shall agree upon in the spectrum leasing arrangement to advance the EBS licensee's educational mission. A spectrum leasing arrangement may include any mutually agreeable terms designed to accommodate changes in the EBS licensee's educational use requirements and the commercial lessee's wireless broadband operations. In addition, the terms of EBS lease agreements are subject to contract interpretation and disputes could arise with EBS licensees. There can be no assurance that EBS leases will continue for the full lease term, or be renewed, or be extended beyond the current term, on terms that are satisfactory to us. Similarly, since we are not eligible to hold EBS licenses, we must rely on EBS licensees with whom we contract to comply with FCC rules. The failure of an EBS licensee from whom we lease spectrum to comply with the terms of their FCC authorization or FCC rules could result in termination, forfeiture or non-renewal of their authorization, which would negatively impact the amount of spectrum available for our use.

IF WE DO NOT COMPLY WITH FCC BUILD-OUT REQUIREMENTS RELATING TO OUR SPECTRUM LICENSES, SUCH LICENSES COULD BE SUBJECT TO FORFEITURE.

Certain build-out or "substantial service" requirements apply to our licensed wireless spectrum, which generally must be satisfied as a condition of license renewal. In particular, the renewal deadline and the substantial service build-out deadline for our WCS spectrum is July 21, 2010; for our BRS and EBS spectrum, the substantial service build-out deadline is May 1, 2011; and for our AWS spectrum, the substantial service build-out deadline is December 18, 2021. Failure to make the substantial service demonstration, without seeking and obtaining an extension from the FCC, would result in license forfeiture.

WE HAVE NO GUARANTEE THAT THE LICENSES WE HOLD OR LEASE WILL BE RENEWED.

The FCC generally grants wireless licenses for terms of ten or fifteen years, which are subject to renewal and revocation. FCC rules require all wireless licensees to comply with applicable FCC rules and policies and the Communications Act of 1934 in order to retain their licenses. For example, licensees must meet certain construction requirements, including making substantial service demonstrations, in order to retain and renew FCC licenses. Failure to comply with FCC requirements with respect to any license could result in revocation or non-renewal of a license. In general, most wireless licensees who meet their construction and/or substantial service requirements are afforded a "renewal expectancy," however, all FCC license renewals can be challenged in various ways, irrespective of whether such challenges have any legal merit. Such challenges, while uncommon, may impact the timing of renewal grants and may impose legal costs. Accordingly, there is no guarantee that licenses we hold or lease will remain in full force and effect or be renewed.

INTERFERENCE COULD NEGATIVELY IMPACT OUR USE OF WIRELESS SPECTRUM WE HOLD, LEASE OR USE.

Under applicable FCC rules, users of wireless spectrum must comply with technical rules that are intended to eliminate or diminish harmful radiofrequency interference between wireless users. Licensed spectrum is generally entitled to interference protection, subject to technical rules applicable to the radio service, while unlicensed spectrum has no interference protection rights and must accept interference caused by other users.

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WIRELESS DEVICES UTILIZING WCS, BRS AND EBS SPECTRUM MAY BE SUSCEPTIBLE TO INTERFERENCE FROM SATELLITE DIGITAL AUDIO RADIO SERVICES ("SDARS").

Since 1997, the FCC has considered a proposal to permanently authorize terrestrial repeaters for SDARS operations adjacent to the C and D blocks of the WCS band. The FCC has permitted a large number of these SDARS terrestrial repeaters to operate on a special temporary authorization since 2001. Permanently authorizing SDARS repeaters adjacent to the WCS band could cause interference to WCS, BRS and EBS receivers. The extent of the interference from SDARS repeaters is unclear and is subject to the FCC's final resolution of pending proceedings. Because WCS C and D block licenses are adjacent to the SDARS spectrum, the potential for interference to this spectrum is of greatest concern. There is a lesser magnitude concern regarding interference from SDARS to WCS A and B block licenses, and EBS and BRS licenses. Central to the FCC's evaluation of this proposal has been the technical specifications for the operation of such repeaters. SDARS licensees are seeking rule changes that would both unfavorably alter WCS technical operating requirements and permit all existing SDARS repeaters to continue to operate at their current operating parameters. Through their representative association, the WCS Coalition, the majority of affected WCS licensees, including NextWave, also have proposed technical rules for SDARS terrestrial repeaters and WCS operations to the FCC. Final technical rules will determine the potential interference conditions and requirements for mitigation. If SDARS repeaters result in interference to our WCS, BRS or WBS spectrum, our ability to realize value from this spectrum may be impaired.

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INCREASING REGULATION OF THE TOWER INDUSTRY MAY MAKE IT DIFFICULT TO DEPLOY NEW TOWERS AND ANTENNA FACILITIES.

The FCC, together with the FAA, regulates tower marking and lighting. In addition, tower construction and deployment of antenna facilities is impacted by federal, state and local statutes addressing zoning, environmental protection and historic preservation. The FCC adopted significant changes to its rules governing historic preservation review of new tower projects, which makes it more difficult and expensive to deploy towers and antenna facilities. The FCC also is considering changes to its rules regarding when routine environmental evaluations will be required to determine compliance of antenna facilities with its RF radiation exposure limits. If adopted, these regulations could make it more difficult to deploy facilities. In addition, the FAA has proposed modifications to its rules that would impose certain notification requirements upon entities seeking to (i) construct or modify any tower or transmitting structure located within certain proximity parameters of any airport or heliport, and/or (ii) construct or modify transmission facilities using the 2500-2700 MHz radio frequency band, which encompasses virtually all of the BRS/EBS frequency band. If adopted, these requirements could impose new administrative burdens upon use of BRS/EBS spectrum.

RISKS RELATING TO OUR PREFERRED STOCK AND COMMON STOCK

OUR DERIVATIVE SECURITIES AND CONTINGENT EARN-OUT PAYMENTS HAVE THE POTENTIAL TO DILUTE SHAREHOLDER VALUE AND CAUSE THE TRADING PRICE OF OUR COMMON STOCK AND SERIES A PREFERRED STOCK TO DECLINE.



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As of September 29, 2007, 92,665,556 shares of our common stock were outstanding. In addition, as of September 29, 2007, there were 70,531,742 shares reserved for future issuance, of which 33,376,841 shares are reserved for future issuance upon the conversion of the Series A Senior Convertible Preferred Stock, 22,362,471 shares are reserved for issuance upon the exercise of granted and outstanding options and warrants, 13,959,097 shares are reserved for future option grants under our existing stock incentive plans and 833,333 shares are issuable under an advisory contract. In addition, we may issue shares of our common stock with a value of up to \$135.0 million as additional purchase consideration to former IPWireless shareholders and up to \$7.0 million under the IPWireless Employee Stock Bonus Plan upon the achievement of certain revenue milestones related to IPWireless's public safety business and TDTV Business. We may also issue shares of our common stock with a value of up to \$25.6 million as additional purchase consideration to former GO Networks shareholders and up to \$5.0 million under the GO Networks Employee Stock Bonus Plan upon the achievement of certain milestones relating to customer acceptance of GO Network's Wi-Fi base station products and the continued employment of certain key management employees.

In March 2007, we issued 355,000 shares of Series A Senior Convertible Preferred Stock at a price of \$1,000 per share of convertible preferred stock in a private offering to investment funds and other institutional investors, as well as existing shareholders, including NextWave Wireless Chairman and CEO, Allen Salmasi, Douglas Manchester, a member of the NextWave Wireless Board of Directors, and Avenue Capital Group, of which Robert T. Symington, a member of the NextWave Board, is a portfolio manager. The Series A Senior Convertible Preferred Stock is convertible into shares of our common stock upon election of the holders at any time and at our election under certain circumstances. Assuming that we do not elect to pay dividends in cash prior to March 2011 and if all shares of Series A Senior Convertible Preferred Stock were converted at such time, we would be obligated to issue 43,476,673 million shares of our common stock.

The exercise or conversion of these derivative securities into shares of common stock or the issuance of common stock pursuant to earn-outs may result in significant dilution to our current stockholders. While the milestones giving rise to our contingent earn-out payments may never be met or met only in part, these obligations to issue additional shares of common stock may result in a significant dilution to our current stockholders. In addition, sales of large amounts of common stock in the public market upon exercise or conversion of derivative securities or upon achievement of earn-outs could materially adversely affect the share price. We have agreed to register the resale of shares of common stock issuable upon exercise or conversion of our warrants and Series A Preferred Stock and upon achievement of earn-outs in connection with the IPWireless and GO Networks transactions. The registration of such resales could facilitate the sale of such shares into the market.

In addition, we may need to raise additional funds to fund our operations, to pay for an acquisition or to enter into a strategic alliance, and we might use equity securities, debt, cash, or a combination of the foregoing to finance such activities. If we use equity securities, our stockholders may experience dilution. A significant amount of our common stock coming on the market at any given time could result in a decline in the price of our common stock or increased volatility.

OUR COMMON STOCK IS THINLY TRADED AND THUS THE MARKET PRICE OF OUR COMMON STOCK IS PARTICULARLY SENSITIVE TO TRADING VOLUME AND THE TRADING PRICE OF OUR SERIES A PREFERRED STOCK MAY BE ADVERSELY AFFECTED.

Our low trading volume has historically resulted in substantial volatility in the market price of our common stock, and may make it more difficult for us to sell equity or equity-related securities in the future at a time and price

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that we deem appropriate. In addition, due to the relatively low volume of

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trading in our common stock, stockholders may not be able to purchase or sell shares, particularly large blocks of shares, as quickly and as inexpensively as if the trading volume were higher. The sale of a significant position in common stock by a large shareholder also may lead the price of our stock to decline. Because our Series A Preferred Stock is convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading prices of our Series A Preferred Stock. More generally, the market for technology stocks has been extremely volatile, and has from time to time experienced significant price and volume fluctuations that bear little relationship or are not proportionate to the past or present operating performance of those companies.

AN ACTIVE TRADING MARKET FOR OUR SERIES A PREFERRED STOCK MAY NOT DEVELOP, AND YOU MAY BE UNABLE TO RESELL YOUR SHARES OF SERIES A PREFERRED STOCK AT OR ABOVE THE PURCHASE PRICE.

We do not intend to list the Series A Preferred Stock on any national securities exchange or to take any action to make it eligible for any automated quotation system other than the PortalSM Market. The Series A Preferred Stock is not currently eligible to trade on the PortalSM Market. Consequently, a liquid trading market for the Series A Preferred Stock may not develop and the market price of the Series A Preferred Stock may be volatile. As a result, you may be unable to sell your shares of Series A Preferred Stock at a price equal to or greater than that which you paid, if at all.

THE SERIES A PREFERRED STOCK RANKS JUNIOR TO ALL OF OUR LIABILITIES.

The Series A Preferred Stock ranks junior to all of our liabilities and all liabilities of our subsidiaries and any capital stock of our subsidiaries held by others. In the event of any bankruptcy, liquidation, dissolution or winding-up, our assets will be available to pay obligations on the Series A Preferred Stock, including the liquidation preference of your shares of the Series A Preferred Stock payable upon liquidation event or deemed liquidation event, only after all our indebtedness and other liabilities have been paid.

WE MAY NOT HAVE SUFFICIENT EARNINGS AND PROFITS IN ORDER FOR DISTRIBUTIONS ON THE PREFERRED STOCK TO BE TREATED AS DIVIDENDS.

The dividends paid by us may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes. This would result in the amount of the dividends that exceeds such earnings and profits being treated first as a return of capital to the extent of the holder's adjusted tax basis in the preferred stock, and the excess as capital gain. Such treatment will generally be unfavorable for corporate holders and may also be unfavorable for certain other holders.

A HOLDER OF SERIES A PREFERRED STOCK MAY BE TREATED AS RECEIVING DEEMED DISTRIBUTIONS THAT MAY BE INCLUDIBLE IN INCOME.

If the Series A Preferred Stock is not respected as participating preferred stock, in accordance with certain provisions of the Internal Revenue Code and the Treasury Regulations, a holder of such preferred stock, despite the absence of any actual payment of cash to the holder, may be treated as receiving constructive distributions over the term of the Series A Preferred Stock or at

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the time of any conversion into our common stock. In either such case, the holder may be required to pay taxes on such constructive distributions in the same manner as an actual distribution.

WE MAY NOT BE ABLE TO PAY THE LIQUIDATION PREFERENCE PREMIUM OF THE PREFERRED STOCK UPON A DEEMED LIQUIDATION EVENT OR A MANDATORY REDEMPTION AND WE MAY NOT BE ABLE TO PAY CASH DIVIDENDS ON THE PREFERRED STOCK WHEN REQUIRED.

In the event of a deemed liquidation event, including events such as a merger, sale of assets or change in control, you will have the right to receive an amount per share of Series A Preferred Stock equal to the greater of 120% of the liquidation preference or the amount that would have been received if such share was converted into our common stock, unless the holders of shares representing 75% of the shares of Series A Preferred Stock then outstanding elect to waive such deemed liquidation event, in which case the Series A Preferred Stock would remain outstanding or be converted into shares of a successor entity. We must redeem all outstanding shares of the Series A Preferred Stock for an amount equal to the liquidation preference on March 28, 2017, up to 50% of all outstanding shares of Series A Preferred Stock for an amount equal to 130% of the liquidation preference if we elect to convert the Series A Preferred Stock into shares of our common stock, and up to all outstanding shares of the Series A Preferred Stock for an amount equal to 120% of the liquidation preference if we elect to consummate certain asset sales without the requisite consent of the holders of the Series A Preferred Stock. We may not have sufficient cash to purchase your shares of preferred stock upon a deemed liquidation or a redemption event. Also, the terms of our senior secured notes contain limitations on our ability to pay the liquidation preference in cash while the senior secured notes remain outstanding.

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Pursuant to the terms of our senior secured notes, which are due July 14, 2010, we are not permitted to pay cash dividends on the shares of the Series A Preferred Stock. The terms of the Series A Preferred Stock permit us to add the per share dividend amount to the liquidation preference of the Series A Preferred Stock until March 28, 2011, in lieu of paying cash dividends, thereby increasing the amount of the liquidation preference and the number of shares of our common stock issuable upon conversion of each share of the Series A Preferred Stock. From and after March 28, 2011, the Company is obligated to pay quarterly cash dividends on the Series A Preferred Stock. Terms of our future indebtedness could restrict the payment of dividends and other obligations relating to our capital stock in cash. Even if the terms of the instruments governing our indebtedness at such time allow us to pay cash dividends and to redeem the preferred stock in cash, we can only make such payments when, as and if declared by our board of directors from legally available funds. Adequate funds may not be available to pay cash dividends to you or to redeem your shares of preferred stock.

Further, because we are a holding company, our ability to pay the liquidation preference of the preferred stock for cash or to pay dividends on the preferred stock may be limited by restrictions on our ability to obtain funds through dividends from our subsidiaries.

OUR OPERATING RESULTS ARE SUBJECT TO SUBSTANTIAL QUARTERLY AND ANNUAL FLUCTUATIONS AND TO MARKET DOWNTURNS.

We believe that our future operating results over both the short- and

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long-term will be subject to annual and quarterly fluctuations due to several factors, some of which are outside management's control. These factors include:

- o significant research and development costs;
- o research and development issues and delays;
- o the ability of our businesses to generate revenue adequate to cover their expenses;
- o spectrum acquisition costs;
- o manufacturing issues and delays;
- o the status of plans for the adoption of WiMAX and other 4G technologies by national telecommunications carriers and equipment manufacturers;
- o impact of competitive products, services and technologies;
- o changes in the regulatory environment;
- o the cost and availability of network infrastructure; and
- o general economic conditions.

These factors affecting our future operating results are difficult to forecast and could harm our quarterly or annual operating results and the prevailing market price of our securities. If our operating results fail to meet the financial guidance we provide to investors or the expectations of investment analysts or investors in any period, securities class action litigation could be brought against us and/or the market price of our securities could decline.

IF THE OWNERSHIP OF OUR COMMON STOCK AND SERIES A PREFERRED STOCK CONTINUES TO BE HIGHLY CONCENTRATED, IT MAY PREVENT YOU AND OTHER STOCKHOLDERS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS AND MAY RESULT IN CONFLICTS OF INTEREST THAT COULD CAUSE THE PRICE OF OUR COMMON STOCK AND THE SERIES A PREFERRED STOCK TO DECLINE.

Allen Salmasi, our executive officers and other members of our Board of Directors beneficially own or control shares of our common stock and Series A Preferred Stock representing approximately 36.0% of the voting power of our capital stock as of September 29, 2007. Accordingly, Mr. Salmasi and the other members of the Board of Directors will be able to significantly influence matters that require stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or other significant corporate transactions. Our controlling stockholders may have interests that differ from your interests and may vote in a way with which you may disagree and which may be adverse to your interests. Corporate action may be taken even if other stockholders oppose them. These stockholders may also delay or prevent a change of control of us, even if that change of control would benefit our other stockholders, which could deprive our stockholders of the opportunity to receive a premium for their shares. The significant concentration of ownership of our common stock and Series A Preferred Stock may adversely affect the trading price of our common stock and Series A Preferred Stock due to investors' perception that conflicts of interest may exist or arise.

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IF SECURITIES OR INDUSTRY ANALYSTS DO NOT PUBLISH RESEARCH OR REPORTS ABOUT OUR BUSINESS, IF THEY CHANGE THEIR RECOMMENDATIONS REGARDING OUR SHARES ADVERSELY OR IF OUR OPERATING RESULTS DO NOT MEET THEIR EXPECTATIONS, THE TRADING PRICE OF OUR COMMON STOCK AND SERIES A PREFERRED STOCK COULD DECLINE.

The trading market for our common stock and the trading price of our Series A Preferred Stock will be influenced by the research and reports that industry and securities analysts publish about us or our business. Currently, we have no analysts coverage. If analysts fail to publish reports about us or if one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the price of our common stock to decline. Moreover, if one or more analysts who cover us downgrade our common stock or if our operating results do not meet their expectations, the price of our common stock and Series A Preferred Stock could decline.

THE MARKET PRICE FOR OUR COMMON STOCK MAY BE VOLATILE, WHICH COULD CAUSE THE VALUE OF YOUR INVESTMENT IN OUR COMMON STOCK OR SERIES A PREFERRED STOCK TO DECLINE.

The stock market in general, and the stock prices of technology and wireless communications companies in particular, have experienced volatility that often has been unrelated to the operating performance of any specific public company. Factors that may have a significant impact on the market price of our common stock and accordingly the trading price of our Series A Preferred Stock include:

- o announcements concerning us or our competitors, including the selection of mobile WiMAX wireless communications technology by telecommunications providers and the timing of the roll-out of those systems;
- o receipt of substantial orders or order cancellations for integrated circuits and system software products for mobile WiMAX networks by us or our competitors;
- o quality deficiencies in technologies, products or services;
- o announcements regarding financial developments or technological innovations;
- o our ability to remediate the material weakness in internal controls over financial reporting identified in connection with our restatement of revenues of our PacketVideo subsidiary;
- o international developments, such as technology mandates, political developments or changes in economic policies;
- o lack of capital to invest in WiMAX networks;
- o new commercial products;
- o changes in recommendations of securities analysts;
- o government regulations, including FCC regulations governing spectrum licenses;
- o earnings announcements;
- o proprietary rights or product or patent litigation;

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- o strategic transactions, such as acquisitions and divestitures; or
- o rumors or allegations regarding our financial disclosures or practices.

Our share price may be subject to volatility, particularly on a quarterly basis. Shortfalls in our revenues or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

From time to time, we may repurchase our common stock at prices that may later be higher than the market value of the share on the repurchase date. This could result in a loss of value for stockholders if new shares are issued at lower prices.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Due to changes in the volatility of the price of our common stock, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources.

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PROVISIONS OF OUR CHARTER DOCUMENTS COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY, EVEN IF THE ACQUISITION WOULD BE BENEFICIAL TO HOLDERS OF OUR COMMON STOCK AND SERIES A PREFERRED STOCK, AND COULD MAKE IT MORE DIFFICULT FOR YOU TO CHANGE MANAGEMENT.

Our Certificate of Incorporation and Bylaws contain provisions that could depress the trading price of our common stock and Series A Preferred Stock by acting to discourage, delay or prevent a change of control of our company or changes in management that holders of our common stock might deem advantageous. Specific provisions in our Certificate of Incorporation and Bylaws include:

- o our directors serve staggered, three-year terms and accordingly, pursuant to Delaware law, can only be removed with cause;
- o no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
- o our board of directors will be expressly authorized to make, alter or repeal our bylaws, and our stockholders will be able to make, alter or repeal our bylaws by a vote of 66-2/3% of the issued and outstanding voting shares;
- o any vacancies on the board of directors would be filled by a majority vote of the board;
- o our board of directors will be authorized to issue preferred stock without stockholder approval; and
- o we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with

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takeover defense measures.

As a result of the provisions of our Certificate of Incorporation and Bylaws, the price investors may be willing to pay in the future for our common stock or Series A Preferred Stock may be limited.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

### ITEM 5. OTHER INFORMATION

Not Applicable.

### ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Allen Salmasi.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for George C. Alex.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Allen Salmasi.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for George C. Alex.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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NEXTWAVE WIRELESS INC.  
(Registrant)

November 13, 2007

By: /s/ George C. Alex

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(Date)

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George C. Alex  
Executive Vice President and  
Chief Financial Officer

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