NextWave Wireless Inc.
Form 10-Q
August 14, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

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

FOR THE TRANSITION PERIOD FROM _____________ TO _____________

COMMISSION FILE NUMBER 000-51958

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

DELAWARE	20-5361360
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
12670 HIGH BLUFF DRIVE, SAN DIEGO, CALIFORNIA	92130
(Address of principal executive offices)	(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 [X] 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 [X]

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

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 [X] No [_]

As of August 10, 2007, there were 92,614,194 shares of the Registrant's Common Stock outstanding.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2007	DECEMBER 30, 2006
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	$ 167,194	$ 32,980
Short-term investments	189,025	167,705
Accounts receivable, net of allowance for doubtful accounts of $127 and $321, respectively	21,460	5,056
Inventory	7,697	266
Deferred contract costs	5,011	2,397
Prepaid expenses and other current assets	11,372	7,571
Total current assets	401,759	215,975
Restricted cash	75,000	75,000
Wireless spectrum licenses, net	571,704	527,998
Goodwill	168,377	32,184
Other intangible assets, net	44,480	18,570
Property and equipment, net	30,483	17,529
Other noncurrent assets	7,584	9,823
Total assets	$ 1,299,387	$ 897,079
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,986	$ 1,630
Accrued expenses	50,612	33,537
Current portion of long-term obligations	6,093	3,065
Deferred revenue	27,302	10,253
Other current liabilities and deferred credits	1,288	1,240
Total current liabilities	112,281	49,725
Deferred income tax liabilities	83,404	75,774
Long-term obligations, net of current portion	311,925	298,030
Other long-term obligations, deferred credits and reserves	4,041	3,324

Total liabilities	511,651	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 $361,952 at June 30, 2007	357,988	--
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; 92,560 and 83,716 issued and outstanding at June 30, 2007, and December 30, 2006, respectively	93	84
Additional paid-in-capital	695,370	620,423
Accumulated other comprehensive loss	(83)	(357)
Accumulated deficit	(265,632)	(150,972)
Total stockholders' equity	429,748	469,178
Total liabilities and stockholders' equity	$ 1,299,387	$ 897,079

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		SIX MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
Revenues	$ 12,832	$ 6,293	$ 20,578	$ 10,198
Operating expenses:				
Cost of revenues	10,549	2,638	14,214	4,445
Engineering, research and development	34,350	13,294	57,397	24,383
General and administrative	21,845	12,140	39,412	20,632
Sales and marketing	5,562	2,539	9,235	4,152
Purchased in-process research and development costs	--	1,648	860	1,648
Total operating expenses	72,306	32,259	121,118	55,260
Loss from operations	(59,474)	(25,966)	(100,540)	(45,062)

Other income (expense)				
Interest income	5,444	3,197	7,517	6,384
Interest expense	(11,447)	(366)	(22,586)	(674)
Other income and expense, net	298	216	302	124
Total other income (expense), net	(5,705)	(3,047)	(14,767)	5,834
Loss before provision for income taxes and minority interest	(65,179)	(22,919)	(115,307)	(39,228)
Income tax benefit (provision)	(224)	--	(401)	209
Minority interest	138	214	1,048	871
Net loss	(65,265)	(22,705)	(114,660)	(38,148)
Less: Preferred stock dividends	(6,730)	--	(6,952)	--
Accretion of issuance costs on preferred stock	(68)	--	(70)	--
Net loss applicable to common shares	$ (72,063)	$ (22,705)	$(121,682)	$ (38,148)
Net loss per common share - basic and diluted	$ (0.81)	$ (0.28)	$ (1.41)	$ (0.47)
Weighted average shares used in per share calculation	88,774	81,720	86,385	81,666

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

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

	REDEEMABLE SERIES A SENIOR CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULAT OTHER COMPREHENSI LOSS
	SHARES	AMOUNT	SHARES	AMOUNT		
BALANCE AT DECEMBER 30, 2006	--	$ --	83,716	$ 84	$ 620,423	$ (35
Shares issued for cash, net of issuance costs and embedded derivatives of 4,035	355	350,966	--	--	--	--
Shares issued for business acquisition	--	--	7,651	8	74,514	--
Shares issued under stock						

incentive plans	--	--	523	--	1,546	--
Shares issued for warrants exercised	--	--	670	1	3	--
Share-based compensation expense	--	--	--	--	5,906	--
Imputed dividends on Series A Senior Convertible Preferred Stock	--	6,952	--	--	(6,952)	--
Accretion of issuance costs on Redeemable Series A Senior Convertible Preferred Stock	--	70	--	--	(70)	--
Unrealized net gains on investments	--	--	--	--	--	2
Net loss	--	--	--	--	--	--
BALANCE AT JUNE 30, 2007	355	$ 357,988	92,560	$ 93	$ 695,370	$ (8

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)

	SIX MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006
OPERATING ACTIVITIES		
Net loss	$ (114,660)	$ (38,148)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,443	2,564
Amortization of intangible assets	6,825	2,468

Non-cash share-based compensation	5,906	2,612
In-process research and development	860	1,648
Accretion of interest expense	10,181	636
Minority interest	(1,048)	(871)
Other non-cash adjustments	743	1,742
Changes in operating assets and liabilities:		
Accounts receivable	(1,899)	(1,434)
Inventory	(2,422)	(19)
Prepaid expenses and other current assets	(1,779)	(2,286)
Other assets	2,197	940
Accounts payable and accrued liabilities	1,863	4,329
Deferred revenue	6,103	2,803
Other current liabilities and deferred credits	(33)	(190)
Net cash used in operating activities	(82,720)	(23,206)
INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale securities	5,127	132,772
Proceeds from the sale of available-for-sale securities	622,892	265,355
Purchases of available-for-sale securities	(649,064)	
Payments for wireless spectrum licenses	(34,252)	(80,295)
Cash paid for business combinations, net of cash acquired	(59,398)	(4,875)
Purchase of property and equipment	(14,245)	(7,157)
Other, net	(1,441)	(1,755)
Net cash used in investing activities	(130,381)	(38,539)
FINANCING ACTIVITIES		
Proceeds from the sale of Series A Senior Convertible Preferred Stock, net of costs to issue	351,146	--
Payments on long-term obligations	(3,347)	(2,139)
Proceeds from the sale of common equity interests and common stock	1,550	330
Proceeds from investment by joint venture partner	--	1,995
Cash distributions paid to members	(2,034)	(1,447)
Net cash provided by (used in) financing activities	347,315	(1,261)
Net increase (decrease) in cash and cash equivalents	134,214	(63,006)
Cash and cash equivalents, beginning of period	32,980	93,649
Cash and cash equivalents, end of period	$ 167,194	$ 30,643

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

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 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 the 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 United States Securities and Exchange Commission 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 and six month periods ended June 30, 2007 and July 1, 2006 include 13 and 26 weeks, respectively.

COMPREHENSIVE LOSS

Accumulated other comprehensive loss includes unrealized gains and losses that are excluded from the consolidated statements of operations and are reported as a separate component in stockholders' equity. The net unrealized losses represent those on marketable securities that are classified as available-for-sale and totaled $0.1 million and $0.4 million at June 30, 2007 and December 30, 2006, respectively. Comprehensive loss consists of the following:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(in thousands)	JUNE 30, 2007	JULY 1, 2006	JUNE 30 2007	JULY 1, 2006
Net loss	$ (65,265)	$ (22,705)	$(114,660)	$ (38,148)
Other comprehensive income (loss):				
Net unrealized gains (losses) on marketable securities	115	(86)	274	(246)
Total comprehensive loss	$ (65,150)	$ (22,791)	$(114,386)	$ (38,394)

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NET LOSS PER COMMON SHARE

Basic net loss per common share for the three and six months ended June 30, 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. Basic net loss per common share for the three and six months ended July 1, 2006 is computed by dividing net loss applicable to common shares for the period by the weighted average number of limited liability company membership units outstanding during the respective periods, on a converted basis as if NextWave's corporate conversion merger occurred on January 1, 2006. Diluted loss per share assumes that outstanding common shares were increased by shares issuable upon exercise of stock options and warrants for which market price exceeds the exercise price, less shares which could have been purchased by NextWave with the related proceeds, unless antidilutive. Diluted loss per share also considers the impact of the conversion of the redeemable Series A Senior Convertible Preferred Stock (the "Series A Preferred Stock"), unless antidilutive. Contingently issuable stock, such as restricted stock or merger consideration, is also included in the diluted loss per share calculations, unless antidilutive. For the three and six months ended June 30, 2007 and July 1, 2006, diluted loss per common share is computed on the same basis as basic loss per common share as the inclusion of potential shares outstanding would be antidilutive.

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Following are securities that could potentially dilute earnings per share in the future that 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 June 30, 2007 was the end of the contingency period for any contingently issuable shares in accordance with SFAS 128, "Earnings per Share."

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(in thousands)	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
Outstanding stock options	15,557	9,143	14,129	8,208
Common stock warrants	2,436	500	2,564	500
Contingently issuable shares under advisory contract	833	833	833	833
Restricted stock	199	84	209	68
Contingent merger consideration for two acquisitions and related contingent stock bonus plan shares	11,568	--	6,393	--
Series A Senior Convertible Preferred Stock	32,153	--	16,783	--

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 D-98, 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 Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("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 will be reported as the change in fair value of derivatives in the consolidated statements of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"), effective for NextWave's fiscal year beginning December 31, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Adoption of this interpretation did not have a material impact on NextWave's financial statements.

In September 2006, the 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 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 159"). SFAS 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

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 159. NextWave's management is currently evaluating whether or not to elect the option provided for in this standard.

RECLASSIFICATION

To conform to the current presentation in the consolidated balance sheet at June 30, 2007, a reclassification of $0.3 million in inventory was made from prepaid expenses and other current assets to inventory in the consolidated balance sheet at December 30, 2006. This reclassification had no effect on reported current assets or net cash used in operating activities.

2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT ITEMS

SHORT-TERM INVESTMENTS AND RESTRICTED CASH

Short-term investments and restricted cash consist of the following:

(in thousands)	JUNE 30, 2007	DECEMBER 30, 2006
Municipal securities	$ 158,209	$ 177,436
Commercial paper	77,167	--
Equity securities	15,335	--
U.S. Treasury and Agency obligations	10,199	39,051
Money market funds	3,115	500
Corporate notes	--	25,694
Cash	--	24
Total portfolio	264,025	242,705
Less restricted portion	(75,000)	(75,000)
Total unrestricted short-term investments	$ 189,025	$ 167,705

INVENTORY

Inventory consists of the following:

(in thousands)	JUNE 30, 2007	DECEMBER 30, 2006
Raw materials	$ 1,105	$ --
Work in process	326	266
Finished goods	6,266	--
	$ 7,697	$ 266

WIRELESS LICENSES, GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following:

	JUNE 30, 2007			DECEMBER 30, 2006		
	WEIGHTED AVERAGE LIFE (IN	LIFE GROSS CARRYING	ACCUMULATED	WEIGHTED AVERAGE LIFE (IN	LIFE GROSS CARRYING	ACCUMULATE

(dollars in thousands)	YEARS)	AMOUNT	AMORTIZATION	YEARS)	AMOUNT	AMORTIZATI
Amortized intangible assets:						
Leased wireless spectrum licenses	15.5	$ 95,060	$ 7,386	14.1	$ 82,385	$ 4,438
Purchased technology	7.0	33,464	4,427	7.0	9,614	1,821
Purchased customer base	8.0	7,480	1,541	8.0	5,960	1,044
Non-compete agreements	4.0	3,740	1,659	4.0	2,800	1,193
Purchased tradenames and trademarks	6.9	3,634	207	--	--	--
Other	7.7	1,945	349	7.4	2,002	252
		$145,323	$ 15,569		$102,761	$ 8,748
Intangible assets not subject to amortization:						
Wireless spectrum licenses		$484,030			$450,051	
Goodwill		168,377			32,184	
Purchased tradenames and trademarks		2,400			2,504	
		$654,807			$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 $33.8 million of wireless spectrum licenses not subject to amortization. The assets of the company are comprised almost entirely of wireless spectrum. The acquisition of 4253311 Canada Inc. was accounted for as an acquisition of assets rather than as an acquisition of a business based on guidance under EITF 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 $7.6 million in associated deferred tax liabilities as determined in accordance with EITF 98-11, "Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations," ("EITF 98-11").

During the six months ended June 30, 2007, NextWave acquired other licensed spectrum rights for $2.7 million in cash and $5.2 million through the assumption of lease liabilities.

The $136.2 million increase in goodwill in the consolidated balance sheets from December 30, 2006 to June 30, 2007, resulted from $137.0 million from current year business acquisitions, reduced by $0.8 million for reductions to accrued liabilities related to 2005 and 2006 acquisitions.

The estimated aggregate amortization expense for amortized intangible assets owned as of June 30, 2007, is expected to be $8.1 million during the remainder of 2007 and $15.5 million, $14.4 million, $13.3 million, $12.5 million and $66.0 million during fiscal years 2008, 2009, 2010, 2011 and thereafter, respectively.

PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

(in thousands)	JUNE 30, 2007	DECEMBER 30, 2006
Furniture and equipment	$ 20,248	$ 13,626
Purchased software	7,969	7,296
Leasehold improvements	2,941	2,358
Construction in progress	10,376	846
	41,534	24,126
Less: Accumulated depreciation	(11,051)	(6,597)
Total property and equipment, net	$ 30,483	$ 17,529

Construction in progress at June 30, 2007, includes $9.9 million in accumulated costs for NextWave's property in Henderson, Nevada. Occupancy commenced in July 2007, at which time the costs will be capitalized and depreciation of the assets will commence.

ACCRUED EXPENSES

Accrued expenses consist of the following:

(in thousands)	JUNE 30, 2007	DECEMBER 30, 2006
Accrued payroll and related expenses	$ 13,838	$ 9,417
Accrued contract losses	13,164	529
Accrued interest	11,184	11,178
Accrued expenses	6,440	4,870
Accrued professional fees	3,386	3,746
Accrued equity distributions payable	80	2,034
Other	2,520	1,763
Total accrued liabilities	$ 50,612	$ 33,537

3. BUSINESS COMBINATIONS

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), allows 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 is 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.

The total cost of the acquisition of $99.6 million includes $25.7 million in cash and 7.7 million shares of NextWave's common stock, valued at $74.5 million paid for the equity interests, closing costs of $3.2 million, less cash acquired of $3.8 million. The fair value of the 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 price was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition in accordance with SFAS No. 141 as follows:

(in thousands)	
Accounts receivable	$ 13,138
Inventory	4,643
Deferred contract costs	1,687
Prepaid and other current assets	1,623
Property and equipment	1,996
Other noncurrent assets	413
Goodwill	127,885
Accounts payable and other current liabilities	(26,843)
Deferred revenue	(11,544)
Provision for loss contract	(13,440)
Total acquisition cost	$ 99,558

The excess of the purchase price over the acquired net tangible assets of $127.9 million 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 third 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.

The results of IPWireless' operations have been included in the accompanying consolidated financial statements from the date of acquisition.

Additional consideration of up to $135.0 million may be paid 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 $114.0 million of such additional consideration will be payable in cash or shares of common stock at NextWave's election and up to approximately $21.0 million of such amounts will be payable in cash or shares of common stock at the election of the representative of IPWireless shareholders. Five million dollars of the consideration paid at closing and $21.0 million of the additional consideration that may be earned post-closing has or will be placed in escrow for 12 months from the closing date, which will be available to compensate NextWave for certain losses, including any losses it may incur as a result of any breach of the representations and warranties or covenants of IPWireless contained in the merger agreement. In accordance with SFAS No. 141, "Business Combinations," 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.

NextWave has also adopted the IPWireless, Inc. Employee Stock Bonus Plan which provides IPWireless employees with shares of NextWave common stock having an aggregate value of up to $7.0 million, valued at the time of grant, contingent upon the achievement of certain revenue milestones relating to IPWireless' public safety business and TDtv business. In accordance with SFAS 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 estimated 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.

In connection with the acquisition, NextWave recorded an accrual for a provision for loss contracts that existed at the time of the acquisition and an accrual for severance for four IPWireless employees whose employment terminated as a result of the acquisition. Activity for these liabilities is as follows:

(in thousands)	OPENING BALANCE SHEET ACCRUAL	PROVISION UTILIZED	AMOUNT S PAID IN CASH	BALANCE AT JUNE 30, 2007
Provision for loss contracts	$13,440	$ (334)	$ --	$13,106
Accrued severance	552	--	(516)	36

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 is 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.

The total cost of the acquisition of $16.9 million includes cash paid for the common stock and warrants of $13.4 million, interim funding of $1.9 million, closing costs of $0.7 million, the assumption of $1.3 million in debt which was paid at closing, less cash acquired of $0.4 million. Under the purchase method of accounting, the purchase price was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition in accordance with SFAS No. 141 as follows:

(in thousands)	
Prepaid and other current assets	$ 693
Property and equipment	1,110
Other noncurrent assets	26
Intangible assets	22,180
Accounts payable and accrued liabilities	(1,938)
Long-term obligations	(5,177)
Total acquisition cost	$ 16,894

The purchase price allocation included values assigned to certain specific identifiable intangible assets aggregating $22.2 million. The fair value assigned to purchased technology was 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 GO Networks is relieved of the obligation to pay royalties for the benefits received from them. The fair value 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. The amount allocated to intangible assets and their respective amortizable lives is attributed to the following categories:

(dollars in thousands)	LIFE (IN YEARS)	AMOUNT
Purchased technology	7	$ 18,200
Purchased trade names and trademarks	7	2,660
Non-compete agreements	4	840
Purchased customer base	8	480
		$ 22,180

The results of GO Network's operations have been included in the accompanying consolidated financial statements from the date of acquisition.

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Additional purchase consideration of up to $25.6 million and $0.1 million may be paid 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 key employees. In accordance with SFAS No. 141, "Business Combinations," 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 additional purchase price when the contingency is resolved and the consideration is determinable and becomes issuable. In accordance with EITF 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.

NextWave also adopted 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 grant, upon the achievement of specified operational milestones 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 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 estimated 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.

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 is 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. The total cost of the acquisition was $17.8 million, which includes cash paid for the registered voting shares of $18.8 million, closing costs of $0.3 million, less cash acquired of $1.3 million.

NextWave recorded $9.1 million in goodwill in connection with the acquisition of SDC. The purchase price allocation included values assigned to certain specific identifiable intangible assets aggregating $8.4 million as follows:

(dollars in thousands)	LIFE (IN YEARS)	AMOUNT
Purchased technology	7	$ 5,650
Purchased customer base	6	1,040
In-process research and development	--	860
Purchased trade names and trademarks	10	760
Non-compete agreements	2	100
		$ 8,410

Purchased in-process research and development costs relate to development projects 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 date of acquisition. An experienced technological employee base and operations in a specialized niche in the wireless industry were among the factors that contributed to a purchase price resulting in the recognition of goodwill.

The results of SDC's operations have been included in the accompanying consolidated financial statements from the date of acquisition.

PRO FORMA RESULTS

The following unaudited pro forma financial information assumes that the acquisitions of IPWireless and GO Networks occurred on December 31, 2006 and January 1, 2006, respectively. The unaudited pro forma financial information does not reflect the SDC acquisition, as the effect of the acquisition was not significant on an individual basis. 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 acquisition occurred on these dates, or of future results of operations. The unaudited pro forma results for the three and six months ended June 30, 2007 and July 1, 2006, are as follows:

(in thousands)	THREE MONTHS ENDED JUNE 30, 2007	THREE MONTHS ENDED JULY 1, 2006	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JULY 1, 2006
Revenues	$ 13,491	$ 6,911	$ 22,862	$ 11,192
Net loss	(70,007)	(38,488)	(140,000)	(70,476)
Net loss applicable to common shares	(76,805)	(38,488)	(147,022)	(70,476)
Net loss per common share - basic and diluted	$ (0.83)	$ (0.43)	$ (1.60)	$ (0.79)

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.

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)	JUNE 30, 2007	DECEMBER 30, 2006
7% Senior Secured Notes, $350,000 due 2010, net of unamortized discount and fair value of warrants of $60,506 and $69,325 at June 30, 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	$ 289,494	$ 280,675
Wireless spectrum leases, weighted average imputed interest rates of 9.59% and 8.43% at June 30, 2007 and December 30, 2006, respectively, scheduled maturities ranging from 2011 through 2036, net of unamortized discounts of $19,901 and $9,758 at June 30, 2007 and December 30, 2006, respectively, with three to five renewal options ranging from 10 to 15 years each.	23,644	20,091
9.08% note, due June 1, 2009, principal and interest of $214 payable monthly, net of		

unamortized discount of $214, secured by $24,139 in assets held by GO Networks	4,544	--
Other	336	329
Total long-term obligations	318,018	301,095
Less current portion	(6,093)	(3,065)
Long-term portion	$ 311,925	$ 298,030

Payments due on these obligations during each of the five years subsequent to June 30, 2007 are as follows:

(in thousands)	
Fiscal Years:	
2007 (remaining six months)	$ 1,464
2008	6,202
2009	5,214
2010	353,429
2011	3,246
Thereafter	29,084
	398,639
Less unamortized discount	(80,621)
Less current portion	(6,093)
Total long-term obligations	$311,925

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 June 30, 2007, NextWave has become liable for additional indebtedness totaling $13.9 million.

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 six months ended June 30, 2007, warrants to purchase 0.7 million shares of common stock were exercised and at June 30, 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 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.

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 United States 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 the three and six months ended June 30, 2007, NextWave's effective tax rate was 0.37% and 0.36%, respectively. For the three and six months ended June 30, 2007, NextWave recorded a provision for income taxes of $0.2 million and $0.4 million, respectively.

NextWave adopted Financial Interpretation Number 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on December 31, 2006, the beginning of its 2007 fiscal year. The adoption of FIN 48 did not have an effect on NextWave's effective income tax rate for the three and six months ended June 30, 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 48. Should any unrecognized benefits arise in future, NextWave will determine its policy for recording interest and penalties on such unrecognized tax benefits at that time.

NextWave did not generate any unrecognized tax benefits during the three and six months ended June 30, 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.

As of June 30, 2007, NextWave is not subject to any 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

Pending Business Investments

During the three months ended June 30, 2007, NextWave's majority-owned subsidiary, Inquam Broadband GmbH, loaned to WiMAX Telecom AG a total of $0.9 million, which is included in prepaid and other current assets in the consolidated balance sheet at June 30, 2007.

Services and Other Agreements

NextWave enters into non-cancelable 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. The services agreements contain provisions for minimum commitments based on the number of team members and their respective billing rates. At June 30, 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 six months)	$ 9,209
2008	11,310
2009	2,474
2010	2,700
2011	4,361
Total	$ 30,054

Capital Expenditures

In connection with its acquisition of an office building in Henderson, Nevada, and its lease facilities in San Diego, California, NextWave entered into agreements in 2007 for the construction of interior improvements aggregating $5.2 million, of which $3.1 remains to be paid under these contracts at June 30, 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 in 2012. Future minimum lease payments under noncancellable operating leases, net of sublease rentals at June 30, 2007, are as follows:

(in thousands)	LEASE COMMITMENTS	SUBLEASE RENTALS	NET
Fiscal Years:			
2007 (remaining six months)	$ 4,919	$ (117)	$ 4,802
2008	9,261	(198)	9,063
2009	7,934	--	7,934
2010	6,676	--	6,676
2011	4,459	--	4,459
Thereafter	1,782	--	1,782
	$ 35,031	$ (315)	$ 34,716

LEGAL PROCEEDINGS

From time to time, NextWave is a party to various legal proceedings that 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. REDEEMABLE 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 92.6 million were issued and outstanding at June 30, 2007, including 0.2 million restricted shares. At June 30, 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	32,756
Stock options:	
Granted and outstanding	17,765
Available for future grants	16,226
Warrants	2,436

Contingently issuable shares under advisory contract	833
	70,016

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 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 2010.

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 future strategic acquisitions.

DIVIDEND RIGHTS. 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 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, fails to file a shelf registration statement with the Securities and Exchange Commission on or prior to July 31, 2007, or fails to cause the shelf registration statement 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 $6.7 million and $7.0 million in undeclared dividends during the three and six months ended June 30, 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 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 June 30, 2007, the liquidation preference totaled $362.0 million. If all shares of Series A Preferred Stock were converted at June 30, 2007, NextWave would be obligated to issue 32.8 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 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 have been recorded as long-term liabilities in the consolidated balance sheet, reducing the reported value of the Series A Preferred Stock. At June 30, 2007, the estimated fair values of the embedded derivatives totaled $0.4 million, resulting in a charge to other income and expense of $0.2 million during the three and six months ended June 30, 2007. Any subsequent changes in the estimated fair values of the embedded derivative will be reflected in future statements of operations as other income and expense in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

9. EQUITY COMPENSATION PLANS

During the six months ended June 30, 2007, NextWave added four 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 for $6.00 per share was issued for every six options to purchase shares of common stock of PacketVideo under the PacketVideo 2005 Equity Incentive Plan. The exchange of 1,566,000 options was accounted for as a modification under SFAS 123(R) in which the fair value of the new options at the date of exchange was less than the fair value of the options exchanged immediately before the exchange, resulting in no incremental share-based compensation expense.

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, performance-based, 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 three separate revenue milestones to be measured at January 1 of each of 2008, 2009 and 2010.

In May 2007, NextWave shareholders 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 June 30, 2007, NextWave may issue up to $5.0 million in shares of NextWave common stock under the GO plan, $7.0 million in shares of common stock under the IPWireless plan and an aggregate of 33,991,000 shares of common stock under its remaining plans, of which 17,765,000 are granted and outstanding options and 16,226,000 are available for future grants.

The following table summarizes the status of stock options issued under these plans at June 30, 2007, and activity during the six months ended June 30, 2007:

	OPTIONS (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding at December 30, 2006	10,934	$6.20
Granted	5,976	$9.78
Exercised	(272)	$5.69
PacketVideo options exchanged	1,566	$6.00
Canceled	(439)	$7.47
Outstanding at June 30, 2007	17,765	$7.37
Exercisable at June 30, 2007	10,394	$5.96

Employee Share-Based Compensation

NextWave recognized employee share-based compensation expense from stock options of $1.5 million and $2.3 million for the three and six months ended June 30, 2007, respectively, and $1.7 million for the three and six months ended July 1, 2006, under the provisions of SFAS 123(R).

NextWave utilized the Black-Scholes valuation model for estimating the fair value of NextWave stock awards to employees at the date of grant or modification, with the following assumptions:

	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JULY 1, 2006
Risk-free interest rate	4.54%-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	$4.01	$2.17

Total compensation cost of options granted to employees that were not yet vested as of June 30, 2007, was $21.7 million, which is expected to be recognized over a weighted average period of 3.4 years.

In May 2007, NextWave granted 0.2 million unrestricted bonus shares to employees as additional compensation in lieu of annual cash bonuses. The fair value of the shares on the date of grant was $9.22 per share, representing $2.3 million in compensation expense that was recognized during the three months ended June 30, 2007.

NON-EMPLOYEE SHARE-BASED COMPENSATION

Share-based compensation expense for non-employee options, warrants and restricted shares totaled $0.5 million and $1.2 million during the three and six months ended June 30, 2007, respectively, and $0.4 million and $0.7 million during the three and six months ended July 1, 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 balance sheet reporting date, using the Black-Scholes option-pricing model based on the following weighted average assumptions applied during the six months ended June 30, 2007 and July 1, 2006:

	OPTIONS	WARRANTS	RESTRICTED COMMON SHARES
SIX MONTHS ENDED JUNE 30, 2007:			
Risk-free interest rate	4.56%-5.14%	5.00%	4.48%-4.95%
Expected life (in years)	6.0-9.9	3.0	0.5-4.0
Weighted average expected stock price volatility	50%	50%	50%
Expected dividend yield	0%	0%	0%
Weighted average fair value of awards	$5.54	$4.18	$3.96
SIX MONTHS ENDED JULY 1, 2006:			
Risk-free interest rate	not applicable	5.08%-5.09%	not applicable
Expected life (in years)	not applicable	3.0-4.0	not applicable
Expected stock price volatility	not applicable	50%	not applicable
Expected dividend yield	not applicable	0%	not applicable
Weighted average fair value of awards	not applicable	$2.50	not applicable

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 $3.1 million at June 30, 2007, and will be charged to results of operations with an offsetting increase to additional paid-in capital in the consolidated balance sheet over a weighted average period of two years.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information is as follows:

(in thousands)	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JULY 1, 2006
Cash paid for income taxes	$ 169	$ 55
Cash paid for interest	12,404	--
Noncash investing and financing activities:		
Wireless spectrum licenses acquired with lease obligations	5,222	2,478
Equity interests issued for business acquisitions	74,522	1,558

11. SUBSEQUENT EVENTS

In July 2007, NextWave signed a definitive agreement to acquire all shares of IPMobile, a Tokyo-based telecommunications company, held by Mori Trust Co., Ltd., of Japan for $0.7 million. The transaction closed on August 8, 2007. The acquired shares represent a 69.2% interest in IPMobile. In October 2007, IPMobile will be required to pay an annual spectrum usage tax totaling approximately $5.6 million which is anticipated to be funded by NextWave.

In July 2007, NextWave's majority owned subsidiary Inquam Broadband GmbH acquired a 65% controlling interest in WiMAX Telecom AG, located in Zurich, Switzerland, for $11.8 million. WiMAX Telecom AG 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. In connection with the investment, Inquam Broadband GmbH holds an exclusive and irrevocable call option, which expires in December 2007, to purchase the shares held by the remaining shareholders for 3.6 million Euros, or $4.8 million. Conversely, the remaining shareholders of WiMAX Telecom AG hold an exclusive and irrevocable put option, which expires in December 2007, to sell their remaining interests to Inquam Broadband GmbH for 3.6 million Euros, or $4.8 million.

In July 2007, NextWave entered into definitive agreements, subject to approval of the license transfers from the FCC, to lease spectrum located in California and Illinois for an aggregate payment of $20.5 million, plus subsequent lease payments approximating $0.8 million annually through 2017. The leases expire on various dates through 2017 and each provides for three consecutive 10-year renewals.

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

SECOND QUARTER OF 2007 HIGHLIGHTS

- Our revenues, net loss and net loss applicable to common shares for the second quarter of 2007 totaled $12.8 million, $65.3 million and $72.1 million, or $0.81 per share, respectively, compared to $6.3 million, $22.7 million, $22.7 million, or $0.28 per share, respectively, for the second quarter of 2006.

- Our revenues, net loss and net loss applicable to common shares for the first six months of 2007 totaled $20.6 million, $114.7 million and $121.7 million, or $1.41 per share, respectively, compared to $10.2 million, $38.1 million, $38.1 million, or $0.47 per share, respectively for the first six months of 2006.

- On May 11, 2007, we acquired all of the equity interests in IPWireless, Inc., for $99.6 million, which includes cash and common shares paid to the equity interests holders totaling $25.7 million and $74.5 million, respectively, closing costs of $3.2 million, less cash acquired of $3.8 million. Additional cash and stock consideration of up to $135.0 million may be payable based upon the achievement by IPWireless, Inc. of certain revenue milestones between 2007 and 2009.

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.

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.

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 are currently available. 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:

- 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;

- Improve the performance, power consumption and cost characteristics of WiMAX subscriber terminals;

- 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

- 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 Henderson, 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 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 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.

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

EFFECT OF RESTATEMENT. On March 23, 2007, we announced that our unaudited financial statements for the quarterly periods ended April 1, 2006, July 1, 2006 and September 30, 2006 should no longer be relied upon as a result of required corrections in revenue recognition under certain software contracts of our PacketVideo subsidiary and in the deferral of certain engineering costs at PacketVideo. More specifically, we determined that we were incorrectly deferring engineering design, maintenance and support and royalty revenues on contracts where post-contract customer support ("PCS") was required and no separate objective evidence of its fair value, specific to PacketVideo, existed for the PCS. We also determined that we had incorrectly deferred certain technology costs prior to achieving technological feasibility. The change has been made to defer revenue and related costs determined to the PCS portion of the contract and to expense previously capitalized engineering costs. Subsequently, we amended our quarterly report filed on Form 10-Q for the quarterly period ended 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. 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 in Item 4 of this Form 10-Q. 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 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 fiscal 2006 comparative periods presented in this Form 10-Q reflect the previously announced restatement adjustments as reflected in our Form 10-K for the year ended December 30, 2006.

SECOND QUARTER OF 2007 COMPARED TO THE SECOND QUARTER OF 2006

REVENUES. Revenues for the second quarter of 2007 were $12.8 million compared to $6.3 million for second quarter of 2006, an increase of $6.5 million. The increase in revenue resulted primarily from revenues from our infrastructure products sold by IPWireless, which accounted for $5.0 million of the increase in comparison to the second quarter of 2006. PacketVideo accounted for the remaining $1.5 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.

Sales to Verizon Wireless Communications and T-Mobile International accounted for 41% and 36%, respectively, of our revenues during the three months ended June 30, 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. We believe that PacketVideo will continue to account for a substantial portion of our revenues in 2007 in addition to our newly acquired subsidiaries, IPWireless and GO Networks. Following the development and 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.

	THREE MONTHS ENDED		
(in millions)	JUNE 30, 2007	JULY 1, 2006	INCREASE (DECREASE)
Cost of revenues	$ 10.5	$ 2.6	$ 7.9
Engineering, research and development	34.4	13.3	21.1
General and administrative	21.8	12.2	9.6
Sales and marketing	5.6	2.5	3.1
Purchased in-process research and development	--	1.6	(1.6)
Total operating expenses	$ 72.3	$ 32.2	$ 40.1

COST OF REVENUES. Cost of revenues from our products sold by IPWireless, which we acquired in May 2007, accounted for $6.6 million of the increase during the second 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 $1.3 million of the increase during the second quarter of 2007, includes higher amortization expenses of $0.2 million for the purchase of intangible assets related to our 2006 business acquisitions. Cost of revenues 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.

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 second quarter of 2007 were $22.8 million compared to $10.5 million for the second quarter of 2006, an increase of $12.3 million which is due primarily to the expansion of the engineering development organization.

Our acquisitions of our infrastructure products subsidiaries, GO Networks in February 2007 and IPWireless in May 2007, accounted for $5.5 million of the increase during the second quarter of 2007.

Costs for the internal and external development of our PacketVideo software for the second quarter of 2007 were $6.0 million compared to $2.8 million for the second quarter of 2006, an increase of $3.2 million, which is due primarily to 2006 and 2007 acquisitions by PacketVideo and an increase in headcount in the engineering development organization.

Share-based compensation expense for the second quarters of 2007 and 2006 totaled $0.9 million and $0.7 million, respectively.

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. Cost of general and administrative expenses increased $9.6 million during the second quarter of 2007, primarily due to increased spending for compensation and associated costs of general and

administrative personnel of $5.5 million, professional fees of $1.6 million, amortization of intangible assets of $2.8 million, offset by lower share-based compensation of $0.3 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.

SALES AND MARKETING. Costs of sales and marketing increased $3.1 million during the second quarter primarily due to increased spending for compensation and associated costs for marketing and sales personnel of $2.5 million, expenses associated with marketing and promotional activities of $0.5 million and amortization of intangible assets of $0.1 million.

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. In conjunction with one of our acquisitions during the second quarter of 2006 we purchased in-process research and development projects valued at $1.6 million which was expensed upon the completion of the purchased intangible asset valuation as the acquired technology had not yet reached technological feasibility and had no future alternative uses.

INTEREST INCOME. Interest income for the second quarter of 2007 was $5.4 million compared to $3.2 million for the second quarter of 2006, an increase of $2.2 million, and consisted of interest earned during the respective periods on our unrestricted and restricted cash and investment balances, which totaled $431.2 million and $340.4 million at June 30, 2007 and July 1, 2006, respectively.

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

INTEREST EXPENSE. Interest expense for the second quarter of 2007 was $11.4 million compared to $0.4 million for the second quarter of 2006, an increase of $11.0 million. Our issuance of $350.0 million in principal amount of 7% Senior Secured Notes in July 2006 accounted for $10.7 million of the increase. The remainder of the increase of $0.3 million consists primarily of the accretion of discounted wireless spectrum license lease liabilities acquired during 2007 and 2006.

Our interest expense will increase during 2007 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 and interest accreted on our newly acquired spectrum lease liabilities. Interest expense will also increase during 2007 from the assumption of a loan in connection with the acquisition of GO Networks, Inc.

PROVISION FOR INCOME TAXES. During the second 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 United States subsidiaries in relation to research and development expenses incurred. An income tax provision of $0.1 million was recorded during the second quarter of 2007 for these controlled foreign corporations. An income tax provision of $0.1 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.

MINORITY INTEREST. Minority interest for the second quarter of 2007 was $0.1 million compared to $0.2 million for second quarter of 2006. Minority interest represents our minority partner's share of losses to the extent of their capital contributions in our Inquam Broadband joint venture formed in January 2006.

FIRST SIX MONTHS OF 2007 COMPARED TO THE FIRST SIX MONTHS OF 2006

REVENUES. Revenues for the first six months of 2007 were $20.6 million compared to $10.2 million for first six months of 2006, an increase of $10.4 million. PacketVideo accounted for $5.3 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 subsidiary, IPWireless, accounted for the remaining $5.1 million increase in revenues.

Sales to Verizon Wireless Communications and T-Mobile International accounted for 54% and 22%, respectively, of our revenues during the six months ended June 30, 2007.

OPERATING EXPENSES.

	SIX MONTHS ENDED		
(in millions)	JUNE 30, 2007	JULY 1, 2006	INCREASE (DECREASE)
Cost of revenues	$ 14.2	$ 4.5	$ 9.7
Engineering, research and development	57.4	24.4	33.0
General and administrative	39.4	20.6	18.8
Sales and marketing	9.2	4.2	5.0
Purchased in-process research and development	0.9	1.6	(0.7)
Total operating expenses	$ 121.1	$ 55.3	$ 65.8

COST OF REVENUES. Cost of revenues from our infrastructure products sold by IPWireless, which we acquired in May 2007, accounted for $6.7 million of the increase during the first six months of 2007.

The increase in cost of revenues for our PacketVideo subsidiary accounted for $3.0 million of the increase during the first six months of 2007 and includes higher amortization expenses of $0.4 million for the purchase of intangible assets related to our 2006 business acquisitions.

ENGINEERING, RESEARCH AND DEVELOPMENT. Costs for the internal and external development of our wireless broadband products and technologies, including our chipsets, for the first six months of 2007 were $40.5 million compared to $19.2 million for the first six months of 2006, an increase of $21.3 million which is due primarily to the expansion of the engineering development organization.

Our acquisitions of our infrastructure products subsidiaries, GO Networks in February 2007 and IPWireless in May 2007, accounted for $6.3 million of the increase during the first six months of 2007.

Costs for the internal and external development of our PacketVideo software for the first six months of 2007 were $10.6 million compared to $5.2 million for the first six months of 2006, an increase of $5.4 million, which is due primarily to 2006 and 2007 acquisitions by PacketVideo and an increase in headcount in the engineering development organization.

Share-based compensation expense for the first six months of 2007 and 2006 totaled $1.7 million and $0.9 million, respectively.

GENERAL AND ADMINISTRATIVE. Costs of general and administrative expenses increased $18.8 million during the first six months of 2007 primarily due to increased spending for compensation and associated costs of general and administrative personnel of $14.3 million, professional fees of $3.5 million, amortization of intangible assets of $0.6 million and higher losses in one of our equity investments of $0.4 million.

SALES AND MARKETING. Costs of sales and marketing increased $5.0 million during the first six months of 2007 primarily due to increased spending for compensation and associated costs for marketing and sales personnel of $4.4 million, expenses associated with marketing and promotional activities of $0.5 million and share-based compensation of $0.1 million.

PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT COSTS. In conjunction with our acquisition of SDC Secure Digital Container in January 2007 and one of our acquisitions during the second quarter of 2006 we purchased in-process research and development projects valued at $0.9 million and $1.6 million, respectively, which were expensed upon the completion of the respective purchased intangible asset valuations as the acquired technology had not yet reached technological feasibility and had no future alternative uses.

INTEREST INCOME. Interest income for the first six months of 2007 was $7.5 million compared to $6.4 million for the first six months of 2006, an increase of $1.1 million, and consisted of interest earned during the respective periods on our unrestricted and restricted cash and investment balances, which totaled $431.2 million and $340.4 million at June 30, 2007 and July 1, 2006, respectively.

INTEREST EXPENSE. Interest expense for the first six months of 2007 was $22.6 million compared to $0.7 million for the first six months of 2006, an increase of $21.9 million. Our issuance of $350.0 million in principal amount of

7% Senior Secured Notes in July 2006 accounted for $21.3 million of the increase. The remainder of the increase of $0.6 million consists primarily of the accretion of discounted wireless spectrum license lease liabilities acquired during 2007 and 2006.

PROVISION FOR INCOME TAXES. During the first six 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 United States subsidiaries in relation to research and development expenses incurred. An income tax provision of $0.1 million was recorded during the first six months of 2007 for these controlled foreign corporations. An income tax provision of $0.3 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 six months of 2007 was $1.0 million compared to $0.9 million for the first six months of 2006 and primarily represents our minority partner's share of losses to the extent of their capital contributions in our Inquam Broadband joint venture formed in January 2006.

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 $265.6 million at June 30, 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 $295.0 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 cash, cash equivalents and short-term investments at June 30, 2007 totaled $356.2 million.

The following table presents working capital, cash, cash equivalents and investments:

(in millions)	JUNE 30, 2007	MARCH 31, 2007	INCREASE (DECREASE) FOR THE THREE MONTHS ENDED JUNE 30, 2007	DECEMBER 30, 2006	INCREASE (DECREASE) FOR THE SIX MONTHS ENDED JUNE 30, 2007