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

Form 10-Q

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

For the quarterly period ended April 4, 2010

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 000-21507

POWERWAVE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

11-2723423
*(I.R.S. Employer
Identification No.)*

1801 E. St. Andrew Place, Santa Ana, CA 92705
(Address of principal executive offices, zip code)

(714) 466-1000
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:
Common Stock, Par Value \$.0001 NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller-reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of April 30, 2010, the registrant had 132,729,335 shares of Common Stock outstanding.

**POWERWAVE TECHNOLOGIES, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THREE MONTHS ENDED APRIL 4, 2010**

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CAUTIONARY STATEMENT RELATED TO FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements as defined within Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to revenue, revenue composition, market and economic conditions, demand and pricing trends, future expense levels, competition and growth prospects in our industry, trends in average selling prices and gross margins, product and infrastructure development, market demand and acceptance, the timing of and demand for next generation products, customer relationships, tax rates, employee relations, the timing of and cost savings from restructuring activities, restructuring charges, and the level of expected future capital and research and development expenditures. Such forward-looking statements are based on the beliefs of, estimates made by, and information currently available to Powerwave Technologies, Inc.'s ("Powerwave" or the "Company") management and are subject to certain risks, uncertainties and assumptions. Any other statements contained herein (including without limitation statements to the effect that Powerwave or management "estimates," "expects," "anticipates," "plans," "believes," "projects," "continues," "may," "will," "could," or "would" or statements concerning "potential" or "opportunity" or variations thereof or comparable terminology or the negative thereof) that are not statements of historical fact are also forward-looking statements. The actual results of Powerwave may vary materially from those expected or anticipated in these forward-looking statements. The realization of such forward-looking statements may be impacted by certain important unanticipated factors, including those discussed under Part I, Item 1A, Risk Factors. Because of these and other factors that may affect Powerwave's operating results, past performance should not be considered as an indicator of future performance, and investors should not use historical results to anticipate results or trends in future periods. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in this and other documents that Powerwave files from time to time with the Securities and Exchange Commission, including subsequent Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K.

HOW TO OBTAIN POWERWAVE SEC FILINGS

All reports filed by Powerwave with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by the Company with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Powerwave also provides copies of its Forms 8-K, 10-K, 10-Q, Proxy Statement Annual Report, and amendments thereto, at no charge to investors upon request and makes electronic copies of its most recently filed reports available through its website at www.powerwave.com as soon as reasonably practicable after filing such material with the SEC.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

POWERWAVE TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	<u>April 4, 2010</u>	<u>January 3, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,030	\$ 60,439
Restricted cash	2,542	2,600
Accounts receivable, net of allowance for sales returns and doubtful accounts of \$7,029 and \$8,349, respectively	111,938	142,949
Inventories	59,832	60,544
Prepaid expenses and other current assets	29,569	21,334
Deferred income taxes	6,449	6,449
Total current assets	<u>273,360</u>	<u>294,315</u>
Property, plant and equipment, net	85,392	89,883
Other assets	6,147	5,654
TOTAL ASSETS	<u><u>\$ 364,899</u></u>	<u><u>\$ 389,852</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 72,399	\$ 81,830
Accrued payroll and employee benefits	10,487	11,322
Accrued restructuring costs	1,148	1,803
Accrued expenses and other current liabilities	21,363	23,946
Total current liabilities	<u>105,397</u>	<u>118,901</u>
Long-term debt	275,251	268,983
Other liabilities	1,332	1,356
Total liabilities	<u>381,980</u>	<u>389,240</u>
Commitments and contingencies (Notes 8 and 9)		
Shareholders' equity (deficit):		
Preferred Stock, \$0.0001 par value, 5,000,000 shares authorized and no shares issued or outstanding	—	—
Common Stock, \$0.0001 par value, 250,000,000 shares authorized, 132,724,835 and 132,357,287 shares issued and outstanding, respectively	820,866	825,354
Accumulated other comprehensive income	8,135	10,522
Accumulated deficit	<u>(846,082)</u>	<u>(835,264)</u>
Net shareholders' equity (deficit)	<u>(17,081)</u>	<u>612</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	<u><u>\$ 364,899</u></u>	<u><u>\$ 389,852</u></u>

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

POWERWAVE TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended	
	April 4, 2010	March 29, 2009
Net sales	\$ 114,473	\$ 149,745
Cost of sales:		
Cost of goods	84,641	114,962
Intangible asset amortization	—	623
Restructuring and impairment charges	21	1,408
Total cost of sales	84,662	116,993
Gross profit	29,811	32,752
Operating expenses:		
Sales and marketing	9,395	9,741
Research and development	14,276	15,147
General and administrative	11,274	12,099
Intangible asset amortization	—	327
Restructuring and impairment charges	346	1,498
Total operating expenses	35,291	38,812
Operating loss	(5,480)	(6,060)
Other income (expense), net	(3,575)	3,158
Loss before income taxes	(9,055)	(2,902)
Income tax provision	1,763	1,470
Net loss	\$ (10,818)	\$ (4,372)
Loss per share, basic and diluted:	\$ (0.08)	\$ (0.03)
Shares used in the computation of loss per share:		
Basic and diluted.....	132,423	131,491

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

POWERWAVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)
(In thousands)

	Three Months Ended	
	April 4, 2010	March 29, 2009
Net loss	\$ (10,818)	\$ (4,372)
Other comprehensive loss:		
Foreign currency translation adjustments, net of income taxes	(2,387)	(3,364)
Comprehensive loss	<u>\$ (13,205)</u>	<u>\$ (7,736)</u>

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

POWERWAVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended	
	April 4, 2010	March 29, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,818)	\$ (4,372)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	4,637	4,749
Amortization	1,671	2,368
Non-cash restructuring and impairment charges	367	2,906
Provision for sales returns and doubtful accounts	110	1,848
Provision for excess and obsolete inventories	2,427	694
Compensation costs related to stock-based awards	965	899
Gain on repurchase of convertible debt	—	(3,368)
Gain on exchange of convertible debt	(484)	—
Gain on disposal of property, plant and equipment	(91)	17
Gain on settlement of litigation	—	(645)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable.....	29,250	33,477
Inventories	(3,197)	5,387
Prepaid expenses and other current assets	(8,978)	(952)
Accounts payable.....	(8,231)	(30,835)
Accrued expenses and other current liabilities	(3,795)	(6,178)
Other non-current assets	(78)	585
Other non-current liabilities.....	(3)	(76)
Net cash provided by operating activities.....	3,752	6,504
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment.....	(636)	(1,687)
Restricted cash	58	583
Proceeds from the sale of property, plant and equipment.....	136	—
Acquisitions, net of cash acquired	—	1,960
Net cash provided by (used in) investing activities.....	(442)	856
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	(1,261)	—
Proceeds from stock-based compensation arrangements	379	131
Repurchase of common stock	(4)	—
Retirement of long-term debt.....	—	(1,345)
Net cash used in financing activities	(886)	(1,214)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	167	(500)
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	2,591	5,646
CASH AND CASH EQUIVALENTS, beginning of period.....	60,439	46,906
CASH AND CASH EQUIVALENTS, end of period.....	\$ 63,030	\$ 52,552
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for:		
Interest expense	\$ 3,036	\$ 126
Income taxes	\$ 4,608	\$ 1,559
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Unpaid purchases of property and equipment.....	\$ 323	\$ 660
Exchange of 1.875% Convertible Subordinated Notes due 2024 (see Note 4).....	\$ 60,000	\$ —

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

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

Note 1. Nature of Operations

Powerwave Technologies Inc. (the “Company”) is a global supplier of end-to-end wireless solutions for wireless communications networks. The Company designs, manufactures and markets antennas, boosters, combiners, cabinets, shelters, filters, radio frequency power amplifiers, repeaters, tower-mounted amplifiers, remote radio head transceivers and advanced coverage solutions for use in cellular, PCS, 3G and 4G networks throughout the world.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include certain footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America for complete financial statements. The interim financial information is unaudited; however, it reflects all normal adjustments and accruals which are in the opinion of management considered necessary to provide a fair presentation for the interim periods presented. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The results of operations for the interim periods are not necessarily indicative of the results to be expected for the future quarters or full year ending January 2, 2011, (“fiscal 2010”). The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Amendment No. 1 to Annual Report on Form 10-K for the fiscal year ended January 3, 2010.

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued an update to Accounting Standards Codification (ASC) Topic 605, “*Revenue Recognition*.” This Accounting Standards Update (ASU) No. 2009-13, “*Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force*,” provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management’s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previous accounting guidance required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. This was difficult to determine when the product was not individually sold because of its unique features. Under previous accounting guidance, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined.

In October 2009, the FASB issued an update to ASC Topic 985, “*Software*.” This ASU No. 2009-14, “*Software – Certain Revenue Arrangements that Include Software Elements*,” modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that functions together to deliver a product’s essential functionality. These new updates are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the potential impact of these standards on its business, financial condition and results of operations.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with accounting guidance now codified as ASC Topic 718, “*Compensation – Stock Compensation*.” Under the fair value recognition provision of ASC Topic 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option pricing model and a multiple option award approach. The fair value of restricted stock awards is based on the closing market price of the Company’s common stock on the date of grant. Stock-based compensation, adjusted for estimated forfeitures, is amortized on a straight-line basis over the requisite service period of the award, which is generally the vesting period.

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

Stock-based compensation expense was recognized as follows in the consolidated statement of operations (in thousands):

	Three Months Ended	
	April 4, 2010	March 29, 2009
Cost of sales	\$ 107	\$ 267
Sales and marketing expenses	38	90
Research and development expenses.....	191	247
General and administrative expenses	629	295
Increase to operating loss before income taxes	965	899
Income tax benefit recognized	—	—
Increase to net loss	\$ 965	\$ 899
Increase to net loss per share:		
Basic and diluted.....	\$ 0.01	\$ 0.01

As of April 4, 2010, unrecognized compensation expense related to the unvested portion of the Company's stock-based awards and employee stock purchase plan was approximately \$2.9 million, net of estimated forfeitures of \$0.2 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The Black-Scholes-Merton option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation methods require the input of highly subjective assumptions including the weighted average risk-free interest rate, the expected life, and the expected stock price volatility. The weighted average risk-free interest rate was determined based upon actual U.S. treasury rates over a one to ten year horizon and the actual life of options granted. The Company grants options with either a five year or ten year life. The expected life is based on the Company's actual historical option exercise experience. For the employee stock purchase plan, the actual life of 6 months is utilized in this calculation. The expected life was determined based upon actual option grant lives over a 10 year period. The Company has utilized various market sources to calculate the implied volatility factor utilized in the Black-Scholes-Merton option valuation model. These included the implied volatility utilized in the pricing of options on the Company's Common Stock as well as the implied volatility utilized in determining market prices of the Company's outstanding convertible notes. Using the Black-Scholes-Merton option valuation model, the estimated weighted average fair value of options granted during the first quarter of fiscal years 2010 and 2009 were \$0.66 per share and \$0.43 per share, respectively.

The fair value of options granted under the Company's stock incentive plans during the first quarter of 2010 and 2009 was estimated on the date of grant according to the Black-Scholes-Merton option-pricing model utilizing the multiple option approach and the following weighted-average assumptions:

	Three Months Ended	
	April 4, 2010	March 29, 2009
Weighted average risk-free interest rate	2.5 %	1.7 %
Weighted average expected life (in years).....	3.3	3.2
Expected stock volatility	68 %	148 %
Dividend yield	None	None

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

Note 3. Supplemental Balance Sheet Information

Inventories

Net inventories are as follows:

	<u>April 4, 2010</u>	<u>January 3, 2010</u>
Parts and components.....	\$ 25,725	\$ 27,937
Work-in-process.....	2,767	1,363
Finished goods.....	31,340	31,244
Total inventories.....	<u>\$ 59,832</u>	<u>\$ 60,544</u>

Inventories are net of an allowance for excess and obsolete inventory of approximately \$24.2 million and \$22.6 million as of April 4, 2010 and January 3, 2010, respectively.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are as follows:

	<u>April 4, 2010</u>	<u>January 3, 2010</u>
Accrued warranty costs.....	\$ 6,752	\$ 7,038
Other accrued expenses and other current liabilities.....	14,611	16,908
Total accrued expenses and other current liabilities.....	<u>\$ 21,363</u>	<u>\$ 23,946</u>

Warranty

Accrued warranty costs are as follows:

<u>Description</u>	<u>Three Months Ended</u>	
	<u>April 4, 2010</u>	<u>March 29, 2009</u>
Warranty reserve beginning balance.....	\$ 7,038	\$ 10,763
Reductions for warranty costs incurred.....	(3,089)	(2,501)
Warranty accrual related to current period sales.....	2,803	1,444
Effect of exchange rates.....	—	(2)
Warranty reserve ending balance.....	<u>\$ 6,752</u>	<u>\$ 9,704</u>

Note 4. Financing Arrangements and Long-Term Debt

Long-term debt

	<u>April 4, 2010</u>	<u>January 3, 2010</u>
3.875% Convertible Subordinated Notes due 2027.....	\$ 150,000	\$ 150,000
1.875% Convertible Subordinated Notes due 2024.....	70,887	130,887
1.875% Convertible Senior Subordinated Notes due 2024.....	60,000	—
Subtotal.....	280,887	280,887
Less unamortized discount.....	(5,636)	(11,904)
Total long-term debt.....	<u>\$ 275,251</u>	<u>\$ 268,983</u>

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

On March 15, 2010, the Company completed separate privately negotiated exchange agreements under which \$60.0 million in aggregate principal amount of its outstanding 1.875% Convertible Subordinated Notes due 2024 (the “Existing Notes”) were exchanged for \$60.0 million in aggregate principal amount of new 1.875% Convertible Senior Subordinated Notes due 2024 (the “New Notes”). The New Notes were issued under an Indenture between the Company, as issuer, and Deutsche Bank Trust Company Americas, as trustee (the “Indenture”). The New Notes are convertible into the Company’s common stock at a conversion price of \$1.70 per share and accrue interest at an annual rate of 1.875%, which is payable semi-annually on June 15 and December 15 of each year commencing on June 15, 2010. Holders may convert the New Notes at any time prior to the maturity date, which is November 15, 2024. The Company may redeem the notes beginning on November 21, 2012. Holders of the notes may require the Company to repurchase all or a portion of their notes for cash on November 15, 2013, 2014 and 2019 at 100% of the principal amount of the notes, plus accrued and unpaid interest up to but not including the date of such repurchase. The Company may elect to automatically convert the New Notes in whole or in part at any time on or prior to the maturity date if the closing price of the Company’s Common Stock has exceeded 125% of the conversion price then in effect for at least 20 trading days in any 30 day trading period. However, if the Company elects to automatically convert the New Notes in this manner, it must make a cash payment to each holder in an amount equal to the aggregate interest payments that would have been payable on the New Notes from the last day through which interest was paid through November 15, 2011, discounted at the interest rate of US Treasury bonds with an equivalent remaining term to November 15, 2011. Holders of the New Notes may also require the Company to repurchase all or a portion of their New Notes in the case of a change in control, as defined in the Indenture. In the event of a repurchase of the New Notes as a result of a change in control, under certain circumstances, the Company may be obligated to issue additional shares to holders as a “make-whole premium” on the New Notes, which share amounts are set forth in a table to the Indenture. The Indenture was not qualified under the Trust Indenture Act and the Company does not expect to qualify the Indenture.

The exchange was accounted for as an extinguishment of the Existing Notes. The difference between the fair value of the Existing Notes and the carrying amount of the Existing Notes, which included approximately \$5.0 million in unamortized debt discount, was recorded as a gain on extinguishment of convertible debt of \$0.5 million, net of unamortized debt issuance costs of \$0.3 million in the accompanying Consolidated Statement of Operations. In addition, \$5.8 million was allocated to the extinguishment of the equity component of the Existing Notes, and was recorded as a reduction to common stock in the accompanying Consolidated Balance Sheet.

The following tables provide additional information about the Company’s Existing Notes that are subject to accounting guidance now codified as ASC Topic 470-20, “*Debt with Conversion and Other Options*”:

	<u>April 4, 2010</u>	<u>January 3, 2010</u>
Carrying amount of equity component.....	\$ 49,703	\$ 55,529
Liability component:		
Principal amount.....	70,887	130,887
Unamortized discount.....	(5,636)	(11,904)
Net carrying amount.....	<u>\$ 65,251</u>	<u>\$ 118,983</u>

	<u>Three Months Ended</u>	
	<u>April 4, 2010</u>	<u>March 29, 2009</u>
Effective interest rate on liability component	7.07 %	7.07 %
Contractual interest expense recognized	\$ 520	\$ 733
Amortization of the discount on liability component	\$ 1,268	\$ 1,667

The unamortized discount will be recognized using the effective interest method through November 15, 2011. As of April 4, 2010, the if-converted value of the Existing Notes did not exceed the principal amount.

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

Credit Agreement

On April 3, 2009, the Company entered into a Credit Agreement (the “Credit Agreement”), with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC) (“Wells Fargo”), as arranger and administrative agent and the lenders named therein (the “Lenders”). Pursuant to the Credit Agreement, the Lenders made available to the Company a senior secured revolving credit facility up to a maximum of \$50.0 million. Availability under the Credit Agreement is based on the calculation of the Company’s borrowing base as defined in the Credit Agreement. The Credit Agreement is secured by a first priority security interest on a majority of the Company’s assets, including without limitation, all accounts, equipment, inventory, chattel paper, records, intangibles, deposit accounts and cash and cash equivalents. The Credit Agreement expires on August 15, 2011. The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and acquisitions and dispositions of assets. The Credit Agreement also includes financial covenants including minimum EBITDA and maximum capital expenditures that are applicable only if the availability under the Company’s line of credit falls below \$20.0 million.

On March 11, 2010, the Company entered into Amendment Number Two to the Credit Agreement with Wells Fargo, which amendment updated the Credit Agreement to make appropriate references to and provisions for the New Notes.

On April 1, 2010, the Company entered into a Waiver, Amendment Number Three to Credit Agreement and Amendment Number Two to Security Agreement with Wells Fargo. This amendment amends certain provisions of the Credit Agreement and Security Agreement entered into on April 3, 2009, by and among the Company, the Lenders and Wells Fargo. The amendment waives certain technical defaults under the Credit Agreement relating to the Company’s obligation to deliver certain reports. In addition, the amendment makes minor changes to certain defined terms and modifies the thresholds for certain covenants.

As of April 4, 2010, the Company is in compliance with all covenants. As of April 4, 2010, the Company had approximately \$31.7 million of availability under the Credit Agreement, of which approximately \$5.3 million was utilized by outstanding letters of credit.

Note 5. Restructuring and Impairment Charges

2009 Restructuring Plan

In January 2009, the Company formulated and began to implement a plan to further reduce manufacturing overhead costs and operating expenses. As part of this plan, the Company initiated personnel reductions in both its domestic and foreign locations, with primary reductions in the United States, Finland and Sweden. These reductions were undertaken in response to current economic conditions and the global macro-economic slowdown that began in the fourth quarter of 2008. The Company finalized this plan in the fourth quarter of 2009; however, additional amounts may be accrued in 2010 related to actions associated with this plan.

A summary of the activity affecting its accrued restructuring liability related to the 2009 Restructuring Plan for the first quarter of 2010 is as follows:

	Workforce Reductions	Facility Closures & Equipment Write-downs	Total
Balance at January 3, 2010.....	\$ 501	\$ —	\$ 501
Amounts accrued.....	264	103	367
Amounts paid/incurred.....	(415)	(103)	(518)
Effects of exchange rates	1	—	1
Balance at April 4, 2010.....	<u>\$ 351</u>	<u>—</u>	<u>351</u>

The costs associated with these exit activities were recorded in accordance with the accounting guidance now codified as ASC Topic 420, “Exit or Disposal Obligations.” Pursuant to this guidance, a liability for a cost associated with an exit or disposal activity shall be recognized in the period in which the liability is incurred, except for a liability for one-time employee termination benefits that is incurred over time. In the unusual circumstance in which fair value cannot be reasonably estimated, the liability shall be recognized initially in the period in which fair value can be reasonably estimated.

POWERWAVE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Tabular amounts in thousands, except per share data)

The restructuring and integration plan is subject to continued future refinement as additional information becomes available. The Company expects that the workforce reduction amounts will be paid through the second quarter of 2011.

2008 Restructuring Plan

In June 2008, the Company formulated and began to implement a plan to further consolidate operations and reduce manufacturing and operating expenses. As part of this plan, the Company closed its Salisbury, Maryland manufacturing facility and transferred most of the production to its other manufacturing operations. In addition, the Company closed its design and development center in Bristol, UK and discontinued manufacturing operations in Kempele, Finland. These actions were finalized in the first quarter of 2009.

A summary of the activity affecting its accrued restructuring liability related to the 2008 Restructuring Plan for the first quarter of 2010 is as follows:

	Workforce Reductions	Facility Closures & Equipment Write-downs	Total
Balance at January 3, 2010.....	\$ 177	\$ 334	\$ 511
Amounts accrued.....	—	—	—
Amounts paid/incurred.....	(114)	(181)	(295)
Effects of exchange rates	5	10	15
Balance at April 4, 2010.....	<u>\$ 68</u>	<u>\$ 163</u>	<u>\$ 231</u>

The costs associated with these exit activities were recorded in accordance with the accounting guidance in ASC Topic 420. The restructuring and integration plan is subject to continued future refinement as additional information becomes available. The Company expects that the workforce reductions will be paid out through the second quarter of 2010, and the facility closure amounts will be paid out over the remaining lease term, which extends through September 2010.

Integration of LGP Allgon and REMEC, Inc.'s Wireless Systems Business

The Company recorded liabilities in connection with the acquisitions for estimated restructuring and integration costs related to the consolidation of LGP Allgon's operations and REMEC, Inc.'s wireless systems business, including severance and future lease obligations on excess facilities. These estimated costs were included in the allocation of the purchase consideration and resulted in additional goodwill pursuant to the accounting guidance now codified as ASC Topic 805, "Business Combinations." The costs associated with these exit activities were recorded in accordance with the accounting guidance in ASC Topic 420. The implementation of the restructuring and integration plan is complete.

A summary of the activity affecting the accrued restructuring liability related to the integration of LGP Allgon's operations and REMEC, Inc.'s wireless systems business for the first quarter of 2010 is as follows:

	Facility Closures & Equipment Write-downs
Balance at January 3, 2010.....	\$ 791
Amounts accrued.....	—
Amounts paid/incurred.....	(225)
Effects of exchange rates	—
Balance at April 4, 2010.....	<u>\$ 566</u>

The Company expects that the facility closure amounts will be paid out over the remaining lease term which extends through January 2011.

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(Tabular amounts in thousands, except per share data)

Restructuring and Impairment Charges

In the first quarter of 2010, the Company incurred severance charges of \$0.3 million related to personnel reductions, primarily in the U.S. and France. The Company also recorded a charge of \$0.1 million for final closure costs related to a previously closed site.

In the first quarter of 2009, the Company recorded a charge of approximately \$0.8 million to write down the Salisbury, Maryland building to its fair value less the cost to sell. The Company also incurred severance charges of \$2.1 million related to personnel reductions primarily in the United States, Finland and Sweden.

Note 6. Other Income (Expense), Net

The components of other income (expense), net, are as follows:

	Three Months Ended	
	April 4, 2010	March 29, 2009
Interest income.....	\$ 44	\$ 398
Interest expense.....	(3,857)	(4,348)
Foreign currency gain (loss), net.....	(697)	2,821
Gain on repurchase of convertible debt.....	—	3,368
Gain on exchange of convertible debt.....	483	—
Other income, net.....	452	919
Total other income (expense), net.....	\$ (3,575)	\$ 3,158

Other income (expense), net, for the first quarter of 2010 includes a gain of approximately \$0.5 million related to the exchange of \$60.0 million in aggregate principal amount of the Company's outstanding 1.875% Convertible Subordinated Notes due 2024. Other income (expense), net, for the first quarter of 2009 includes a gain of approximately \$3.4 million related to the repurchase of \$5.4 million in aggregate par value of the Company's outstanding 1.875% Convertible Subordinated Notes due 2024 that were purchased at a discount. Included in interest expense are non-cash charges related to the amortization of debt issuance costs and debt discount of \$1.7 million and \$1.4 million for the first quarter of 2010 and 2009, respectively.

Note 7. Loss Per Share

In accordance with ASC Topic 260, "Earnings per Share," basic earnings (loss) per share is based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share is based upon the weighted average number of common and potential common shares for each period presented and income available to common stockholders is adjusted to reflect any changes in income or loss that would result from the issuance of the dilutive common shares. The Company's potential common shares include stock options under the treasury stock method and convertible subordinated debt under the if-converted method. Potential common shares of 61,766,334 and 31,190,392 related to the Company's stock option programs and convertible debt have been excluded from diluted weighted average common shares for the first quarter of 2010 and 2009, respectively, as the effect would be anti-dilutive.

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The following details the calculation of basic and diluted loss per share:

	Three Months Ended	
	April 4, 2010	March 29, 2009
Basic:		
Loss.....	\$ (10,818)	\$ (4,372)
Weighted average common shares.....	132,423	131,491
Basic loss per share.....	\$ (0.08)	\$ (0.03)
Diluted:		
Loss.....	\$ (10,818)	\$ (4,372)
Interest expense of convertible debt, net of tax.....	—	—
Loss, as adjusted.....	\$ (10,818)	\$ (4,372)
Weighted average common shares.....	132,423	131,491
Potential common shares.....	—	—
Weighted average common shares, as adjusted.....	132,423	131,491
Diluted loss per share.....	\$ (0.08)	\$ (0.03)

Note 8. Commitments and Contingencies

The Company is subject to legal proceedings and claims in the normal course of business. Although the outcome of legal proceedings is inherently uncertain presently, the Company anticipates that it will be able to resolve these matters in a manner that will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Note 9. Contractual Guarantees and Indemnities

During the normal course of its business, the Company makes certain contractual guarantees and indemnities pursuant to which the Company may be required to make future payments under specific circumstances. The Company has not recorded any liability for these contractual guarantees and indemnities in the accompanying consolidated financial statements. A description of significant contractual guarantees and indemnities existing as of April 4, 2010 is included below:

Intellectual Property Indemnities

The Company indemnifies certain customers and its contract manufacturers against liability arising from third-party claims of intellectual property rights infringement related to the Company's products. These indemnities appear in development and supply agreements with the Company's customers as well as manufacturing service agreements with the Company's contract manufacturers, are not limited in amount or duration and generally survive the expiration of the contract. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, the Company is unable to determine the maximum amount of losses that it could incur related to such indemnifications. Historically, any amounts payable pursuant to such intellectual property indemnifications have not had a material effect on the Company's business, financial condition or results of operations.

Director and Officer Indemnities and Contractual Guarantees

The Company has entered into indemnification agreements with its directors and executive officers which require the Company to indemnify such individuals to the fullest extent permitted by Delaware law. The Company's indemnification obligations under such agreements are not limited in amount or duration. Certain costs incurred in connection with such indemnifications may be recovered under certain circumstances under various insurance policies. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed against a director or executive officer, the Company is unable to determine the maximum amount of losses that it could incur relating to such indemnifications. Historically, any amounts payable pursuant to such director and officer indemnifications have not had a material negative effect on the Company's business, financial condition or results of operations.

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The Company has also entered into severance agreements and change in control agreements with certain of its executives. These agreements provide for the payment of specific compensation benefits to such executives upon the termination of their employment with the Company.

General Contractual Indemnities/Products Liability

During the normal course of business, the Company enters into contracts with customers where it has agreed to indemnify the other party for personal injury or property damage caused by the Company's products and in certain cases for damages resulting from a breach of the Company's product warranties. The Company's indemnification obligations under such agreements are not limited in duration and are generally not limited in amount. Historically, any amounts payable pursuant to such contractual indemnities have not had a material negative effect on the Company's business, financial condition or results of operations. The Company maintains product liability insurance as well as errors and omissions insurance which may provide a source of recovery to the Company in the event of an indemnification claim.

Other Guarantees and Indemnities

The Company occasionally issues guarantees for certain contingent liabilities under various contractual arrangements, including customer contracts, self-insured retentions under certain insurance policies, and governmental value-added tax compliance programs. These guarantees normally take the form of standby letters of credit issued by the Company's banks, which may be secured by cash deposits or pledges, or performance bonds issued by an insurance company. Historically, any amounts payable pursuant to such guarantees have not had a material negative effect on the Company's business, financial condition or results of operations. In addition, the Company, as part of the agreements to register the convertible notes it issued in March 2010, September 2007 and November 2004, agreed to indemnify the selling security holders against certain liabilities, including liabilities under the Securities Act of 1933. The Company's indemnification obligations under such agreements are not limited in duration and generally not limited in amount.

Note 10. Income Taxes

The Company provides for income taxes in interim periods based on the estimated effective income tax rate for the complete fiscal year. The income tax provision is computed on the pretax income of the consolidated entities located within each taxing jurisdiction based on current tax law. Deferred tax assets and liabilities are determined based on the future tax consequences associated with temporary differences between income and expenses reported for financial accounting and tax reporting purposes. A valuation allowance for deferred tax assets is recorded to the extent that the Company cannot determine that the ultimate realization of the net deferred tax assets is more likely than not.

Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment. The Company's judgment regarding future profitability may change due to many factors, including future market conditions and the Company's ability to successfully execute its business plans and/or tax planning strategies. These changes, if any, may require material adjustments to these deferred tax asset balances. Due to uncertainties surrounding the realization of the Company's cumulative federal and state net operating losses and other factors, the Company has recorded a valuation allowance against a portion of its gross deferred tax assets. For the foreseeable future, the Federal tax provision related to future earnings will be offset substantially by a reduction in the valuation allowance. Accordingly, current and future tax expense will consist primarily of certain required state income taxes and taxes in certain foreign jurisdictions.

In addition to unrecognized tax benefits, the Company has recorded valuation allowances against its net tax benefits in certain jurisdictions arising from net operating losses. On a quarterly basis, the Company reassesses the need for these valuation allowances based on operating results and its assessment of the likelihood of future taxable income and developments in the relevant tax jurisdictions. The Company continues to maintain a valuation allowance against its net deferred tax assets in the U.S. and various foreign jurisdictions in 2010 where the Company believes it is more likely than not that deferred tax assets will not be realized.

As of April 4, 2010, the liability for income taxes associated with uncertain tax positions was \$14.7 million, including accrued penalties, interest, and foreign currency fluctuations of \$0.4 million. Of this amount, \$6.2 million, if recognized, would affect the Company's effective tax rate. The Company records interest and penalties associated with income tax obligations as income tax expense. Such amounts were not material in the first quarter of 2010.

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As a result of the ongoing tax audits, the total liability for unrecognized tax benefits may change within the next twelve months due to either settlement of audits or expiration of statutes of limitations. As of April 4, 2010, the Company has concluded all United States federal income tax matters for years through 2006. All other material state, local and foreign income tax matters have been concluded for years through 2005.

Note 11. Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments has been determined using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value.

Cash and Cash Equivalents and Restricted Cash

The carrying amount approximates fair value because of the short maturity (less than 90 days) and high credit quality of these instruments.

Long-Term Debt

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the debt. The Company's long-term debt consists of convertible subordinated notes, which are not actively traded as an investment instrument and therefore, the quoted market prices may not reflect actual sales prices at which these notes would be traded.

The estimated fair values of the Company's financial instruments were as follows:

	April 4, 2010		January 3, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 63,030	\$ 63,030	\$ 60,439	\$ 60,439
Restricted cash	2,542	2,542	2,600	2,600
Long-term debt.....				
3.875% Convertible Subordinated Notes due 2027.....	\$ 150,000	\$ 105,938	\$ 150,000	\$ 99,000
1.875% Convertible Subordinated Notes due 2024.....	70,887	66,014	130,887	113,544
1.875% Convertible Senior Subordinated Notes due 2024	60,000	55,500	—	—
Subtotal.....	280,887		280,887	
Less unamortized discount.....	(5,636)		(11,904)	
Total long-term debt	\$ 275,251		\$ 268,983	

Note 12. Gain on Settlement of Litigation

As part of the Company's acquisition of REMEC, Inc's wireless systems business, \$15 million of the purchase price was held in escrow to cover any potential indemnification claims. In March 2009, the Company settled a dispute arising out of certain claims made against the escrow. As a result of this settlement, the Company received approximately \$2 million in cash. This payment was accounted for as an adjustment to the total consideration paid for this acquisition. As a result, the remaining net book value of the intangible assets and fixed assets acquired in this acquisition was eliminated and the Company recorded a net gain of approximately \$0.6 million. This amount is included in *other income (expense), net* in the accompanying consolidated statement of operations for the first quarter of 2009.

Note 13. Customer Concentrations

The Company's product sales have historically been concentrated in a small number of customers. For the first quarter of 2010 and 2009, sales to customers that accounted for 10% or more of revenues totaled \$46.0 million and \$53.6 million, respectively. For the first quarter of 2010, Nokia Siemens accounted for approximately 28% of total net sales and Samsung

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accounted for approximately 12% of total net sales. Nokia Siemens accounted for approximately 36% of total net sales for the first quarter of 2009.

As of April 4, 2010, approximately 35% of total accounts receivable related to customers that accounted for 10% or more of the Company's total revenue during the first quarter of 2010. For the first quarter of 2010, Nokia Siemens accounted for approximately 29% of total accounts receivable and Samsung accounted for approximately 6% of total accounts receivable. The inability to collect outstanding receivables from these customers or any other significant customers, the delay in collecting outstanding receivables within the contractual payment terms, or the loss of, or reduction in, sales to any of these customers could have a material adverse effect on the Company's business, financial condition and results of operations.

Note 14. Supplier Concentrations

Certain of the Company's products, as well as components utilized in such products, are available in the short-term only from a single or a limited number of sources. In addition, in order to take advantage of volume pricing discounts, the Company purchases certain customized components from single-source suppliers as well as finished products from single-source contract manufacturers. The inability to obtain single-source components or finished products in the amounts needed on a timely basis or at commercially reasonable prices has resulted in delays in product introductions, interruption in product shipments and increases in product costs, which have had a material adverse effect on the Company's business, financial condition and results of operations and may continue to do so until alternative sources could be developed at a reasonable cost.

Note 15. Segments and Geographic Data

The Company operates in one reportable business segment: "Wireless Communications." The Company's revenues are derived from the sale of wireless communications network products and coverage solutions, including antennas, boosters, combiners, cabinets, shelters, filters, radio frequency power amplifiers, repeaters, tower-mounted amplifiers and advanced coverage solutions for use in cellular, PCS, 3G and 4G wireless communications networks throughout the world.

The Company manufactures multiple product categories at its manufacturing locations and produces certain products at more than one location. With regards to sales, the Company sells its products through two major sales channels. The largest channel is the original equipment manufacturers channel, which consists of large global companies such as Alcatel-Lucent, Ericsson, Huawei, Motorola, Nokia Siemens and Samsung. The other major channel is direct to wireless network operators, such as AT&T, Bouygues, Clearwire, Orange, Sprint, T-Mobile, Verizon Wireless and Vodafone. A majority of the Company's products are sold to both sales channels. The Company maintains global relationships with most of the Company's customers. The Company's original equipment manufacturer customers normally purchase on a global basis and the sales to these customers, while recognized in various reporting regions, are managed on a global basis. For network operator customers, where they have a global presence, the Company typically maintains a global purchasing agreement. Individual sales are made on a regional basis.

The Company measures its performance by monitoring its net sales by product and consolidated gross margins, with a short-term goal of maintaining a positive operating cash flow while striving to achieve long-term operating profits.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included under Item 1, *Financial Statements (Unaudited)*. This discussion contains forward-looking statements, the realization of which may be impacted by certain important factors including, but not limited to, those discussed in *Risk Factors*, in Part II, Item 1A included herein.

Introduction and Overview

We are a global supplier of end-to-end wireless solutions for wireless communications networks. Our business consists of the design, manufacture, marketing and sale of products to improve coverage, capacity and data speed in wireless communications networks, including antennas, boosters, combiners, cabinets, shelters, filters, radio frequency power amplifiers, remote radio head transceivers, repeaters, tower-mounted amplifiers and advanced coverage solutions. These products are utilized in major wireless networks throughout the world which support voice and data communications by use of cell phones and other wireless communication devices. We sell our products to both original equipment manufacturers, who incorporate our products into their proprietary base stations (which they then sell to wireless network operators), and directly to individual wireless network operators for deployment into their existing networks.

During the last ten years, demand for wireless communications infrastructure equipment has fluctuated dramatically. While demand for wireless infrastructure was strong during 2005, it weakened for us during 2006 and 2007 due to significant reductions at three major customers, as well as a general slowdown in overall demand within the wireless infrastructure industry. For most of 2008, demand once again increased. However, in the fourth quarter of 2008, demand for our products was negatively impacted by the global economic recession. This significantly impacted demand during 2009 and our revenues fell by 36% from 2008 levels, thus negatively impacting our financial results. During 2008 and 2009, we initiated several cost cutting measures aimed at lowering our operating expenses. These initiatives will continue, and we may be required to further reduce operating expenses if there is a significant or prolonged reduction in spending by our customers.

In the past there have been significant deferrals in capital spending by wireless network operators due to delays in the expected deployment of infrastructure equipment and financial difficulties on the part of the wireless network operators who were forced to consolidate and reduce spending to strengthen their balance sheets and improve their profitability. Economic conditions, such as the turmoil in the global equity and credit markets, as well as the global recession, and the rise of inflationary pressures related to rising commodity prices, have also had a negative impact on capital spending by wireless network operators, and will likely have a negative impact going forward in the near term. All of these factors can have a significant negative impact on overall demand for wireless infrastructure products, and at various times, have directly reduced demand for our products and increased price competition within our industry which has in the past led to reductions in our revenues and contributed to our reported operating losses. In addition to the significant reduction in revenues during 2009, an example of prior reductions was during fiscal 2006 and 2007, when we experienced a significant slowdown in demand from one of our direct network operator customers, AT&T, as well as reduced demand from several of our original equipment manufacturing customers, including Nokia Siemens and Nortel Networks, all of which combined to result in directly reduced demand for our products and contributed to our operating losses for both fiscal 2006 and 2007.

We believe that we have maintained our overall market share within the wireless communications infrastructure equipment market during this period of changing demand for wireless communications infrastructure equipment. We continue to invest in the research and development of wireless communications network technology and the diversification of our product offerings, and we believe that we have one of our industry's leading product portfolios in terms of performance and features. We believe that our proprietary design technology is a further differentiator for our products.

Looking back over the last six years, beginning in fiscal 2004, we focused on cost savings while we expanded our market presence, as evidenced by our acquisition of LGP Allgon. This acquisition involved the integration of two companies based in different countries that previously operated independently, and it was a complex, costly and time-consuming process. During fiscal 2005, we continued to focus on cost savings while we expanded our market presence, as evidenced by our acquisition of selected assets and liabilities of REMEC, Inc.'s wireless systems business (the "REMEC Wireless Acquisition.") We believe that this acquisition further strengthened our position in the global wireless infrastructure market. In October 2006, we completed the Filtronic plc wireless acquisition. We believe that this strategic acquisition provided us with the leading position in transmit and receive filter products, as well as broadening our RF conditioning and base station solutions product portfolio and added significant additional technology to our intellectual property portfolio. For fiscal years 2007, 2008 and 2009, we completed the integration of this acquisition, as well as focused on consolidating operations and reducing our overall cost structure. During this same time, we encountered a significant unanticipated reduction in revenues, which caused us to revise our integration and consolidation plans with a goal of further reducing our operating costs and significantly lowering our breakeven operating structure. As has been demonstrated during the last six years, these

acquisitions do not provide any guarantee that our revenues will increase. We currently have a small number of ongoing restructuring activities which are aimed at further reducing our overall operating cost structure.

We measure our success by monitoring our net sales by product and consolidated gross margins, with a short-term goal of maintaining a positive operating cash flow while striving to achieve long-term operating profits. We believe that there continues to be long-term growth opportunities within the wireless communications infrastructure marketplace, and we are focused on positioning Powerwave to benefit from these long-term opportunities.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate these estimates and assumptions, including those related to revenue recognition, allowances for doubtful accounts, inventory reserves, warranty obligations, restructuring reserves, asset impairment, income taxes and stock-based compensation expense. We base these estimates on our historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of certain expenses that are not readily apparent from other sources. These estimates and assumptions by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

For a summary of our critical accounting policies and estimates, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of Part II of our Amendment No. 1 to Annual Report on Form 10-K for the year ended January 3, 2010.

Accruals for Restructuring and Impairment Charges

In the first quarters of 2010 and 2009, the Company recorded restructuring and impairment charges of approximately \$0.4 million and \$2.9 million, respectively. Such charges relate to our Restructuring Plans. See further discussion of these plans in Note 5 of the *Notes to Consolidated Financial Statements* under Part I, Item I, *Financial Information*.

Restructuring and impairment accruals related primarily to workforce reductions, consolidation of facilities, and the discontinuation of certain product lines, including the associated write-downs of inventory, manufacturing and test equipment, and certain intangible assets. Such accruals were based on estimates and assumptions made by management about matters which were uncertain at the time, including the timing and amount of sublease income that will be recovered on vacated property and the net realizable value of used equipment that is no longer needed in our continuing operations. While we used our best current estimates based on facts and circumstances available at the time to quantify these charges, different estimates could reasonably be used in the relevant periods to arrive at different accruals and/or the actual amounts incurred or recovered may be substantially different from the assumptions utilized, either of which could have a material impact on the presentation of our financial condition or results of operations for a given period. As a result, we periodically review the estimates and assumptions used and reflect the effects of those revisions in the period that they become known.

New Accounting Pronouncements

For a summary of our New Accounting Pronouncements, see Note 2 of the *Notes to Consolidated Financial Statements* under Part I, Item I, *Financial Information*.

Results of Operations

The following table summarizes Powerwave's results of operations as a percentage of net sales for the first quarter of 2010 and 2009:

	Three Months Ended	
	April 4, 2010	March 29, 2009
Net sales	100.0 %	100.0 %
Cost of sales:		
Cost of goods	73.9	76.8
Intangible asset amortization	—	0.4
Restructuring and impairment charges	0.1	0.9
Total cost of sales	74.0	78.1
Gross profit	26.0	21.9
Operating expenses:		
Sales and marketing	8.2	6.5
Research and development	12.5	10.1
General and administrative	9.8	8.1
Intangible asset amortization	—	0.2
Restructuring and impairment charges	0.3	1.0
Total operating expenses	30.8	25.9
Operating loss	(4.8)	(4.0)
Other income (expense), net	(3.1)	2.1
Loss before income taxes	(7.9)	(1.9)
Income tax provision	1.6	1.0
Net loss	(9.5)%	(2.9)%

Three Months ended April 4, 2010 and March 29, 2009

Net Sales

Our sales are derived from the sale of wireless communications network products and coverage solutions, including antennas, boosters, combiners, cabinets, shelters, filters, radio frequency power amplifiers, remote radio head transceivers, repeaters, tower-mounted amplifiers and advanced coverage solutions for use in cellular, PCS, 3G and 4G wireless communications networks throughout the world.

The following table presents a further analysis of our sales based upon our various customer groups:

<u>Customer Group</u>	Three Months Ended (in thousands)			
	April 4, 2010		March 29, 2009	
Wireless network operators and other	\$ 51,386	45 %	\$ 54,565	36 %
Original equipment manufacturers	63,087	55 %	95,180	64 %
Total	\$ 114,473	100 %	\$ 149,745	100 %

Sales decreased by 24% to \$114.5 million for the first quarter of 2010, from \$149.7 million, for the first quarter of 2009. This decrease was due to several factors, including decreased demand from both our direct operator customers and our original equipment manufacturer customers, which decreased by approximately 6% and 34%, respectively, for the first quarter of 2010 from the first quarter of 2009. While a portion of the reduced demand was related to the global macro-economic crisis and associated global credit crisis and economic recession that began in the fall of 2008, we also experienced component supply constraints during the first quarter of 2010 which impacted our revenue for the quarter. These component supply constraints resulted in longer than anticipated lead times, which impacted our ability to meet customer requirements in the first quarter of 2010. We have taken actions to adjust our procurement activities, but despite these actions, we expect to encounter supply constraints for the next few fiscal quarters.

The following table presents a further analysis of our sales based upon our various product groups:

<u>Wireless Communications Product Group</u>	Three Months Ended (in thousands)			
	April 4, 2010		March 29, 2009	
Antenna systems	\$ 39,421	34 %	\$ 35,756	24 %
Base station systems	65,217	57 %	102,418	68 %
Coverage systems	9,835	9 %	11,571	8 %
Total	<u>\$ 114,473</u>	<u>100 %</u>	<u>\$ 149,745</u>	<u>100 %</u>

Antenna systems consist of base station antennas and tower-mounted amplifiers. Base station systems consist of products that are installed into or around the base station of wireless networks and include products such as boosters, combiners, filters, radio frequency power amplifiers and VersaFlex cabinets. Coverage systems consist primarily of repeaters and advanced coverage solutions. The decrease in base station systems sales during the first quarter of 2010 as compared with the first quarter of 2009 is due to the significantly reduced demand related to the global economic crisis impacting both our original equipment manufacturer and direct operator customers and the component supply constraints that reduced our revenues in the first quarter of 2010.

We track the geographic location of our sales based upon the location of our customers to which we ship our products. Since many of our original equipment manufacturer customers purchase products from us at central locations and then re-ship the product with other base station equipment to locations throughout the world, we are unable to identify the final installation location of many of our products.

The following table presents an analysis of our net sales based upon the geographic area to which a product was shipped:

<u>Geographic Area</u>	Three Months Ended (in thousands)			
	April 4, 2010		March 29, 2009	
Americas	\$ 34,173	30 %	\$ 35,601	24 %
Asia Pacific	45,670	40 %	58,520	39 %
Europe	32,186	28 %	43,488	29 %
Other international	2,444	2 %	12,136	8 %
Total	<u>\$ 114,473</u>	<u>100 %</u>	<u>\$ 149,745</u>	<u>100 %</u>

Revenues decreased in all regions in the first quarter of 2010 as compared to the first quarter of 2009. The decrease was due to contraction in both the operator direct channel and the original equipment manufacturer sales channel, resulting from the global macro-economic crisis and the component supply constraints that we experienced. Since wireless network infrastructure spending is dependent on individual network coverage and capacity demands, we do not believe that our revenue fluctuations for any geographic region are necessarily indicative of a trend for our future revenues by geographic area.

A large portion of our revenues are generated in currencies other than the U.S. Dollar. During the last year, the value of the U.S. Dollar has fluctuated significantly against many other currencies. We have calculated that when comparing exchange rates in effect for the first quarter of 2009 to those in effect for the first quarter of 2010, the change in the value of foreign currencies as compared with the U.S. Dollar did not have a material impact on our net sales.

For the first quarter of 2010, total sales to Nokia Siemens accounted for approximately 28% of total net sales, and sales to Samsung accounted for approximately 12% of total net sales. For the first quarter of 2009, total sales to Nokia Siemens accounted for approximately 36% of sales. Notwithstanding our acquisitions, our business remains largely dependent upon a limited number of customers within the wireless communications market and we cannot guarantee that we will continue to be successful in attracting new customers or retaining or increasing business with our existing customers.

A number of factors have caused delays and may cause future delays in new wireless infrastructure and upgrade deployment schedules throughout the world, including deployments in the United States, Europe, Asia, South America and other areas. In addition, a number of factors may cause original equipment manufacturers to alter their outsourcing strategy concerning certain wireless communications network products, which could cause such original equipment manufacturers to reduce or eliminate their demand for external supplies of such products or shift their demand to alternative suppliers or internal suppliers. Such factors include lower perceived internal manufacturing costs and competitive reasons to remain vertically integrated. Due to the possible uncertainties associated with wireless infrastructure deployments and original equipment manufacturer demand, we have experienced and expect to continue to experience significant fluctuations in

demand from our original equipment manufacturer and network operator customers. Such fluctuations have caused and may continue to cause significant reductions in our revenues and/or operating results, which has adversely impacted and may continue to adversely impact our business, financial condition and results of operations.

Cost of Sales and Gross Profit

Our cost of sales includes both fixed and variable cost components and consists primarily of materials, assembly and test labor, overhead, which includes equipment and facility depreciation, transportation costs, warranty costs and amortization of product-related intangibles. Components of our fixed cost structure include test equipment and facility depreciation, purchasing and procurement expenses and quality assurance costs. Given the fixed nature of such costs, the absorption of our overhead costs into inventory decreases and the amount of overhead variances expensed to cost of sales increases as volumes decline since we have fewer units to absorb our overhead costs against. Conversely, the absorption of our overhead costs into inventory increases and the amount of overhead variances expensed to cost of sales decreases as volumes increase since we have more units to absorb our overhead costs against. As a result, our gross profit margins generally decrease as revenue and volumes decline due to lower sales volume and higher amounts of overhead variances expensed to cost of sales. Our gross profit margins generally increase as our revenue and volumes increase due to higher sales volume and lower amounts of overhead variances expensed to cost of sales.

The following table presents an analysis of our gross profit:

	Three Months Ended			
	(in thousands)			
	April 4, 2010		March 29, 2009	
Net sales	\$ 114,473	100.0 %	\$ 149,745	100.0 %
Cost of sales:				
Cost of sales	84,641	73.9 %	114,962	76.8 %
Intangible amortization.....	—	—	623	0.4 %
Restructuring and impairment charges.....	21	0.1 %	1,408	0.9 %
Total cost of sales.....	<u>84,662</u>	<u>74.0 %</u>	<u>116,993</u>	<u>78.1 %</u>
Gross profit.....	<u>\$ 29,811</u>	<u>26.0 %</u>	<u>\$ 32,752</u>	<u>21.9 %</u>

Our actual total gross profit decreased during the first quarter of fiscal 2010, compared to the first quarter of fiscal 2009, primarily as a result of our decreased revenues. As a percentage of revenue, our gross profit margin increased during the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, the result of no intangible amortization costs and lower restructuring costs as well as the improved manufacturing cost structure due to our previous restructuring activities. The last of the intangible assets were fully amortized in the fourth quarter of 2009. We incurred less than \$0.1 million of restructuring and impairment charges during the first quarter of fiscal 2010, related to severance charges in the United States. For the first quarter of 2009, we incurred restructuring and impairment charges totaling \$1.4 million.

The wireless communications infrastructure equipment industry is extremely competitive and is characterized by rapid technological change, new product development and product obsolescence, evolving industry standards and significant price erosion over the life of a product. Certain of our competitors have aggressively lowered prices in an attempt to gain market share. Due to these competitive pressures and the pressures of our customers to continually lower product costs, we expect that the average sales prices of our products will continue to decrease and negatively impact our gross margins. In addition, we have introduced new products at lower sales prices and these lower sales prices have impacted the average sales prices of our products. We have also reduced prices on our existing products in response to our competitors and customer demands. We currently expect that pricing pressures will remain strong in our industry. Future pricing actions by our competitors and us may adversely impact our gross profit margins and profitability, which could result in decreased liquidity and adversely affect our business, financial condition and results of operations.

We continue to strive for manufacturing and engineering cost reductions to offset pricing pressures on our products, as evidenced by our decisions to close or transfer our Salisbury, Maryland, Finland, Hungary, Shanghai and Wuxi, China manufacturing operations as part of our restructuring plans to reduce our manufacturing costs. However, we cannot guarantee that these cost reductions, and our outsourcing or product redesign efforts will keep pace with price declines and cost increases. If we are unable to further reduce our costs through our manufacturing, outsourcing and/or engineering efforts, our gross margins and profitability will be adversely affected.

Operating Expenses

The following table presents a breakdown of our operating expenses by functional category and as a percentage of net sales:

	Three Months Ended (in thousands)			
	April 4, 2010		March 29, 2009	
Operating Expenses				
Sales and marketing.....	\$ 9,395	8.2 %	\$ 9,741	6.5 %
Research and development.....	14,276	12.5 %	15,147	10.1 %
General and administrative.....	11,274	9.8 %	12,099	8.1 %
Intangible amortization.....	—	—	327	0.2 %
Restructuring and impairment charges.....	346	0.3 %	1,498	1.0 %
Total operating expenses.....	<u>\$ 35,291</u>	<u>30.8 %</u>	<u>\$ 38,812</u>	<u>25.9 %</u>

Sales and marketing expenses consist primarily of salaries and commissions, travel expenses, advertising and marketing expenses, selling expenses, charges for customer demonstration units and trade show expenses. Sales and marketing expenses decreased by \$0.3 million, or 4%, during the first quarter of 2010 as compared to the first quarter of 2009. The decrease was due to lower bad debt expense, partially offset by higher trade show expenses in the first quarter of 2010.

Research and development expenses consist primarily of ongoing design and development expenses for new wireless communications network products, as well as for advanced coverage solutions. We also incur design expenses associated with reducing the cost and improving the manufacturability of our existing products. Research and development expenses can fluctuate dramatically from period to period depending on numerous factors including new product introduction schedules, prototype developments and hiring patterns. Research and development expenses decreased by \$0.9 million, or 6%, during the first quarter of 2010 as compared to the first quarter of 2009 due to lower professional fees for research and development costs.

General and administrative expenses consist primarily of salaries and other expenses for management, finance, information systems, legal fees, facilities and human resources. General and administrative expenses decreased \$0.8 million, or 7%, during the first quarter of 2010 as compared to the first quarter of 2009. This decrease was due to lower tax, audit and professional fees, as well as a decrease in our insurance expenses.

Our intangible assets were fully amortized during the fourth quarter of 2009, and therefore, there was no expense in the first quarter of 2010. Amortization of customer-related intangibles from our acquisitions, amounted to \$0.3 million for the first quarter of fiscal 2009.

Restructuring charges of \$0.3 million were recorded in the first quarter of fiscal 2010, primarily for severance costs in the U.S. and France, compared to charges of \$1.5 million in the first quarter of fiscal 2009.

Other Income (Expense), net

The following table presents an analysis of other income (expense), net:

	Three Months Ended (in thousands)			
	April 4, 2010		March 29, 2009	
Interest income.....	\$ 44	—	\$ 398	0.2 %
Interest expense.....	(3,857)	(3.3)%	(4,348)	(2.9)%
Foreign currency gain (loss), net.....	(697)	(0.6)%	2,821	1.9 %
Gain on repurchase of convertible debt.....	—	—	3,368	2.3 %
Gain on exchange of convertible debt.....	483	0.4 %	—	—
Other income, net.....	452	0.4 %	919	0.6 %
Other income (expense), net.....	<u>\$ (3,575)</u>	<u>(3.1)%</u>	<u>\$ 3,158</u>	<u>2.1 %</u>

Interest income decreased by \$0.4 million during the first quarter of 2010 compared to the first quarter of 2009 due to lower interest rates on our cash balances. Interest expense decreased by \$0.5 million during the first quarter of fiscal 2010 as compared to the first quarter of 2009 due to the retirement of approximately \$25.4 million of our long-term debt during fiscal 2009. Also included in other income (expense), net, is a gain of \$0.5 million that we recognized on the exchange of \$60.0

million in aggregate principal amount of our outstanding 1.875% Convertible Subordinated Notes due 2024. Included in interest expense are non-cash charges related to the amortization of debt issuance costs and debt discount of \$1.7 and \$1.9 million for the first fiscal quarters of 2010 and 2009, respectively. Additionally, we recognized a net foreign currency translation loss of \$0.7 million in the first quarter of 2010, primarily due to the fluctuations of the U.S. Dollar versus several other currencies, as compared to the first quarter of 2009 when we recognized a foreign currency translation gain of \$2.8 million.

Income Tax Provision

Our effective tax rate for the first quarter of 2010 was an expense of approximately 19.5% of our pre-tax loss of \$9.1 million. We have recorded a valuation allowance against a portion of our deferred tax assets pursuant to Accounting Standards Codification (ASC) Topic 740, "Income Taxes," due to the uncertainty as to the timing and ultimate realization of those assets. As such, for the foreseeable future, the tax provision or tax benefit related to future U.S. earnings or losses will be offset substantially by a reduction in the valuation allowance. Accordingly, for the first quarter of 2010, tax expense consisted primarily of taxes or tax benefits in certain foreign jurisdictions, primarily China and India.

Net Loss

The following table presents a reconciliation of operating loss to net loss:

	Three Months Ended (in thousands)	
	April 4, 2010	March 29, 2009
Operating loss.....	\$ (5,480)	\$ (6,060)
Other income (expense), net.....	(3,575)	3,158
Loss before income taxes	(9,055)	(2,902)
Income tax provision	1,763	1,470
Net loss.....	<u>\$ (10,818)</u>	<u>\$ (4,372)</u>

Our net loss for the first quarter of 2010 was \$10.8 million, compared to our net loss of \$4.4 million for the first quarter of 2009. The increase in our net loss during the first quarter of 2010 as compared to the first quarter of 2009 is primarily the result of our decreased revenues, foreign exchange translation loss and the lower gain recognized on the debt exchange in the first quarter of 2010 versus the gain recognized on the debt repurchase during the first quarter of 2009.

Liquidity and Capital Resources

We have historically financed our operations through a combination of cash on hand, cash provided from operations, equipment lease financings, available borrowings under our bank line of credit, private debt placements and both private and public equity offerings. Our principal sources of liquidity consist of existing cash balances, funds expected to be generated from future operations and borrowings under our receivables credit facility. As of April 4, 2010, we had working capital of \$168.0 million, including \$63.0 million in unrestricted cash and cash equivalents as compared to working capital of \$175.6 million at March 29, 2009, which included \$52.6 million in unrestricted cash and cash equivalents. We currently invest our excess cash in short-term, investment-grade, money-market instruments with maturities of three months or less. We typically hold such investments until maturity and then reinvest the proceeds in similar money market instruments. We believe that all of our cash investments would be readily available to us should the need arise.

Cash Flows

The following table summarizes our cash flows for the first quarter of 2010 and 2009:

	Three Months Ended (in thousands)	
	April 4, 2010	March 29, 2009
Net cash provided by (used in):		
Operating activities	\$ 3,752	\$ 6,504
Investing activities	(442)	856
Financing activities	(886)	(1,214)
Effect of foreign currency translation on cash and cash equivalents.....	167	(500)
Net increase in cash and cash equivalents.....	<u>\$ 2,591</u>	<u>\$ 5,646</u>

Operating Activities

Net cash provided by operations in the first quarter of 2010 was \$3.8 million as compared to \$6.5 million in the first quarter of 2009. The reduction in cash flow from operations from the prior year is due primarily to lower revenues in the first quarter of 2010.

Investing Activities

Net cash used in investing activities during the first quarter of 2010 was \$0.4 million as compared to net cash provided by investing activities of \$0.9 million during the first quarter of 2009. The \$0.4 million in net cash used in investing activities during the first quarter of 2010 represents capital expenditures of \$0.6 million, partially offset by a reduction in our restricted cash of \$0.1 million and proceeds from the sale of property, plant and equipment of \$0.1 million. Total capital expenditures during the first quarter of 2010 and 2009 were approximately \$0.6 million and \$1.7 million, respectively. The majority of the capital spending during both periods related to computer hardware and test equipment utilized in our manufacturing and research and development areas. We expect our capital spending requirements for the remainder of this year to range between \$5 million and \$7 million, consisting of test and production equipment, as well as computer hardware and software.

Financing Activities

Net cash used in financing activities of \$0.9 million during the first quarter of 2010 relates primarily to the \$1.3 million debt issuance costs related to the exchange of our 1.875% Convertible Subordinated Notes, partially offset by \$0.4 million in proceeds related to our employee stock purchase plan. Net cash used in financing activities of \$1.2 million during the first quarter of 2009 relates primarily to the repurchase of \$5.4 million in aggregate par value of our 1.875% Convertible Subordinated Notes due 2024.

Future Cash Requirements

We currently believe that our existing cash balances, funds expected to be generated from operations and borrowings under our Credit Agreement will provide us with sufficient funds to finance our current operations for at least the next twelve months. Our principal sources of liquidity consist of our existing cash balances, funds expected to be generated from operations and our Credit Agreement with Wells Fargo, described below. We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand and cash provided by operations. Our ability to increase revenues and generate profits is subject to numerous risks and uncertainties, and any significant decrease in our revenues or profitability would reduce our operating cash flows and erode our existing cash balances. No assurances can be given that we will be able to generate positive operating cash flows in the future or maintain and/or grow our existing cash balances.

In the first quarter of 2010, we entered into separate privately negotiated exchange agreements under which \$60.0 million in aggregate principal amount of our outstanding 1.875% Convertible Subordinated Notes due 2024 (the "Existing Notes") were exchanged for \$60.0 million in aggregate principal amount of new 1.875% Convertible Senior Subordinated Notes due 2024 (the "New Notes"). The New Notes were issued under an Indenture between us, as issuer, and Deutsche Bank Trust Company Americas, as trustee (the "Indenture"). The New Notes are convertible into our common stock at a conversion price of \$1.70 per share and accrue interest at an annual rate of 1.875%, which is payable semi-annually on June 15 and December 15 of each year commencing on June 15, 2010. Holders may convert the New Notes at any time prior to the maturity date, which is November 15, 2024. We may redeem the notes beginning on November 21, 2012. Holders of the New Notes may require the Company to repurchase all or a portion of their notes for cash on November 15, 2013, 2014 and 2019 at 100% of the principal amount of the notes, plus accrued and unpaid interest up to but not including the date of such repurchase.

We had a total of \$280.9 million of long-term convertible subordinated notes outstanding at April 4, 2010, consisting of \$70.9 million of 1.875% Convertible Subordinated Notes due 2024, \$60.0 million of 1.875% Convertible Senior Subordinated Notes due 2024 and \$150.0 million of 3.875% Convertible Subordinated Notes due 2027 ("2027 Notes"). Holders of the Existing Notes may require us to repurchase all or a portion of their notes for cash on November 15, 2011, 2014 and 2019 at 100% of the principal amount of the notes, plus accrued and unpaid interest. Holders of the New Notes may require us to repurchase all or a portion of their notes for cash on November 15, 2013, 2014 and 2019 at 100% of the principal amount of the notes, plus accrued and unpaid interest. Holders of the 2027 Notes may require us to repurchase all or a portion of their notes for cash on October 1, 2014, 2017 and 2022 at 100% of the principal amount of the notes, plus accrued and unpaid interest. No assurance can be given that we will be able to generate sufficient positive operating cash flows in the future or maintain and/or grow our existing cash balances. If we do not generate sufficient cash from operations, or improve our ability to generate cash, we may not have sufficient funds available to pay our maturing debt. If we have not retired the debt prior to maturity, and if we do not have adequate cash available at that time, we would be required to refinance the notes and no assurance can be given that we will be able to refinance the notes on terms acceptable to us or at all given current

conditions in the credit markets. If our financial performance is poor or if credit markets remain tight, we will likely encounter a more difficult environment in terms of raising additional financing. If we are not able to repay or refinance the notes or if we experience a prolonged period of reduced customer demand for our products, our ability to maintain operations may be impacted.

Credit Agreement

As indicated in Note 4 of the *Notes to Consolidated Financial Statements* under Part I, Item I, *Financial Information*, the Company entered into a Credit Agreement on April 3, 2009. Pursuant to the Credit Agreement, the lenders thereunder have made available to us a senior secured credit facility in the form of a revolving line of credit up to a maximum of \$50.0 million. Availability under the Credit Agreement is based on the calculation of our borrowing base as defined in the Credit Agreement. The Credit Agreement is secured by a first priority security interest on a majority of our assets, including without limitation, all accounts, equipment, inventory, chattel paper, records, intangibles, deposit accounts, cash and cash equivalents and proceeds of the foregoing. The Credit Agreement expires on August 15, 2011. The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations on us with respect to indebtedness, liens, investments, distributions, mergers and acquisitions and dispositions of assets. The Credit Agreement also includes financial covenants including minimum EBITDA and maximum capital expenditures that are applicable only if the availability under our line of credit falls below \$20.0 million.

On March 11, 2010, we entered into Amendment Number Two to the Credit Agreement with Wells Fargo Capital Finance, LLC, which amendment updated the Credit Agreement to make appropriate references to and provisions for the New Notes.

On April 1, 2010, we entered into a Waiver, Amendment Number Three to Credit Agreement and Amendment Number Two to Security Agreement with Wells Fargo. This amendment amends certain provisions of the Credit Agreement and Security Agreement entered into on April 3, 2009, by and among us, the Lenders and Wells Fargo. The amendment waives certain technical defaults under the Credit Agreement relating to our obligation to deliver certain reports. In addition, the amendment makes minor changes to certain defined terms and modifies the thresholds for certain covenants.

As of April 4, 2010, we are in compliance with all covenants. As of April 4, 2010, we had approximately \$31.7 million of availability under the Credit Agreement, of which approximately \$5.3 million was utilized by outstanding letters of credit.

On occasion, we have previously utilized both operating and capital lease financing for certain equipment purchases used in our manufacturing and research and development operations and may selectively continue to do so in the future. We may also require additional funds in the future to support our working capital requirements or for other purposes such as acquisitions, and we may seek to raise such additional funds through the sale of public or private equity and/or debt financing, as well as from other sources. Our ability to secure additional financing or sources of funding is dependent upon our financial performance, credit rating and the market price for our Common Stock, which are all directly impacted by our ability to grow revenues and generate profits. In addition, our ability to obtain financing is directly dependent upon the availability of financial markets to provide sources of financing on reasonable terms and conditions. During the last half of fiscal 2008 and throughout fiscal 2009, the capital and credit markets experienced extreme volatility and disruption. In several cases, the markets exerted downward pressure on stock prices and credit capacity for certain issuers. Given current market conditions, we can make no guarantee that we will be able to obtain additional financing or secure new financing arrangements in the future. If our operating performance was to deteriorate and our cash balances were to be significantly reduced, we would likely encounter a more difficult environment in terms of raising additional funding to support our business, the cost of additional funding or borrowing could increase, and we may be required to further reduce operating expenses or scale back operations.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist primarily of conventional operating leases, purchase commitments and other commitments arising in the normal course of business, as further discussed in our Amendment No. 1 to Form 10-K for the year ended January 3, 2010, in Part II, Item 7 under the heading *Contractual Obligations and Commercial Commitments*. As of April 4, 2010, we did not have any other relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually-narrow or limited purposes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, restricted cash, short-term investments, capital leases and long-term debt. As of April 4, 2010, the carrying values of our financial instruments approximated their fair values based upon current market prices and rates except for long-term debt for which the fair value is estimated based on the quoted market price for the debt.

We are exposed to a number of market risks in the ordinary course of business. These risks, which include foreign currency risk, interest rate risk and commodity price risk, arise in the normal course of business rather than from trading. We have examined our exposures to these risks and have concluded, as we similarly concluded in our Amendment No. 1 to Form 10-K for the preceding fiscal year, that none of our exposures in these areas are material to fair values, cash flows or earnings.

Foreign Currency Risk

Our international operations represent a substantial portion of our operating results and asset base. We maintain various operations in multiple foreign locations including Brazil, China, Estonia, Finland, France, Germany, India, Singapore, Sweden, Thailand and the United Kingdom. These international operations generally incur local operating costs and generate third-party revenues in currencies other than the U.S. Dollar. These foreign currency revenues and expenses expose us to foreign currency risk and give rise to foreign currency exchange gains and losses. We do not presently hedge against the risks of foreign currency fluctuations. In the event of significant fluctuations in foreign currencies, we may experience declines in revenue and adverse impacts on operating results and such changes could be material.

We regularly pursue new customers in various international locations where new deployments or upgrades to existing wireless communication networks are planned. As a result, a significant portion of our revenues are derived from international sources (excluding North America), with our international customers accounting for approximately 71% of our net sales during the first quarter of 2010, 73% of our net sales during fiscal 2009 and 70% of our net sales during fiscal 2008. International sources include Europe, Asia and South America, where there has been historical volatility in several of the regions' currencies. Changes in the value of the U.S. Dollar versus the local currency in which our products are sold exposes us to foreign currency risk since the weakening of an international customer's local currency and banking market may negatively impact such customer's ability to meet their payment obligations to us. Alternatively, if a sale price is denominated in U.S. Dollars and the value of the Dollar falls, we may suffer a loss due to the lower value of the Dollar. In addition, some of our international customers require that we transact business with them in their own local currency, regardless of the location of our operations, which also exposes us to foreign currency risk. Since we sell products or services in foreign currencies, we are required to convert the payments received into U.S. Dollars, which gives rise to foreign currency gains or losses. Given the uncertainty as to when and what specific foreign currencies we may be required or choose to accept as payment from our international customers, we cannot predict the ultimate impact that such a decision would have on our business, financial condition and results of operations. For the first quarter of 2010, we recorded a foreign exchange translation loss of \$0.7 million due to fluctuations in the value of the U.S. Dollar. There can be no assurance that we will not incur foreign exchange translation losses in the future as the value of the Dollar fluctuates.

Interest Rate Risk

As of April 4, 2010, we had cash equivalents of approximately \$65.6 million in both interest and non-interest bearing accounts, including restricted cash. We also had a total of \$130.9 million of Convertible Subordinated Notes due November 2024 at a fixed annual interest rate of 1.875% and \$150.0 million of Convertible Subordinated Notes due October 2027 at a fixed annual interest rate of 3.875%. We have exposure to interest rate risk primarily through our convertible subordinated debt, our Credit Agreement and our cash investment portfolio. Short-term investment rates decreased significantly during 2009 and have remained low in 2010 as the U.S. Federal Reserve has attempted to mitigate the impact of the recession. Despite this exposure, we believe that we are not subject to material fluctuations in principal given the short-term maturities and high-grade investment quality of our investment portfolio, and the fact that the effective interest rate of our portfolio tracks closely to various short-term money market interest rate benchmarks. Therefore, we currently do not use derivative instruments to manage our interest rate risk. Based on our overall interest rate exposure at April 4, 2010, we do not believe that a 100 basis point change in interest rates would have a material effect on our consolidated business, financial condition or results of operations.

Commodity Price Risk

Our internal manufacturing operations and contract manufacturers require significant quantities of transistors, semiconductors and various metals for use in the manufacture of our products. Therefore, we are exposed to certain commodity price risks associated with variations in the market prices for these electronic components as these prices directly

impact the cost to manufacture products and the price we pay our contract manufacturers to manufacture our products. We attempt to manage this risk by entering into supply agreements with our contract manufacturers and various suppliers of these components in order to mitigate the impact of any fluctuations in commodity prices. These supply agreements are not long-term supply agreements. If we or our contract manufacturers become subject to a significant increase in the price of one of these components, we may be unable to pass such costs onto our customers. During the first quarter of 2010, we have experienced supply shortages of various electronic components as well as significantly increased order lead times for such components. While we have not experienced significant price increases for such components, if there continues to be significant shortages, the prices may increase resulting in a negative impact on our product costs. In addition, certain transistors and semiconductors are regularly revised or changed by their manufacturers, which may result in a requirement for us to redesign a product that utilizes these components or cease the production of such products. In such events, our business, financial condition or results of operations could be adversely affected. Additionally, we require specialized electronic test equipment, which is utilized in both the design and manufacture of our products. The electronic test equipment is available from limited sources and may not be available in the time periods required for us to meet our customers' demand. If required, we may be forced to pay higher prices for equipment and/or we may not be able to obtain the equipment in the time periods required, which would then delay our development or production of new products. These delays and any potential additional costs could have a material adverse effect on our business, financial condition or results of operations. Prior increases to the price of oil and energy have translated into higher freight and transportation costs and, in certain cases, higher raw material supply costs. These higher costs negatively impacted our production costs. We may not be able to pass on these higher costs to our customers and if we insist on raising prices, our customers may curtail their purchases from us. There are significant concerns in the business community about inflationary pressures on costs. Further increases in energy prices may negatively impact our business, financial condition and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us and our consolidated subsidiaries is made known to the officers who certify our financial reports, as well as other members of senior management and the Board of Directors, to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information related to us that is required to be included in our annual and periodic SEC filings.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Powerwave have been detected.

Internal Control Over Financial Reporting

As a result of the material weakness identified at the end of 2009, we completed the design and implementation of control activities in the first quarter of 2010 that we believe will prevent or detect material misstatements that might exist related to our debt agreements. Specifically, we have thoroughly reviewed our outstanding debt agreements and have created a process for review of all new debt agreements. We also continue the process of reviewing all new accounting pronouncements and their effect on our financial reporting. The remediation was completed in the first quarter of 2010 and we believe that these controls are operating effectively.

There has been no other change in our internal control over financial reporting during the first quarter of 2010 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to legal proceedings and claims in the normal course of business. We are currently defending these proceedings and claims, and, although the outcome of legal proceedings is inherently uncertain, we anticipate that we will be able to resolve these matters in a manner that will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Our business faces significant risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial also may impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition and results of operation could suffer, and the trading price of our Common Stock could decline, and you may lose all or a part of your investment.

Risks Related to the Business

We rely upon a few customers for the majority of our revenues and the loss of any one or more of these customers, or a significant loss, reduction or rescheduling of orders from any of these customers, would have a material adverse effect on our business, financial condition and results of operations.

We sell most of our products to a small number of customers, and while we are continually seeking to expand our customer base, we expect this will continue. For the first quarter of 2010, sales to Nokia Siemens accounted for approximately 28% of revenues, and sales to Samsung accounted for approximately 12% of revenues. Nokia Siemens accounted for approximately 34% of our revenues during fiscal 2009. During fiscal 2009, sales to Alcatel-Lucent declined below 10% of our revenues. Any decline in business with our original equipment manufacturer customers, including Nokia Siemens, Alcatel-Lucent and Samsung, will have an adverse impact on our business, financial condition and results of operations. For the first quarter of 2010, our total sales declined by 24% compared with the first quarter of 2009. During this same period, our sales to Nokia Siemens declined approximately 40% which has had a negative impact on our business and results of operations. Our future success is dependent upon the continued purchases of our products by a small number of customers such as Nokia Siemens, Samsung, other original equipment manufacturers and network operator customers. Any fluctuations in demand from such customers or other customers will negatively impact our business, financial condition and results of operations. If we are unable to broaden our customer base and expand relationships with major wireless original equipment manufacturers and major operators of wireless networks, our business will continue to be impacted by unanticipated demand fluctuations due to our dependence on a small number of customers. Unanticipated demand fluctuations can have a negative impact on our revenues and business, and an adverse effect on our business, financial condition and results of operations. In addition, our dependence on a small number of major customers exposes us to numerous other risks, including:

- a slowdown or delay in deployment of wireless networks by any one or more customers could significantly reduce demand for our products;
- reductions in a single customer's forecasts and demand could result in excess inventories;
- the current economic crisis could negatively affect one or more of our major customers and cause them to significantly reduce operations, or file for bankruptcy;
- consolidation of customers can reduce demand as well as increase pricing pressure on our products due to increased purchasing leverage;
- each of our customers has significant purchasing leverage over us to require changes in sales terms including pricing, payment terms and product delivery schedules;
- direct competition should a customer decide to increase its level of internal designing and/or manufacturing of wireless communication network products; and
- concentration of accounts receivable credit risk, which could have a material adverse effect on our liquidity and financial condition if one of our major customers declared bankruptcy or delayed payment of their receivables.

Our operating results have been adversely impacted by the worldwide economic crisis and credit tightening.

Beginning in the fourth quarter of 2008, worldwide economic conditions significantly deteriorated due to the credit crisis and other factors, including slower economic activity, recessionary concerns, increased energy costs, decreased consumer confidence, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns. All of these factors combined are having a negative impact on the availability of financial capital which is contributing to a reduction in demand for infrastructure in the wireless communication market. These conditions make it difficult for our customers and vendors to accurately forecast and plan future business activities, causing domestic and foreign businesses to slow or suspend spending on our products and services. As customers face this challenging economic time, they are finding it difficult to gain sufficient credit in a timely manner, which has resulted in an impairment of their ability to place orders with us or to make timely payments to us for previous purchases. If this continues to occur, our revenues will be further reduced, thereby having a negative impact on our business, financial condition and results of operations. In addition, we may be forced to increase our allowance for doubtful accounts and our days of sales outstanding

may increase significantly, which would have a negative impact on our cash position, liquidity and financial condition. We cannot predict the magnitude, timing or duration of this economic recession or its impact on the wireless industry.

We have previously experienced significant reductions in demand for our products by certain customers and if this continues, our operating results will be adversely impacted.

We have a history of significant unanticipated reductions in demand that demonstrate the risks related to our customer and industry concentration levels. While our revenues have increased at times during fiscal years 2005, 2006, 2007 and 2008, a significant portion of this increase was due to our various acquisitions. During fiscal 2009 and into the first quarter of 2010, the global economic crisis and related recession continued to have an impact on our customers and their demand for our products. We currently anticipate that our customers may continue to reduce their demand for wireless infrastructure products in the near term, thereby negatively impacting all companies within our industry. This possible reduction in demand would have a negative impact on our business, financial condition and results of operations.

Also, in the past we have experienced significant unanticipated reductions in wireless network operator demand as well as significant delays in demand for 3G and 4G, or next generation service based products, due to the high projected capital cost of building such networks and market concerns regarding the inoperability of such network protocols. In combination with these market issues, a majority of wireless network operators have in the past regularly reduced their capital spending plans in order to improve their overall cash flow. There is a substantial likelihood that the global economic recession will continue throughout 2010 and potentially into 2011, thereby having a negative impact on network operator deployment spending plans. The impact of any future reduction in capital spending by wireless network operators, coupled with any delays in deployment of wireless networks, will result in reduced demand for our products, which will have a material adverse effect on our business.

We depend on single sources or limited sources for key components and products, which exposes us to risks related to product shortages or delays, as well as potential product quality issues, all of which could increase the cost of our products thereby reducing our operating profits.

During the first quarter of 2010, we have experienced significant supply shortages of various electronic components as well as significantly increased order lead times for such components. This combined supply shortage and increased material order lead times have impacted our ability to timely produce products which negatively impacted our revenues in the first quarter. If these shortages and extended lead times continue, our future revenues will be negatively impacted and our manufacturing costs may significantly increase. In addition, a number of our products and the parts used in our products are available from only one or a limited number of outside suppliers due to unique component designs, as well as certain quality and performance requirements. To take advantage of volume pricing discounts, we also purchase certain products, and along with our contract manufacturers, purchase certain customized components from single or limited sources. We have experienced, and expect to continue to experience, shortages of single-source and limited-source components. Shortages have compelled us to adjust our product designs and production schedules and have caused us to miss customer requested delivery dates. Missed customer delivery dates have had a material adverse impact on our financial results. If single-source or limited-source components become unavailable in sufficient quantities in the desired time periods, are discontinued or are available only on unsatisfactory terms, we would be required to purchase comparable components from other sources and may be required to redesign our products to use such components which could delay production and delivery of our products. If production and delivery of our products are delayed such that we do not meet the agreed upon delivery dates of our customers, such delays could result in lost revenues due to customer cancellations, as well as potential financial penalties payable to our customers. Any such loss of revenue or financial penalties could have a material adverse effect on our business, financial condition and results of operations.

Our reliance on certain single-source and limited-source components and products also exposes us and our contract manufacturers to quality control risks if these suppliers experience a failure in their production process or otherwise fail to meet our quality requirements. A failure in a single-source or limited-source component or product could force us to repair or replace a product utilizing replacement components. If we cannot obtain comparable replacements or redesign our products, we could lose customer orders or incur additional costs, which would have a material adverse effect on our business, financial condition and results of operations.

We will need additional capital in the future and such additional financing may not be available on favorable terms or at all.

As of April 4, 2010, we had approximately \$65.6 million of cash, including \$2.5 million in restricted cash. We cannot provide any guarantee that we will generate sufficient cash in the future to maintain or grow our operations over the long-term. We rely upon our ability to generate positive cash flow from operations to fund our business. If we are not able to generate positive cash flow from operations, we may need to utilize sources of financing such as our Credit Agreement or other sources of cash. While our Credit Agreement provides us with additional sources of liquidity, we may need to raise additional funds through public or private debt or equity financings in order to fund existing operations or to take advantage

of opportunities, including more rapid international expansion or acquisitions of complementary businesses or technologies. In addition, if our business further deteriorates, we might be unable to maintain compliance with the covenants in our Credit Agreement which could result in reduced availability under the Credit Agreement or an event of default under the Credit Agreement, or could make the Credit Agreement unavailable to us. If we are not successful in growing our businesses, reducing our inventories and accounts receivable and managing the worldwide aspects of our company, our operations may not generate positive cash flow, and we may consume our cash resources faster than we anticipate. Such losses would make it difficult to obtain new sources of financing. In addition, if we do not generate sufficient cash flow from operations, we may need to raise additional funds to repay our \$280.9 million of remaining outstanding convertible subordinated debt that we issued. The holders of this convertible subordinated debt may require us to repurchase \$70.9 million in outstanding debt issued in 2004 on November 15, 2011 and \$150.0 million in outstanding debt issued in 2007 on October 1, 2014. In addition, we issued \$60.0 million of convertible senior subordinated debt in the first quarter of 2010 that the holders of which may require us to repurchase on November 15, 2013. Our ability to secure additional financing or sources of funding is dependent upon numerous factors, including the current outlook of our business, our credit rating and the market price of our Common Stock, all of which are directly impacted by our ability to increase revenues and generate profits. In addition, the availability of new financing is dependent upon functioning debt and equity markets with financing available on reasonable terms. Given the recent credit crisis, there can be no guarantee that such a market would be available to us. If such a market is not available, we may be unable to raise new financing, which would negatively impact our business and possibly impact our ability to maintain operations as presently conducted.

Our ability to increase revenues and generate profits is subject to numerous risks and uncertainties including the likelihood of decreased revenues in the current macroeconomic environment. Any significant decrease in our revenues or profitability could reduce our operating cash flows and erode our existing cash balances. Our ability to reduce our inventories and accounts receivable and improve our cash flow is dependent on numerous risks and uncertainties, and if we are not able to reduce our inventories, we will not generate the cash required to operate our business. Our ability to secure additional financing is also dependent upon not only our business profitability, but also the credit markets, which have recently become highly constrained due to credit concerns arising from the subprime mortgage lending market and subsequent worldwide economic recession. If we are unable to secure additional financing or such financing is not available on acceptable terms, we may not be able to fund our operations, otherwise respond to unanticipated competitive pressures, or repay our convertible debt.

We may be adversely affected by the bankruptcy of our customers.

One of our original equipment manufacturer customers, Nortel, filed for bankruptcy protection in the first quarter of 2009, and in the third quarter of 2009, they received government approval of the sale of their assets. Given the current economic climate, it is possible that one or more of our other customers will suffer significant financial difficulties, including potentially filing for bankruptcy protection. In such an event, the demand for our products from these customers may decline significantly or cease completely. We cannot guarantee that we will be able to continue to generate new demand to offset any such reductions from existing customers. If we are unable to continue to generate new demand, our revenues will decrease and our business, financial condition and results of operations will be negatively impacted.

We may not successfully evaluate the creditworthiness of our customers. While we maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, greater than anticipated nonpayment and delinquency rates could harm our financial results and liquidity. Given the current global economic recession, there are potential risks of greater than anticipated customer defaults. If the financial condition of any of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required and would negatively impact our business, financial condition and results of operations.

We may incur unanticipated costs as we complete the restructuring of our business.

We have previously encountered difficulties and delays in integrating and consolidating operations which have had a negative impact on our business, financial condition and results of operations. The failure to successfully integrate these operations could undermine the anticipated benefits and synergies of the restructuring, which could adversely affect our business, financial condition and results of operations. The anticipated benefits and synergies of our restructurings relate to cost savings associated with operational efficiencies and greater economies of scale. However, these anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a smooth and successful integration of our business.

We may need to undertake restructuring actions in the future.

We have previously recognized restructuring charges in response to slowdowns in demand for our products and in conjunction with cost cutting measures and measures to improve the efficiency of our operations. As a result of economic conditions, we may need to initiate additional restructuring actions that could result in restructuring charges that could have a material impact on our business, financial condition and results of operations. Such potential restructuring actions could

include cash expenditures that would reduce our available cash balances, which would have a negative impact on our business.

The potential for increased commodity and energy costs may adversely affect our business, financial condition and results of operations.

The world economy has experienced significant fluctuations in the price of oil and energy during 2008, 2009 and the beginning of 2010. Such fluctuations resulted in significant price increases which translated into higher freight and transportation costs and, in certain cases, higher raw material supply costs. These higher costs negatively impacted our production costs. We were not able to pass on these higher costs to our customers, and if we insist on raising prices, our customers may curtail their purchases from us. The costs of energy and items directly related to the cost of energy will fluctuate due to factors that may not be predictable, such as the economy, political conditions and the weather. Further increases in energy prices or the onset of inflationary pressures could negatively impact our business, financial condition and results of operations.

We have experienced, and will continue to experience, significant fluctuations in sales and operating results from quarter to quarter.

Our quarterly results fluctuate due to a number of factors, including:

- the lack of obligation by our customers to purchase their forecasted demand for our products;
- costs associated with restructuring activities, including severance, inventory obsolescence and facility closure costs;
- variations in the timing, cancellation, or rescheduling of customer orders and shipments;
- costs associated with consolidating acquisitions;
- high fixed expenses that increase operating expenses, especially during a quarter with a sales shortfall;
- product failures and associated warranty and in-field service support costs;
- discounts given to certain customers for large volume purchases; and
- shortages of materials and components to manufacture our products.

We have regularly generated a large percentage of our revenues in the last month of a quarter. Because we attempt to ship products quickly after we receive orders, we may not always have a significant backlog of unfilled orders at the start of each quarter and we may be required to book a substantial portion of our orders during the quarter in which these orders ship. Our major customers generally have no obligation to purchase forecasted amounts and may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, we may not be able to accurately predict our quarterly sales. Because our expense levels are partially based on our expectations of future sales, our expenses may be disproportionately large relative to our revenues, and we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any shortfall in sales relative to our quarterly expectations or any delay of customer orders would adversely affect our business, financial condition and results of operations.

Order deferrals and cancellations by our customers, declining average sales prices, changes in the mix of products sold, shortages of materials, delays in the introduction of new products and longer than anticipated sales cycles for our products have adversely affected our business, financial condition and results of operations in the past. Despite these factors, we, along with our contract manufacturers, maintain significant finished goods, work-in-progress and raw materials inventory to meet estimated order forecasts. If our customers purchase less than their forecasted orders or cancel or delay existing purchase orders, there will be higher levels of inventory that face a greater risk of obsolescence. If our customers choose to purchase products in excess of the forecasted amounts or in a different product mix, there might be inadequate inventory or manufacturing capacity to fill their orders.

Due to these and other factors, our past results are not reliable indicators of our future performance. Future revenues and operating results may not meet the expectations of market analysts or investors. In either case, the price of our Common Stock could be materially adversely affected.

Our average sales prices have declined, and we anticipate that the average sales prices for our products will continue to decline and negatively impact our gross profit margins.

Wireless service providers are continuing to place pricing pressure on wireless infrastructure manufacturers, which in turn, has resulted in lower selling prices for our products, with certain competitors aggressively reducing prices in an effort to increase their market share. The consolidation of original equipment manufacturers such as Alcatel-Lucent and Nokia Siemens is concentrating purchasing power at the surviving entities, placing further pricing pressures on the products we sell to such customers. Moreover, the current economic downturn has caused wireless service providers to become more

aggressive in demanding price reductions as they attempt to reduce costs. As a result, we are forced to further reduce our prices to such customers, which has had a negative impact on our business, financial condition and results of operations. If we do not agree to lower our prices as some customers request, those customers may stop purchasing our products, which would significantly impact our business. We believe that the average sales prices of our products will continue to decline for the foreseeable future. The weighted average sales price for our products declined approximately 2% to 11% from fiscal 2008 to fiscal 2009 and we expect that this will continue going forward. Since wireless infrastructure manufacturers frequently negotiate supply arrangements far in advance of delivery dates, we must often commit to price reductions for our products before we know how, or if, we can obtain such cost reductions. With ongoing consolidation in our industry, the increased size of many of our customers allows them to exert greater pressure on us to reduce prices. In addition, average sales prices are affected by price discounts negotiated without firm orders for large volume purchases by certain customers. To offset declining average sales prices, we must reduce manufacturing costs and ultimately develop new products with lower costs or higher average sales prices. If we cannot achieve such cost reductions or increases in average selling prices, our gross margins will decline.

Our suppliers, contract manufacturers or customers could become competitors.

Many of our customers, particularly our original equipment manufacturer customers, internally design and/or manufacture their own wireless communications network products. These customers also continuously evaluate whether to manufacture their own wireless communications network products or utilize contract manufacturers to produce their own internal designs. Certain of our customers regularly produce or design wireless communications network products in an attempt to replace products manufactured by us. In addition, some customers threaten to undertake such activities if we do not agree to their requested price reductions. We believe that these practices will continue. In the event that our customers manufacture or design their own wireless communications network products, these customers might reduce or eliminate their purchases of our products, which would result in reduced revenues and would adversely impact our business, financial condition and results of operations. Wireless infrastructure equipment manufacturers with internal manufacturing capabilities, including many of our customers, could also sell wireless communications network products externally to other manufacturers, thereby competing directly with us. In addition, our suppliers or contract manufacturers may decide to produce competing products directly for our customers and, effectively, compete against us. If, for any reason, our customers produce their wireless communications network products internally, increase the percentage of their internal production, require us to participate in joint venture manufacturing with them, require us to reduce our prices, engage our suppliers or contract manufacturers to manufacture competing products, or otherwise compete directly against us, our revenues would decrease, which would adversely impact our business, financial condition and results of operations.

Our success is tied to the growth of the wireless services communications market and our future revenue growth is dependent upon the expected increase in the size of this market.

Our revenues come from the sale of wireless communications network products and coverage solutions. Our future success depends solely upon the growth and increased availability of wireless communications services. Wireless communications services may not grow at a rate fast enough to create demand for our products, as we have experienced periodically throughout the past six years. Some of our network operator customers rely on credit to finance the build-out or expansion of their wireless networks. The current credit environment and the worldwide economic recession resulted in lower revenues in fiscal 2009 and will likely result in a reduction of demand from some of our customers in the near term. Another example of unanticipated reductions was during fiscal 2006 and into fiscal 2007, when a major North American wireless network operator significantly reduced demand for new products. In addition, during the same period, several major equipment manufacturers began a process of consolidating their operations, which significantly reduced their demand for our products. This reduced spending on wireless networks had a negative impact on our operating results. If wireless network operators delay or reduce levels of capital spending, our business, financial condition and results of operations would be negatively impacted.

Our reliance on contract manufacturers exposes us to risks of excess inventory or inventory carrying costs.

We use contract manufacturers to produce printed circuit boards for our products, and in certain cases, to manufacture finished products. If our contract manufacturers are unable to respond in a timely fashion to changes in customer demand, we may be unable to produce enough products to respond to sudden increases in demand, resulting in lost revenues. Alternatively, in the case of order cancellations or decreases in demand, we may be liable for excess or obsolete inventory or cancellation charges resulting from contractual purchase commitments that we have with our contract manufacturers. We regularly provide rolling forecasts of our requirements to our contract manufacturers for planning purposes, pursuant to our agreements, a portion of which is binding upon us. Additionally, we are committed to accept delivery on the forecasted terms for a portion of the rolling forecast. Cancellations of orders or changes to the forecasts provided to any of our contract manufacturers may result in cancellation costs payable by us. In the past, we have been required to take delivery of materials from our suppliers and subcontractors that were in excess of our requirements, and we have previously recognized charges and expenses related to such excess material. We expect that we will incur such costs in the future.

By using contract manufacturers, our ability to directly control the use of all inventories is reduced since we do not have full operating control over their operations. If we are unable to accurately forecast demand for our contract manufacturers and manage the costs associated with our contract manufacturers, we may be required to purchase excess inventory and incur additional inventory carrying costs. If we or our contract manufacturers are unable to utilize such excess inventory in a timely manner, and are unable to sell excess components or products due to their customized nature, our business, financial condition and results of operations would be negatively impacted.

Future additions to, or consolidations of manufacturing operations may present risks, and we may be unable to achieve the financial and strategic goals associated with such actions.

We have previously added new manufacturing locations, as well as consolidated existing manufacturing locations in an attempt to achieve operating cost savings and improved operating results. We continually evaluate these types of opportunities. We may acquire or invest in new locations, or we may consolidate existing locations into either existing or new locations in order to reduce our manufacturing costs. In 2009, we established a new manufacturing location in Thailand. Such activities subject us to numerous risks and uncertainties, including the following:

- difficulty integrating the new locations into our existing operations;
- difficulty consolidating existing locations into one location;
- inability to achieve the anticipated financial and strategic benefits of the specific new location or consolidation;
- significant unanticipated additional costs incurred to start up a new manufacturing location;
- inability to attract key technical and managerial personnel to a new location;
- inability to retain key technical and managerial personnel due to the consolidation of locations to a new location;
- diversion of our management's attention from other business issues;
- failure of our review and approval process to identify significant issues, including issues related to manpower, raw material supplies, legal and financial contingencies.

If we are unable to manage these risks effectively as part of any investment in a new manufacturing location or consolidation of locations, our business would be adversely affected.

Future acquisitions, or strategic alliances, may present risks, and we may be unable to achieve the financial and strategic goals intended at the time of any acquisition or strategic alliance.

In the past, we have acquired and made investments in other companies, products and technologies and entered into strategic alliances with other companies. We continually evaluate these types of opportunities. We may acquire or invest in other companies, products or technologies, or we may enter into joint ventures, mergers or strategic alliances with other companies. Such transactions subject us to numerous risks, including the following:

- difficulty integrating the operations, technology and personnel of the acquired company;
- inability to achieve the anticipated financial and strategic benefits of the specific acquisition or strategic alliance;
- significant additional warranty costs due to product failures and or design differences that were not identified during due diligence, which could result in charges to earnings if they are not recoverable from the seller;
- inability to retain key technical and managerial personnel from the acquired company;
- difficulty in maintaining controls, procedures and policies during the transition and integration process;
- diversion of our management's attention from other business concerns;
- failure of our due diligence process to identify significant issues, including issues with respect to product quality, product architecture, legal and financial contingencies, and product development; and
- significant exit charges if products acquired in business combinations are unsuccessful.

If we are unable to manage these risks effectively as part of any acquisition or joint venture, our business would be adversely affected.

We may fail to develop products that are sufficiently manufacturable, which could negatively impact our ability to sell our products.

Manufacturing our products is a complex process that requires significant time and expertise to meet customers' specifications. Successful manufacturing is substantially dependent upon the ability to assemble and tune these products to meet specifications in an efficient manner. In this regard, we largely depend on our staff of assembly workers and trained technicians at our internal manufacturing operations in the United States, Europe and Asia, as well as our contract

manufacturers' staff of assembly workers and trained technicians. If we cannot design our products to minimize the manual assembly and tuning process, or if we or our contract manufacturers lose a number of trained assembly workers and technicians or are unable to attract additional trained assembly workers or technicians, we may be unable to have our products manufactured in a cost effective manner.

We may fail to develop products that are of adequate quality and reliability, which could negatively impact our ability to sell our products and could expose us to significant liabilities.

We have had quality problems with our products including those we have acquired in acquisitions. We may have similar product quality problems in the future. We have replaced components in some products and replaced entire products in accordance with our product warranties. We believe that our customers will demand that our products meet increasingly stringent performance and reliability standards. If we cannot keep pace with technological developments, evolving industry standards and new communications protocols, if we fail to adequately improve product quality and meet the quality standards of our customers, or if our contract manufacturers fail to achieve the quality standards of our customers, we risk losing business which would negatively impact our business, financial condition and results of operations. Design problems could also damage relationships with existing and prospective customers and could limit our ability to market our products to large wireless infrastructure manufacturers, many of which build their own products and have stringent quality control standards. In addition, we have incurred significant costs addressing quality issues from products that we have acquired in certain of our acquisitions. We are also required to honor certain warranty claims for products that we have acquired in our recent acquisitions. While we seek recovery of amounts that we have paid, or may pay in the future to resolve warranty claims through indemnification from the original manufacturer, this can be a costly and time consuming process. In our contracts with customers, we negotiate liability limits but not all of the contracts contain liability limits and some contracts contain limits which are greater than the price of the products sold. As a result, if we have quality problems with our products that we cannot fix and our customers bring a claim against us, we could incur significant liabilities which would have a material adverse effect on our business, financial condition and results of operations.

If we are unable to hire and retain highly-qualified technical and managerial personnel, we may not be able to sustain or grow our business.

Competition for personnel, particularly qualified engineers, is intense. The loss of a significant number of qualified engineers, as well as the failure to recruit and train additional technical personnel in a timely manner, could have a material adverse effect on our business, financial condition and results of operations. The departure of any of our management and technical personnel, the breach of their confidentiality and non-disclosure obligations to us or the failure to achieve our intellectual property objectives may also have a material adverse effect on our business.

We believe that our success depends upon the knowledge and experience of our management and technical personnel and our ability to market our existing products and to develop new products. Our employees are generally employed on an at-will basis and do not have non-compete agreements. Therefore, we have had, and may continue to have, employees leave us and go to work for competitors.

There are significant risks related to our internal and contract manufacturing operations in Asia and Europe.

As part of our manufacturing strategy, we utilize contract manufacturers to make finished goods and supply printed circuit boards in China, Europe, India, Singapore and Thailand. We also maintain our own manufacturing operations in China, Estonia, the United States and our newly established manufacturing facility in Thailand.

The Chinese legal system lacks transparency, which gives the Chinese central and local government authorities a higher degree of control over our business in China than is customary in the United States which makes the process of obtaining necessary regulatory approval in China inherently unpredictable. In addition, the protection accorded our proprietary technology and know-how under the Chinese and Thai legal systems is not as strong as in the United States and, as a result, we may lose valuable trade secrets and competitive advantage. Also, manufacturing our products and utilizing contract manufacturers, as well as other suppliers throughout the Asia region, exposes our business to the risk that our proprietary technology and ownership rights may not be protected or enforced to the extent that they may be in the United States.

Although the Chinese government has been pursuing economic reform and a policy of welcoming foreign investments during the past two decades, it is possible that the Chinese government will change its current policies in the future, making continued business operations in China difficult or unprofitable.

In September 2006, Thailand experienced a military coup which overturned the existing government. In late 2008, anti-government protests and civilian occupations culminated with a court-ordered ouster of Thailand's prime minister. In 2009 and the first quarter of 2010, continued unrest has impacted the government of Thailand, and at this time, significant civil unrest continues. To date, this has not had a long-term impact on our operations in Thailand. If there are future coups or some other type of political unrest, such activity may impact the ability to manufacture products in this region and may prevent

shipments from entering or leaving the country. Any such disruptions could have a material negative impact on our business, financial condition and results of operations.

We require air or ocean transport to deliver products built in our various manufacturing locations to our customers. High energy costs have increased our transportation costs which have had a negative impact on our production costs. Transportation costs would also escalate if there were a shortage of air or ocean cargo space and any significant increase in transportation costs would cause an increase in our expenses and negatively impact our business, financial condition and results of operations. In addition, if we are unable to obtain cargo space or secure delivery of components or products due to labor strikes, lockouts, work slowdowns or work stoppages by longshoremen, dock workers, airline pilots or other transportation industry workers, our delivery of products could be delayed.

The initial sales cycle associated with our products is typically lengthy, often lasting from nine to eighteen months, which could cause delays in forecasted sales and cause us to incur substantial expenses before we record any associated revenues.

Our customers normally conduct significant technical evaluations, trials and qualifications of our products before making purchase commitments. This qualification process involves a significant investment of time and resources from both our customers and us in order to ensure that our product designs are fully qualified to perform as required. The qualification and evaluation process, as well as customer field trials, may take longer than initially forecasted, thereby delaying the shipment of sales forecasted for a specific customer for a particular quarter and causing our operating results for the quarter to be less than originally forecasted. Such a sales shortfall would reduce our profitability and negatively impact our business, financial condition and results of operations.

We conduct a significant portion of our business internationally, which exposes us to increased business risks.

For the first quarter of 2010, and for fiscal years 2009 and 2008, international revenues (excluding North American sales) accounted for approximately 71%, 73% and 70% of our net sales, respectively. There are many risks that currently impact, and will continue to impact, our international business and multinational operations, including the following:

- compliance with multiple and potentially conflicting regulations in Europe, Asia and North and South America, including export requirements, tariffs, import duties and other trade barriers, as well as health and safety requirements;
- potential labor strikes, lockouts, work slowdowns and work stoppages at U.S. and international ports;
- differences in intellectual property protections throughout the world;
- difficulties in staffing and managing foreign operations in Europe, Asia and South America, including relations with unionized labor pools in Europe and in Asia;
- longer accounts receivable collection cycles in Europe, Asia and South America;
- currency fluctuations and resulting losses on currency translations;
- terrorist attacks on American companies;
- economic instability, including inflation and interest rate fluctuations, such as those previously seen in South Korea and Brazil;
- competition for foreign-based suppliers throughout the world;
- overlapping or differing tax structures;
- the complexity of global tax and transfer pricing rules and regulations and our potential inability to benefit/offset losses in one tax jurisdiction with income from another;
- cultural and language differences between the United States and the rest of the world; and
- political or civil turmoil, such as that occurring in Thailand.

Any failure on our part to manage these risks effectively would seriously reduce our competitiveness in the wireless infrastructure marketplace.

Protection of our intellectual property is limited.

We rely upon trade secrets and patents to protect our intellectual property. We execute confidentiality and non-disclosure agreements with certain employees and our suppliers, as well as limit access to and distribution of our proprietary information. We have an ongoing program to identify and file applications for U.S. and other international patents.

The departure of any of our management and technical personnel, the breach of their confidentiality and non-disclosure obligations to us, or the failure to achieve our intellectual property objectives could have a material adverse effect on our

business, financial condition and results of operations. We do not have non-compete agreements with our employees who are generally employed on an at-will basis. Therefore, we have had, and may continue to have, employees leave us and go to work for competitors. If we are not successful in prohibiting the unauthorized use of our proprietary technology or the use of our processes by a competitor, our competitive advantage may be significantly reduced which would result in reduced revenues.

We are at risk of third-party claims of infringement that could harm our competitive position.

We have received third-party claims of infringement in the past and have been able to resolve such claims without having a material impact on our business. As the number of patents, copyrights and other intellectual property rights in our industry increases, and as the coverage of these rights and the functionality of the products in the market further overlap, we believe that we may face additional infringement claims. These claims, whether valid or not, could result in substantial cost and diversion of our resources. A third-party claiming infringement may also obtain an injunction or other equitable relief, which could effectively block the distribution or sale of allegedly infringing products, which would adversely affect our customer relationships and negatively impact our revenues.

The communications industry is heavily regulated. We must obtain regulatory approvals to manufacture and sell our products, and our customers must obtain approvals to operate our products. Any failure or delay by us or any of our customers to obtain these approvals could negatively impact our ability to sell our products.

Various governmental agencies have adopted regulations that impose stringent radio frequency emissions standards on the communications industry. Future regulations may require that we alter the manner in which radio signals are transmitted or otherwise alter the equipment transmitting such signals. The enactment by governments of new laws or regulations or a change in the interpretation of existing regulations could negatively impact the market for our products.

The increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for such products, generally following extensive investigation and deliberation over competing technologies. The delays inherent in this type of governmental approval process have caused, and may continue to cause, the cancellation, postponement or rescheduling of the installation of communications systems by our customers. These types of unanticipated delays would result in delayed or canceled customer orders.

We are subject to numerous governmental regulations concerning the manufacturing and use of our products. We must stay in compliance with all such regulations and any future regulations. Any failure to comply with such regulations, and the unanticipated costs of complying with future regulations, may adversely affect our business, financial condition and results of operations.

We manufacture and sell products which contain electronic components, and as such components may contain materials that are subject to government regulation in both the locations that we manufacture and assemble our products, as well as the locations where we sell our products. An example of a regulated material is the use of lead in electronic components. We maintain compliance with all current government regulations concerning the materials utilized in our products, for all the locations in which we operate. Since we operate on a global basis, this is a complex process which requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations. There are areas where future regulations may be enacted which could increase our cost of the components that we utilize. While we do not currently know of any proposed regulation regarding components in our products, which would have a material impact on our business, if there is an unanticipated new regulation which significantly impacts our use of various components or requires more expensive components, that would have a material adverse impact on our business, financial condition and results of operations.

Our manufacturing process is also subject to numerous governmental regulations, which cover both the use of various materials as well as environmental concerns. We maintain compliance with all current government regulations concerning our production processes, for all locations in which we operate. Since we operate on a global basis, this is also a complex process which requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations. There are areas where future regulations may be enacted which could increase our manufacturing costs. One area which has a large number of potential changes in regulations is the environmental area. Environmental areas such as pollution and climate change have had significant legislative and regulatory efforts on a global basis, and there are expected to be additional changes to the regulations in these areas. These changes could directly increase the cost of energy which may have an impact on the way we manufacture products or utilize energy to produce our products. In addition, any new regulations or laws in the environmental area might increase the cost of raw materials we use in our products. While future changes in regulations appears likely, we are currently unable to predict how any such changes will impact us and if such impacts will be material to our business. If there is a new law or regulation that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this would have a material adverse affect on our business, financial condition and results of operations.

The wireless communications infrastructure equipment industry is extremely competitive and is characterized by rapid technological change, frequent new product development, rapid product obsolescence, evolving industry standards and significant price erosion over the life of a product. If we are unable to compete effectively, our business, financial condition and results of operations would be adversely affected.

Our products compete on the basis of the following characteristics:

- performance;
- functionality;
- reliability;
- pricing;
- quality;
- designs that can be efficiently manufactured in large volumes;
- time-to-market delivery capabilities; and
- compliance with industry standards.

If we fail to address the above factors, there could be a material adverse effect on our business, financial condition and results of operations.

Our current competitors include ADC Telecommunications, Inc., CommScope, Inc., Fujitsu Limited, Hitachi Kokusai Electric Inc., Japan Radio Co., Ltd., Kathrein-Werke KG, Mitsubishi Electric Corporation, and Radio Frequency Systems, in addition to a number of privately held companies throughout the world, subsidiaries of certain multinational corporations and the internal manufacturing operations and design groups of the leading wireless infrastructure manufacturers such as Alcatel-Lucent, Ericsson, Huawei, Motorola, Nokia Siemens and Samsung. Some competitors have adopted aggressive pricing strategies in an attempt to gain market share, which in turn, has caused us to lower our prices in order to remain competitive. Such pricing actions have had an adverse effect on our business, financial condition and results of operations. In addition, some competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources than we do and have achieved greater name recognition for their products and technologies than we have. If we are unable to successfully increase our market penetration or our overall share of the wireless communications infrastructure equipment market, our revenues will decline, which would negatively impact our business, financial condition and results of operations.

Our failure to enhance our existing products or to develop and introduce new products that meet changing customer requirements and evolving technological standards could have a negative impact on our ability to sell our products.

To succeed, we must improve current products and develop and introduce new products that are competitive in terms of price, performance and quality. These products must adequately address the requirements of wireless infrastructure manufacturing customers and end-users. To develop new products, we invest in the research and development of wireless communications network products and coverage solutions. We target our research and development efforts on major wireless network deployments worldwide, which cover a broad range of frequency and transmission protocols. In addition, we are currently working on products for next generation networks, as well as development projects for products requested by our customers and improvements to our existing products. The deployment of a wireless network may be delayed which could result in the failure of a particular research or development effort to generate a revenue producing product. Additionally, the new products we develop may not achieve market acceptance or may not be able to be manufactured cost effectively in sufficient volumes. Our research and development efforts are generally funded internally and our customers do not normally pay for our research and development efforts. These costs are expensed as incurred. Therefore, if our efforts are not successful at creating or improving products that are purchased by our customers, there will be a negative impact on our business, financial condition and results of operations due to high research and development expenses.

Our business depends on effective information management systems.

We rely on our enterprise resource planning (ERP) systems to support critical business operations such as invoicing and processing sales orders, inventory control, purchasing and supply chain management, human resources and financial reporting. We periodically implement upgrades to the ERP systems or migrate one or more of our affiliates, facilities or operations from one system to another. If we are unable to adequately maintain these systems to support our developing business requirements or effectively manage any upgrade or migration, we could encounter difficulties that could have a material adverse impact on our business, financial condition and results of operations.

We may experience significant variability in our quarterly and annual effective tax rate.

Variability in the mix and profitability of domestic and international activities, repatriation of earnings from foreign affiliates, identification and resolution of various tax uncertainties and the inability to realize net operating losses and other carry-forwards included in deferred tax assets, among other matters, may significantly impact our effective income tax rate in the future. A significant increase in our effective income tax rate could have a material adverse impact on our business, financial condition and results of operations.

Our business is subject to the risks of earthquakes and other natural catastrophic events, and to interruptions by man-made problems such as computer viruses or terrorism.

Our corporate headquarters and a large portion of our U.S.-based research and development operations are located in the State of California in regions known for seismic activity. In addition, we have production facilities and have outsourced some of our production to contract manufacturers in Asia, another region known for seismic activity. A significant natural disaster, such as an earthquake in either of these regions, could have a material adverse effect on our business, financial condition and results of operations. In addition, despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, financial condition and results of operations.

At times during 2008 and 2009, our stock price did not meet the minimum bid price for continued listing on the NASDAQ Global Select Market. Our ability to publicly or privately sell equity securities and the liquidity of our Common Stock could be adversely affected if we are delisted from the NASDAQ Global Select Market or if we are unable to transfer our listing to another stock market.

The bid price for our Common Stock on the NASDAQ Global Select Market was below \$1.00 for a significant period of time during fiscal 2009. The NASDAQ Marketplace Rules provide that one of the continuing listing requirements for an issuer's common stock is having a minimum bid price of \$1.00 per share. NASDAQ announced a moratorium on the enforcement of this minimum bid requirement. However, this moratorium was rescinded on July 31, 2009, and NASDAQ has not indicated an intention to reinstate the moratorium. We cannot control whether NASDAQ will reinstate the moratorium again in the future or whether NASDAQ will make any other concessions to allow issuers to avoid potential delisting. Accordingly, if the bid price of our Common Stock does not stay above \$1.00 per share, we risk being delisted from the NASDAQ Global Select Market.

If our Common Stock is delisted by NASDAQ, our Common Stock may be eligible to trade on the OTC Bulletin Board maintained by NASDAQ, another over-the-counter quotation system, or on the pink sheets. Each of these alternatives will likely result in it being more difficult for investors to dispose of, or obtain accurate quotations as to the market value of our Common Stock. In addition, there can be no assurance that our Common Stock will be eligible for trading on any of such alternative exchanges or markets.

In addition, delisting from NASDAQ could adversely affect our ability to raise additional capital through the public or private sale of equity securities. Delisting from NASDAQ also would make trading our Common Stock more difficult for investors, potentially leading to further declines in our share price and inhibiting a stockholder's ability to liquidate all or part of their investment in Powerwave.

The price of our Common Stock has been, and may continue to be, volatile and our shareholders may not be able to resell shares of our Common Stock at or above the price paid for such shares.

The price for shares of our Common Stock has exhibited high levels of volatility with significant volume and price fluctuations, which makes our Common Stock unsuitable for many investors. For example, for the three years ended January 3, 2010, the closing price of our Common Stock ranged from a high of \$7.45 to a low of \$0.23 per share. At times, the fluctuations in the price of our Common Stock may have been unrelated to our operating performance. These broad fluctuations may negatively impact the market price of shares of our Common Stock. The price of our Common Stock may also have been influenced by:

- fluctuations in our results of operations or the operations of our competitors or customers;
- the aggregate amount of our outstanding debt and perceptions about our ability to make debt service payments;
- failure of our results of operations and sales revenues to meet the expectations of stock market analysts and investors;
- reductions in wireless infrastructure demand or expectations regarding future wireless infrastructure demand by our customers;
- delays or postponement of wireless infrastructure deployments, including new 3G deployments;

- changes in stock market analyst recommendations regarding us, our competitors or our customers;
- the timing and announcements of technological innovations, new products or financial results by us or our competitors;
- lawsuits attempting to allege misconduct by the Company and its officers;
- increases in the number of shares of our Common Stock outstanding; and
- changes in the wireless industry.

In addition, the potential conversion of our outstanding convertible debt instruments would add approximately 58.9 million shares of Common Stock to our outstanding shares. Such an increase may lead to sales of shares or the perception that sales may occur, either of which may adversely affect the market for, and the market price of, our Common Stock. Any potential future sale or issuance of shares of our Common Stock or instruments convertible or exchangeable into shares of our Common Stock, or the perception that such sales or transactions could occur, could adversely affect the market price of our Common Stock.

Based on the above, we expect that our stock price will continue to be extremely volatile. Therefore, we cannot guarantee that our investors will be able to resell our Common Stock at or above the price at which they purchased it.

Failure to maintain effective internal controls over financial reporting could adversely affect our business and the market price of our Common Stock.

Pursuant to rules adopted by the SEC under the Sarbanes-Oxley Act of 2002, we are required to assess the effectiveness of our internal controls over financial reporting and provide a management report on our internal controls over financial reporting in all annual reports. This report contains, among other matters, a statement as to whether our internal controls over financial reporting are effective and the disclosure of any material weaknesses in our internal controls over financial reporting identified by management. Section 404 also requires our independent registered public accounting firm to audit management's report.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Auditing Standard No. 5 provides the professional standards and related performance guidance for auditors to report on the effectiveness of internal control over financial reporting under Section 404. Management's assessment of internal controls over financial reporting requires management to make subjective judgments, and some of these judgments will be in areas that may be open to interpretation. Therefore, our management's report on our internal controls over financial reporting may be difficult to prepare, and our auditors may not agree with our management's assessment.

Subsequent to the issuance of our consolidated financial statements for the year ended January 3, 2010, we identified an error in the accounting for our Existing Notes and the application of ASC Topic 470-20, "*Debt with Conversion and Other Options*," to that instrument. We did not timely adopt this new accounting standard due to insufficient analysis of the impact of the standard on our financial statements which resulted in a restatement of the 2009 consolidated financial statements. This is a material weakness and during the first quarter of 2010, we completed the design and implementation of control activities to remediate this issue. As a result, we currently believe our internal controls over financial reporting are effective. We are required to comply with Section 404 on an annual basis, and if, in the future, we identify one or more material weaknesses in our internal controls over financial reporting during this continuous evaluation process, our management may not be able to assert that such internal controls are effective. Although we currently anticipate satisfying the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion for our future evaluation, testing and any required remediation due in large part to the fact that there are limited precedents available by which to measure compliance with these new requirements. Therefore, if we are unable to assert that our internal controls over financial reporting are effective in the future, or if our auditors are unable to attest that our management's report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our business and the market price of our Common Stock.

Negative conditions in the financial and credit markets may impact our liquidity.

Recent dramatic changes in the global financial markets have weakened global economic conditions. These changes have had, and we anticipate they will continue to have, an impact on our liquidity. These impacts include some of our customers facing liquidity shortages which affect their payments to us, and the general tightness in the financial credit markets which limits credit available to us as well as some of our customers. Given our current operating cash flow, financial assets, access to the capital markets and available lines of credit, we continue to believe that we will be able to meet our financing needs for the foreseeable future. However, there can be no assurance that global economic conditions will not worsen, which could have a corresponding negative effect on our liquidity. In addition, while we believe that we have invested our financial assets in sound financial institutions, should these institutions limit access to our assets, breach their

agreements with us or fail, we may be adversely affected. Furthermore, volatile financial and credit markets may reduce our ability to raise capital or refinance our debt on favorable terms, if at all, which could materially impact our ability to meet our obligations. As market conditions change, we will continue to monitor our liquidity position.

Our shareholder rights plan and charter documents could make it more difficult for a third-party to acquire us, even if doing so would be beneficial to our shareholders.

Our shareholder rights plan and certain provisions of our certificate of incorporation and Delaware law are intended to encourage potential acquirers to negotiate with us and allow our Board of Directors the opportunity to consider alternative proposals in the interest of maximizing shareholder value. However, such provisions may also discourage acquisition proposals or delay or prevent a change in control, which in turn, could harm our stock price and our shareholders.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The following table details the repurchases that were made during the first quarter of 2010:

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (In thousands)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (In thousands)
January 4 – February 7	—	—	—	—
February 8 – March 7	4,260 ⁽¹⁾	\$ 1.18	—	—
March 8 – April 4	—	—	—	—

(1) During February 2010, 4,260 shares of Common Stock were surrendered to us to cover tax withholding obligations with respect to the vesting of 9,688 shares under restricted stock grants.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description</u>
4.1	Indenture, dated as of March 15, 2010, by and between Powerwave Technologies, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2010).
4.2	Form of Global 1.875% Convertible Senior Subordinated Notes due 2024 (included in Exhibit 4.1).
4.3	Form of Exchange Agreement relating to the exchange of the Company's outstanding 1.875% Convertible Subordinated Notes due 2024 for 1.875% Convertible Senior Subordinated Notes due 2024 (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2010).
10.1	Amendment Number Two to Credit Agreement dated March 11, 2010 between Powerwave Technologies, Inc. with the lenders named therein and Wells Fargo Capital Finance, LLC, as arranger and administrative agent.
10.2	Waiver, Consent, Amendment Number Three to Credit Agreement and Amendment Number Two to Security Agreement dated April 1, 2010 with the lenders named therein and Wells Fargo Capital Finance, LLC, as arranger and administrative agent.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.*
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.*

* In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

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

Date: May 6, 2010

POWERWAVE TECHNOLOGIES, INC.

By: /s/ KEVIN T. MICHAELS _____

Kevin T. Michaels
Chief Financial Officer

