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

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**Form 10-Q**

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-21507

**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)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of October 29, 2007, the number of outstanding shares of Common Stock, par value \$0.0001 per share, of the Registrant was 131,025,207.

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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 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, cash flows and acceptance, the timing of and demand for next generation products, customer relationships, tax rates, employee relations, the timing of and cost saving synergies from integration activities of the former REMEC, Inc.'s Wireless Systems Businesses ("REMEC Wireless") and the Wireless Infrastructure Division Business of Filtronic plc ("Filtronic Wireless"), restructuring charges, the completion of integration activities related to Filtronic Wireless, the timing of the sale of the facility in Costa Rica 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 in under Part II, 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](http://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 and Annual Report 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](http://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.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(In thousands)**

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 190,430	\$ 41,544
Restricted cash	7,260	6,292
Accounts receivable, net of allowance for sales returns and doubtful accounts of \$11,845 and \$9,074, respectively	210,952	211,421
Inventories	134,393	163,752
Prepaid expenses and other current assets	35,844	59,689
Total current assets	<u>578,879</u>	<u>482,698</u>
Property, plant and equipment, net	112,145	138,672
Intangible assets, net	74,151	95,180
Asset held for sale	4,300	5,924
Goodwill	502,267	485,475
Other non-current assets	10,487	7,783
	<u>\$ 1,282,229</u>	<u>\$ 1,215,732</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 127,195	\$ 115,966
Short-term debt	130,000	—
Accrued income taxes	21,739	19,627
Accrued expenses and other current liabilities	88,585	97,641
Total current liabilities	<u>367,519</u>	<u>233,234</u>
Long-term debt	350,000	330,000
Other non-current liabilities	1,835	900
Total liabilities	<u>719,354</u>	<u>564,134</u>
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$0.0001 par value, 5,000 shares authorized and no shares issued or outstanding	—	—
Common stock, \$0.0001 par value, 250,000 shares authorized, 130,953 shares issued and 130,081 shares issued and outstanding, respectively	758,216	751,380
Accumulated other comprehensive income	61,259	35,210
Accumulated deficit	(256,600)	(134,992)
Total shareholders' equity	<u>562,875</u>	<u>651,598</u>
	<u>\$ 1,282,229</u>	<u>\$ 1,215,732</u>

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Net sales	\$ 200,673	\$ 145,768	\$ 549,946	\$ 547,134
Cost of sales:				
Cost of goods	160,499	121,789	447,306	429,393
Intangible asset amortization	—	3,615	14,716	9,594
Acquired inventory incremental costs	4,910	—	—	235
Restructuring and impairment charges	7,998	—	24,656	—
Total cost of sales	<u>173,407</u>	<u>125,404</u>	<u>486,678</u>	<u>439,222</u>
Gross profit	27,266	20,364	63,268	107,912
Operating expenses:				
Sales and marketing	13,090	9,556	40,351	26,765
Research and development	17,896	15,513	65,965	45,944
General and administrative	18,282	13,210	56,298	39,564
Intangible asset amortization	2,656	2,487	8,313	6,739
Restructuring and impairment charges	224	20,854	5,783	21,025
Total operating expenses	<u>52,148</u>	<u>61,620</u>	<u>176,710</u>	<u>140,037</u>
Operating loss	(24,882)	(41,256)	(113,442)	(32,125)
Other income (expense), net	(2,279)	2,962	(3,484)	4,425
Loss from continuing operations before income taxes	(27,161)	(38,294)	(116,926)	(27,700)
Income tax provision (benefit)	1,457	(9,080)	3,344	(6,836)
Loss from continuing operations	(28,618)	(29,214)	(120,270)	(20,864)
Discontinued operations, net of income taxes:				
Income from discontinued operations	—	115	—	2,107
Loss on sales of subsidiary	—	(25,271)	—	(25,271)
Total discontinued operations, net of income taxes	<u>—</u>	<u>(25,156)</u>	<u>—</u>	<u>(23,164)</u>
Net loss	<u>\$ (28,618)</u>	<u>\$ (54,370)</u>	<u>\$ (120,270)</u>	<u>\$ (44,028)</u>
Basic loss per share:				
Loss from continuing operations	\$ (0.22)	\$ (0.26)	\$ (0.92)	\$ (0.19)
Loss from discontinued operations, net of income taxes	—	(0.22)	—	(0.20)
Net loss	<u>\$ (0.22)</u>	<u>\$ (0.48)</u>	<u>\$ (0.92)</u>	<u>\$ (0.39)</u>
Diluted loss per share:				
Loss from continuing operations	\$ (0.22)	\$ (0.26)	\$ (0.92)	\$ (0.19)
Loss from discontinued operations, net of income taxes	—	(0.22)	—	(0.20)
Net loss	<u>\$ (0.22)</u>	<u>\$ (0.48)</u>	<u>\$ (0.92)</u>	<u>\$ (0.39)</u>
Shares used in the computation of loss per share:				
Basic	130,738	112,306	130,411	112,044
Diluted	130,738	112,306	130,411	112,044

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

**POWERWAVE TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Unaudited)**  
**(In thousands)**

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2007</u>	<u>October 1, 2006</u>	<u>September 30, 2007</u>	<u>October 1, 2006</u>
Net loss	\$ (28,618)	\$ (54,370)	\$ (120,270)	\$ (44,028)
Other comprehensive income:				
Foreign currency translation adjustments	21,428	19,700	26,050	29,727
Comprehensive loss	<u>\$ (7,190)</u>	<u>\$ (34,670)</u>	<u>\$ (94,220)</u>	<u>\$ (14,301)</u>

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

**POWERWAVE TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2007</u>	<u>October 1,</u> <u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (120,270)	\$ (44,028)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	42,564	37,653
Loss on sale of subsidiary	—	25,271
Non-cash restructuring and impairment charges	30,439	20,854
Provision for sales returns and doubtful accounts	3,075	1,033
Provision for losses on inventories	6,989	9,230
Stock-based compensation expense	3,601	2,901
Gain on disposal of property, plant and equipment	(241)	(1,264)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	4,357	31,293
Inventories	19,722	(52,359)
Prepaid expenses and other current assets	19,158	(4,766)
Accounts payable	9,208	(14,005)
Accrued expenses and other current liabilities	(27,314)	(41,705)
Other non-current assets	(1,722)	(6,654)
Other non-current liabilities	(825)	(656)
Net cash used in operating activities	<u>(11,259)</u>	<u>(37,202)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(9,709)	(10,408)
Restricted cash	(968)	(643)
Proceeds from the sale of property, plant and equipment	13,100	21,590
Proceeds from the sale of business unit, net	—	24,723
Acquisitions, net of cash acquired	6,783	(7,350)
Net cash provided by investing activities	<u>9,206</u>	<u>27,912</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of convertible debt	150,000	—
Debt issuance costs	(4,592)	—
Proceeds from stock-based compensation arrangements	3,363	8,995
Net cash provided by financing activities	<u>148,771</u>	<u>8,995</u>
Impact of foreign exchange rate changes on cash balances	2,168	4,114
Net increase in cash and cash equivalents	<u>148,886</u>	<u>3,819</u>
Cash and cash equivalents at beginning of period	41,544	232,477
Cash and cash equivalents at end of period	<u>\$ 190,430</u>	<u>\$ 236,296</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 3,500	\$ 3,500
Income taxes, net	\$ 6,116	\$ 344
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:</b>		
Unpaid purchases of property and equipment excluded from cash flows from operating activities and investing activities	\$ 349	\$ —
Recognition of uncertain income tax positions (see Note 8)	\$ 1,337	\$ —
Unpaid contingent consideration from a prior acquisition	\$ 4,105	\$ —

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

**POWERWAVE TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Tabular amounts in thousands, except per share data)**

**Note 1. Nature of Operations**

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

**Note 2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying condensed consolidated financial statements of Powerwave 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 reporting. The interim financial information is unaudited, but 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 intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 30, 2007 (“fiscal 2007”). The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Certain prior period amounts have been reclassified to conform to the current period presentation.

*Acquisitions and Divestitures*

On September 29, 2006, Powerwave completed the sale of Arkivator Falköping AB (“Arkivator”), a wholly-owned subsidiary. Arkivator consisted of all of the Company’s contract manufacturing segment. Therefore, with its sale, the contract manufacturing segment of the Company was classified as discontinued operations and its results of operations have been removed from continuing operations for all historical periods presented.

On October 15, 2006, Powerwave completed the acquisition of the Wireless Infrastructure Division business of Filtronic plc, (the “Filtronic Wireless Acquisition”). Therefore, these condensed consolidated financial statements include the operations of the Filtronic Wireless Acquisition for the three and nine months ended September 30, 2007, but such results are not included for the three and nine months ended October 1, 2006.

*Adoption of FASB Interpretation No. 48—Accounting for Uncertainty in Income Taxes*

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. The cumulative effect of applying the provisions of FIN 48 has been reported as an adjustment to the opening balance of retained earnings as of January 1, 2007 (see Note 8).

*New Accounting Pronouncements*

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 159 on its results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement". SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and required additional disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements that are already required or permitted by other accounting standards. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting SFAS No. 157 will have on its results of operations and financial condition.

#### *Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment*, (SFAS No. 123R). Under the fair value recognition provision of SFAS No. 123R, 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 and restricted stock unit awards are based on the closing market price of the Company's common stock on the date of grant. The fair value of an award, 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.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statements of cash flows. SFAS 123R requires that the realized tax benefit related to the excess of the deductible amount over the compensation cost recognized (excess tax benefits) be classified in the statement of cash flow as a cash inflow from financing activities and a cash outflow from operating activities. At the end of 2004 the Company took a 100% valuation allowance against our U.S. deferred tax assets. This valuation allowance is still in place. Accordingly the Company has booked no tax benefit related to stock-based compensation as financing cash inflows and operating cash outflows on our accompanying condensed consolidated statements of cash flows for the nine months ended September 30, 2007.

The Company has elected to follow the alternative transition method for computing its additional paid-in capital pool. In addition, the Company treats the tax deductions from stock options as being realized when they reduce taxes payable in accordance with the principles and timing under the relevant tax law. Under this transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards previously calculated under SFAS No. 123 for pro forma disclosure purposes.

During the three and nine months ended September 30, 2007, the Company recognized total compensation expense of \$1.4 million and \$3.6 million respectively, which consists of \$1.3 million and \$3.4 million for stock options and restricted stock and \$0.1 and \$0.2 million for employee stock purchase plan awards in its consolidated statement of operations.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Cost of sales	\$ 238	\$ 50	\$ 472	\$ 145
Sales and marketing expenses	140	79	384	221
Research and development expenses	196	105	506	359
General and administrative expenses	815	684	2,239	2,176
	<u>1,389</u>	<u>918</u>	<u>3,601</u>	<u>2,901</u>
Increase in operating loss before income taxes				
Income tax effect using the current period effective tax rate	75	220	103	725
	<u>\$ 1,314</u>	<u>\$ 698</u>	<u>\$ 3,498</u>	<u>\$ 2,176</u>
Increase in operating loss per share:				
Basic	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>

The Black-Scholes 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 the actual vesting periods of the grants. 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 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 option valuation model, the estimated weighted average fair value of options granted during the third quarter of fiscal years 2007 and 2006 were \$2.70 per share and \$2.57 per share, respectively.

The fair value of options granted under the Company's stock incentive plans during the first nine months of fiscal 2007 and 2006 was estimated on the date of grant using the Black-Scholes option-pricing model utilizing the multiple option approach and the following weighted-average assumptions:

	Nine Months Ended	
	September 30, 2007	October 1, 2006
Weighted average risk-free interest rate	4.3%	4.8%
Expected life (in years)	4.5	4.6
Expected stock volatility	44%	45%
Dividend yield	None	None

During the first nine months of 2007, the Company issued 155,000 shares of restricted stock at a weighted average grant date fair value of \$6.51 per share that vest over four years.

As of September 30, 2007, unrecognized compensation expense related to the unvested portion of the Company's stock-based awards and employee stock purchase plan was approximately \$6.4 million, which is expected to be recognized over a weighted-average period of 1.7 years.

The following table represents stock option activity for the nine months ended September 30, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value <sup>(1)</sup>
Outstanding at December 31, 2006	7,056	\$ 9.57		
Granted	1,701	\$ 6.51		
Exercised	(488)	\$ 4.34		
Cancelled	(914)	\$ 10.43		
Outstanding at September 30, 2007	<u>7,355</u>	\$ 9.10	6.27	<u>\$ 1,697</u>
Vested or expected to vest at September 30, 2007	<u>6,426</u>	\$ 9.37	5.94	<u>\$ 1,651</u>
Exercisable at September 30, 2007	<u>3,967</u>	\$ 10.77	4.32	<u>\$ 1,541</u>

<sup>(1)</sup> These amounts represent the difference between the exercise price and \$6.16, the Company's closing common stock price reported by Nasdaq on September 28, 2007, the last trading day of the fiscal quarter, for all in-the-money options outstanding.

### Note 3. Inventories

Net inventories consist of the following:

	September 30, 2007	December 31, 2006
Parts and components	\$ 60,914	\$ 66,181
Work-in-process	11,012	12,604
Finished goods	62,467	84,967
Total inventories, net	<u>\$ 134,393</u>	<u>\$ 163,752</u>

Inventories are net of an allowance for excess and obsolete inventory of approximately \$33.5 million and \$48.9 million as of September 30, 2007 and December 31, 2006, respectively.

#### Note 4. Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 is as follows:

Balance, December 31, 2006	\$ 485,475
Goodwill from acquisitions	1,774
Effect of exchange rates	15,018
Balance, September 30, 2007	<u>\$ 502,267</u>

The net increase in goodwill of approximately \$1.8 million was due primarily to contingent consideration of \$5.0 million due from a prior acquisition, as the contingency was resolved in the second quarter of 2007, plus a payment of \$3.0 million related to an adjustment of the purchase price from the acquisition of REMEC, Inc.'s Wireless Systems Business. These increases were offset in part by a reduction of the purchase price of \$5.4 million from the acquisition of the Wireless Infrastructure Division business of Filtronic Plc, and a reduction of \$0.8 million in excess restructuring reserves.

#### Note 5. Asset Held for Sale

As part of the restructuring plan related to the Company's acquisition of selected assets and liabilities of REMEC, Inc.'s Wireless Systems Business (the "REMEC Wireless Acquisition"), the Company moved the production of certain wireless communications equipment out of its Costa Rican manufacturing location with the majority of the products transferred to manufacturing locations in Asia or discontinued. In conjunction with these production moves, the Company vacated the building in Barreal de Heredia, Costa Rica. In the fourth quarter of 2006, the Company completed the final consolidation of the building and made it available for sale. The Company is actively marketing the building and expects that the final sale and disposal of the building will be completed in early 2008. The carrying value of the building has been separately presented in the accompanying balance sheet in the caption "Asset held for sale," and this asset is no longer being depreciated. In the nine months ended September 30, 2007, the Company recorded an impairment charge of approximately \$1.6 million related to the building to reflect its estimated current market value.

#### Note 6. Other Income, Net

Other income, net, includes gains and losses on foreign currency transactions, interest income and interest expense associated with our subordinated convertible notes and fees on our revolving credit agreement. The components of other income, net, are as follows:

	Three Months Ended		Nine months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Interest income	\$ 455	\$ 1,988	\$ 931	\$ 6,273
Interest expense	(2,349)	(2,020)	(6,823)	(6,002)
Foreign currency gain (loss), net	(1,843)	2,695	(99)	2,961
Other income, net	1,458	299	2,507	1,193
Total	<u>\$ (2,279)</u>	<u>\$ 2,962</u>	<u>\$ (3,484)</u>	<u>\$ 4,425</u>

#### Note 7. Restructuring and Impairment Charges

##### *2007 Restructuring Plan*

In the second quarter of 2007, the Company formulated and began to implement a plan to further consolidate operations and reduce operating costs. As part of this plan, the Company closed its design and development centers in El Dorado Hills, California and Toronto, Canada, and discontinued its design and development center in Shipley, UK. The Company is still evaluating further actions and expects to finalize these plans by the fourth quarter of 2007.

A summary of the activity affecting the Company's accrued restructuring liability related to the 2007 Restructuring Plan in the nine months ended September 30, 2007 is as follows:

	Workforce Reductions	Facility Closures & Equipment Write-downs	Total
Balance at December 31, 2006	\$ —	\$ —	\$ —
Amounts accrued	3,301	739	4,040
Amounts paid/incurred	(3,280)	(255)	(3,535)
Effects of exchange rates	—	—	—
Balance at September 30, 2007	<u>\$ 21</u>	<u>\$ 484</u>	<u>\$ 505</u>

The costs associated with these exit activities were recorded in accordance with the accounting guidance in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, ("FAS 146"). The restructuring and integration plan is subject to continued future refinement as additional information becomes available. We expect that the workforce reduction amounts will be paid by the end of the fourth quarter of 2007 and the facility closure amounts will be paid out over the remaining lease terms which extend through the first quarter of 2008.

#### *2006 Plan for Consolidation of Operations*

In the fourth quarter of 2006, and in connection with the Filtronic Wireless Acquisition, the Company formulated and began to implement a plan to restructure our global manufacturing operations with an initial primary focus on operations in China. As part of this plan to reduce our costs, the Company is consolidating its manufacturing facilities in Wuxi and Shanghai, China, into the manufacturing facility located in Suzhou, China, acquired in the Filtronic Wireless Acquisition. The plan was finalized in the second quarter of 2007 and includes reduction of workforce, impairment and disposal of inventory and equipment utilized in discontinued product lines, and facility closure costs. Management made a decision to cease production of certain product lines manufactured in the two plants that are closing in China, as well as products manufactured in Costa Rica and produced at a contract manufacturer in China due to efforts to reduce costs and to eliminate duplicative product lines. The Costa Rica manufacturing facility was closed in December 2006.

In the first nine months of 2007, the Company recorded a charge of approximately \$4.2 million for the impairment of the related inventory that either has been or will be disposed and is not expected to generate future revenue. The Company also recorded a net impairment charge of \$5.7 million related to manufacturing equipment located in our plants to be closed in both China and Costa Rica. In addition, the Company recorded a charge of \$9.3 million related to the settlement of its revenue and margin commitments associated with the sale of its Philippines manufacturing facility in 2006, as well as an impairment charge of \$1.4 million on the land at its Philippines manufacturing facility that was retained by the Company at the time of the sale. Based upon a valuation of the land that the Company obtained when it settled its revenue and margin commitments, the Company recorded an impairment charge of \$1.4 million to write it down to its net realizable value. The Company also recorded a charge of \$0.5 million related to certain other vendor cancellation charges for purchase order commitments on closed facilities. These charges were recorded as restructuring and impairment charges within cost of sales in the condensed consolidated statements of operations.

During fiscal 2006, Powerwave listed for sale three facilities located in Sweden and entered into sale agreements for two of the three facilities. The prices negotiated resulted in a net loss of approximately \$3.5 million. The total amount of these impairment charges was recognized in operating expenses for fiscal 2006. In the third quarter of 2006, the Company recognized impairment in the value of its remaining facility in Sweden of approximately \$18.3 million based upon the estimated selling price. In the second quarter of 2007, the Company sold the facility for approximately \$11.8 million and realized a loss of approximately \$1.0 million.

In December 2006, the Company completed the closure of its manufacturing facility in Barreal de Heredia, Costa Rica and offered the building for sale. The Company recorded a further impairment charge of \$1.6 million related to the building in the first nine months of 2007 and expects that the sale of the building will be completed in early 2008 (see Note 5). The impairment charge was recorded as a restructuring and impairment charge within cost of sales in the condensed consolidated statement of operations.

A summary of the activity affecting the Company's accrued restructuring liability related to the 2006 Plan for Consolidation of Operations for the fiscal year ended December 31, 2006 and the nine months ended September 30, 2007 is as follows:

	Workforce Reductions	Facility Closures & Equipment Write-downs	Total
Amounts accrued	\$ 5,189	\$ 250	\$ 5,439
Amounts paid/incurred	(300)	—	(300)
Balance at December 31, 2006	4,889	250	5,139
Amounts accrued	515	1,726	2,241
Amounts paid/incurred	(4,774)	(1,456)	(6,230)
Effects of exchange rates	(59)	14	(45)
Balance at September 30, 2007	\$ 571	\$ 534	\$ 1,105

The costs associated with these exit activities were recorded in accordance with the accounting guidance in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, ("FAS 146"). Our restructuring and integration plans are subject to continued future refinement as additional information becomes available.

#### *Integration of LGP Allgon and REMEC's Wireless Systems Business*

The Company recorded liabilities in connection with the acquisitions for estimated restructuring and integration costs related to the consolidation of REMEC's Wireless Systems Business and LGP Allgon operations, 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 Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (or "95-3"). The implementation of the restructuring and integration plan is substantially complete.

A summary of the activity affecting the Company's accrued restructuring liability related to the integration of the REMEC Wireless business and LGP Allgon for the year ended December 31, 2006 and the nine months ended September 30, 2007 is as follows:

	Workforce Reductions	Facility Closures & Equipment Write-downs	Other	Total
Balance at January 1, 2006	\$ 8,787	\$ 7,359	\$ 243	\$ 16,389
Amounts accrued in purchase accounting	(2,359)	187	—	(2,172)
Amounts paid/incurred	(4,887)	(3,757)	(50)	(8,694)
Effect of exchange rates	545	(80)	5	470
Balance at December 31, 2006	2,086	3,709	198	5,993
Excess reserves offset to goodwill	(830)	—	—	(830)
Amounts accrued	—	403	—	403
Amounts paid/incurred	(1,087)	(2,112)	(198)	(3,397)
Effect of exchange rates	(1)	(10)	—	(11)
Balance at September 30, 2007	\$ 168	\$ 1,990	\$ —	\$ 2,158

We expect that the workforce reduction amounts will be paid out over the next 9 months and the facility closure amounts will be paid out over the remaining lease terms which approximate 15 months.

#### **Note 8. 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. In accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, 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 judgments 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, 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 such valuation allowances based on operating results and its assessment of the likelihood of future taxable income and developments in the relevant tax jurisdictions. During the first quarter of 2007, and based on historical and forecasted earnings in Finland, the Company determined that it was not more likely than not that certain net deferred tax assets in Finland would be realized. Based on this determination, the Company established a valuation allowance against these net deferred tax assets in Finland. Additionally, the Company continued to maintain a valuation allowance against its net deferred tax assets in the U.S., Sweden and UK jurisdictions as of September 30, 2007, due to uncertainties that such net deferred tax assets will be realized.

Acquired tax liabilities related to prior tax returns of acquired entities at the date of purchase are recognized based on the Company's estimate of the ultimate settlement that may be accepted by the tax authorities. The Company continually evaluates these tax-related matters. At the date of any material change in the Company's estimate of items relating to an acquired entity's prior tax returns, and at the date that the items are settled with the tax authorities, any liabilities previously recognized are adjusted to increase or decrease the remaining balance of goodwill attributable to that acquisition.

In July 2006, the FASB issued FIN 48, which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns for all open tax years in these jurisdictions. The periods subject to examination for the Company's U.S. federal return are the 2003 through 2006 tax years, including adjustments to net operating loss and credit carryovers to those years. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitation generally ranging from 3 to 6 years.

A reserve for uncertain income tax positions has been recorded pursuant to FIN 48 in the amount of \$4.0 million in taxes and accrued penalties and interest of \$0.2 million. Of this amount, \$1.3 million would affect tax expense if the uncertain tax benefits were recognized and \$2.7 million would result in a decrease of deferred tax assets in jurisdictions where they are currently offset by a full valuation allowance. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense which were \$0.1 million for the nine months ended September 30, 2007.

The Company has been under examination by the Internal Revenue Service for the 2004 and 2005 tax years, respectively. The Company has reached a settlement with the IRS for these years totaling \$0.7 million, which is included in the income tax provision for the nine months ended September 30, 2007.

## **Note 9. Commitments and Contingencies**

In the first quarter of 2007, four purported shareholder class action complaints were filed in the United States District Court for the Central District of California against the Company, its President and Chief Executive Officer, its former Executive Chairman of the Board of Directors and its Chief Financial Officer. The complaints are Jerry Crafton v. Powerwave Technologies, Inc., et al., Kenneth Kwan v. Powerwave Technologies, Inc., et al., Achille Tedesco v. Powerwave Technologies, Inc., et al. and Farokh Etemadieh v. Powerwave Technologies, Inc. et al. and were brought under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The complaints purport to state claims on behalf of all persons who purchased Powerwave securities between May 2, 2005 and October 9, 2006 and seek compensatory damages in an amount to be proven at trial. The essence of the allegations are that the defendants made misleading statements or omissions concerning the Company's projected and actual sales revenues, the integration of certain acquisitions and the sufficiency of the Company's internal controls. In June 2007, the four cases were consolidated into one case and a lead plaintiff was appointed. In October 2007, the lead plaintiff filed an amended complaint asserting the same causes of action. The amended complaint purports to state claims on behalf of all persons who purchased Powerwave securities between May 2, 2005 and November 2, 2006. The Company believes that the purported consolidated shareholder class action is without merit and intends to defend it vigorously.

In March 2007, one additional lawsuit that relates to the pending shareholder class action was filed. The lawsuit, Cucci v. Edwards, et al., filed in the Superior Court of California, is a shareholder derivative action, purported to be brought by an individual shareholder on behalf of Powerwave, against current and former directors of Powerwave. Powerwave is also named as a nominal

defendant. The allegations of the derivative complaint closely resemble those in the class action and pertain to the time period of May 2, 2005 through October 9, 2006. Based on those allegations, the derivative complaint asserts various claims for breach of fiduciary duty, waste of corporate assets, mismanagement, and insider trading under state law. The derivative complaint has been removed to federal court and the case has been stayed by court order pending a resolution of the motion to dismiss the related securities class action litigation described above. Powerwave disputes the allegations raised in the derivative action and plans to pursue a vigorous defense of this matter.

## Note 10. Contractual Guarantees and Indemnities

### *Warranty Reserves*

The Company establishes reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with its customers. The Company also has contractual requirements with various customers that could require the Company to incur costs to repair an epidemic defect with respect to its products outside of the normal warranty period if such defect were to occur. The Company's warranty reserves are generally established at the time of sale and updated throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods. The Company also accrues additional warranty liabilities for significant and unusual product performance issues at the time such issues are identified and the associated warranty related costs can be reasonably estimated. A summary of the activity that affected the Company's accrued warranty costs for the nine months ended September 30, 2007 and October 1, 2006 are as follows:

Description	9 Months Ended	
	September 30, 2007	October 1, 2006
Warranty reserve beginning balance	\$ 40,273	\$ 20,321
Reserve balances recorded or assumed by acquisition	—	9,500
Reductions for warranty costs incurred	(16,788)	(6,786)
Warranty accrual related to current period sales	7,603	7,416
Change in estimate related to previous warranty accruals	(1,935)	—
Effect of exchange rates	334	492
Warranty reserve ending balance	<u>\$ 29,487</u>	<u>\$ 30,943</u>

During the normal course of its business, Powerwave makes certain contractual guarantees and indemnities pursuant to which the Company may be required to make future payments under specific circumstances. Powerwave has not recorded any liability for these contractual guarantees and indemnities in the accompanying condensed consolidated financial statements. A description of significant contractual guarantees and indemnities existing as of September 30, 2007 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 our customers as well as manufacturing service agreements with our 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, Powerwave 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.

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

### 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. 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 bank, 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 Powerwave'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 November 2004, July 2003 and in September 2007, 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 11. Earnings (Loss) Per Share

In accordance with SFAS No. 128, *Earning 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 32,188,723 and 31,256,793 related to the Company's stock option programs and convertible debt have been excluded from diluted weighted average common shares for the three and nine months ended September 30, 2007, respectively, as the effect would be anti-dilutive. Potential common shares of 31,185,734 and 32,017,336 related to the Company's stock option programs and convertible debt have been excluded from diluted weighted average common shares for the three and nine months ended October 1, 2006, respectively, as the effect would be anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
<b>Basic:</b>				
Loss from continuing operations	\$ (28,618)	\$ (29,214)	\$ (120,270)	\$ (20,864)
Weighted average common shares	130,738	112,306	130,411	112,044
Basic loss per share from continuing operations	\$ (0.22)	\$ (0.26)	\$ (0.92)	\$ (0.19)
Loss from discontinued operations, net of tax	\$ —	\$ (25,156)	\$ —	\$ (23,164)
Loss per share from discontinued operations, net of tax	\$ —	\$ (0.22)	\$ —	\$ (.20)
Net loss	\$ (28,618)	\$ (54,370)	\$ (120,270)	\$ (44,028)
Net loss per share	\$ (0.22)	\$ (0.48)	\$ (0.92)	\$ (.39)
<b>Diluted:</b>				
Loss from continuing operations	\$ (26,618)	\$ (29,214)	\$ (120,270)	\$ (20,864)
Interest expense of convertible debt, net of tax	—	—	—	—
Loss from continuing operations, as adjusted	\$ (28,618)	\$ (29,214)	\$ (120,270)	\$ (20,864)
Weighted average common shares	130,738	112,306	130,411	112,044
Potential common shares	—	—	—	—
Weighted average common shares, as adjusted	130,738	112,306	130,411	112,044
Diluted earnings (loss) per share from continuing operations	\$ (0.22)	\$ (0.26)	\$ (0.92)	\$ (0.19)
Loss from discontinued operations, net of tax	\$ —	\$ (25,156)	\$ —	\$ (23,164)
Loss per share from discontinued operations	\$ —	\$ (0.22)	\$ —	\$ (.20)
Net loss, as adjusted	\$ (28,618)	\$ (54,370)	\$ (120,270)	\$ (44,028)
Net loss per share	\$ (0.22)	\$ (0.48)	\$ (0.92)	\$ (0.39)

## **Note 12. Customer Concentrations**

Powerwave's product sales have historically been concentrated in a small number of customers. During the nine months ended September 30, 2007 and October 1, 2006, sales to customers that accounted for 10% or more of revenues totaled \$283.3 million and \$200.2 million, respectively. Sales to Nokia Siemens Networks accounted for approximately 36% and sales to Alcatel-Lucent accounted for approximately 16% of total revenues for the nine months ended September 30, 2007. For the nine months ended October 1, 2006, sales to Nokia accounted for approximately 23% and sales to Siemens accounted for approximately 14% of total revenues. Please note that Alcatel and Lucent completed their merger during the fourth quarter of 2006 and Nokia and Siemens completed their joint venture at the end of the first quarter of 2007.

As of September 30, 2007, approximately 31% and 15% of total accounts receivable related to two customers, respectively, each of which accounted for 10% or more of Powerwave's total revenue during the first nine months of 2007. Any inability to collect outstanding receivables from these customers 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 13. Supplier Concentrations**

Certain of Powerwave'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 could result in delays in product introductions, interruption in product shipments or increases in product costs, which could have a material adverse effect on the Company's business, financial condition and results of operations until alternative sources could be developed at a reasonable cost.

## **Note 14. Segments and Geographic Data**

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

On September 29, 2006, Powerwave sold its Arkivator subsidiary which operated its entire contract manufacturing segment. Consequently, the contract manufacturing segment of Powerwave is classified as a discontinued operation and its results are removed from continuing operations for the first nine months of 2006. The cash flow activities of the contract manufacturing segment remain in the statements of cash flows for the nine months ended October 1, 2006.

Powerwave manufactures multiple product categories at its manufacturing locations and produces certain products at more than one location. With regards to sales, Powerwave 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, Motorola, Nokia Siemens, Nortel and Samsung. The other major channel is direct to wireless network operators, such as AT&T, Bouygues Telecom, Orange, Sprint, Verizon Wireless and Vodafone. A majority of our products are sold to both sales channels. The Company maintains global relationships with most of our 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 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.

## **Note 15. Financing Arrangements and Long-Term Debt**

On April 24, 2007, the Company terminated its \$75.0 million Amended Credit Agreement with Bank of America N.A., as Documentation Agent and Comerica Bank as Administrative Agent. As of the date of termination, the Company had not borrowed any amounts under the Amended Credit Agreement. In addition, the Company did not incur any early termination penalties in connection with the termination of the Amended Credit Agreement.

On April 24, 2007, the Company and certain of its subsidiaries, entered into a Revolving Trade Receivables Purchase Agreement with Deutsche Bank AG, New York Branch, as Administrative Agent (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement provides for a receivables sales facility pursuant to which certain trade receivables are sold to a group of banks, which group initially consisted of Deutsche Bank AG, New York Branch. The outstanding amount of trade receivables sold under the receivables facility may not exceed \$65.0 million at any given time. Pursuant to the receivables sales

facility, the Company and certain subsidiaries can sell on a recourse basis, eligible trade receivables to the bank group for a purchase price equal to 90% of the face amount thereof, and Powerwave acts as the servicer for such receivables. The Company's appointment as the servicer is subject to termination events that are customary for such transactions. The receivables sales facility is also subject to conditions to funding, representations and warranties, undertakings and early termination events that are customary for transactions of this nature. This trade receivables revolving credit agreement is available for working capital and general corporate purposes. At September 30, 2007, there were no balances outstanding under the Receivables Purchase Agreement.

On September 24, 2007, the Company completed the private placement of \$150.0 million aggregate principal amount of convertible subordinated notes due October 2027. The notes are convertible into the Common Stock of the Company at a conversion rate of \$8.71 per share and accrue interest at an annual rate of 3.875%. The notes mature in 2027. The Company may redeem the notes beginning on October 8, 2013 until October 7, 2014, if the closing price of the Company's Common Stock is more than \$11.32 for at least 20 trading days within a 30 consecutive trading day period ending on the last trading day of the calendar month preceding the calendar month in which the notice of redemption is made. The notes may be redeemed by the Company at any time after October 8, 2014. Holders of the notes may require the Company 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 up to but not including the date of such repurchase.

The Company received net cash proceeds of approximately \$145.5 million from the sale of the notes. Such net proceeds are available for working capital and general corporate purposes, including to repay our existing debt. Specifically, depending on market and other conditions, from time to time, we may repurchase a portion of our outstanding 1.25% Convertible Subordinated Notes due 2008 in open market purchases, in privately negotiated transactions, or otherwise. The Company intends to invest the net proceeds in short-term money market instruments, including time deposits, commercial paper and money market funds with maturities of three months or less, pending specific application of the funds.

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

The following discussion should be read in conjunction with the condensed 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**

Powerwave is a global supplier of end-to-end wireless solutions for wireless communications networks. Our business consists of the design, manufacture and marketing and sale of products to improve coverage, capacity and data speed in wireless communications networks, including antennas, boosters, combiners, filters, radio frequency power amplifiers, 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 such products to both original equipment manufacturers, who incorporate our products into their proprietary base stations (which they then sell to network operators), and directly to individual wireless network operators for deployment into their existing networks.

Powerwave operates in one reportable business segment: "Wireless Communications." All of our revenues are derived from the sale of wireless communications network products and coverage solutions, including antennas, boosters, combiners, filters, radio frequency power amplifiers, repeaters, tower-mounted amplifiers and advanced coverage solutions for use in cellular, PCS, 3G and WiMAX wireless communications networks throughout the world. Our products are sold globally and produced in multiple locations.

On September 29, 2006, we sold our Arkivator subsidiary which consisted of our entire contract manufacturing segment. Consequently, our contract manufacturing segment is now classified as a discontinued operation and the results of this segment are removed from continuing operations for all reporting periods prior to the date of sale.

We believe that our future success depends upon continued growth in demand for wireless services as well as our ability to broaden our customer base. For the fiscal year ended December 31, 2006 ("fiscal 2006"), our largest customer was Nokia, who accounted for approximately 21% of our net sales. Our next largest customer in fiscal 2006, Siemens, accounted for approximately 13% of our net sales. Effective April 1, 2007, these two customers formed a new joint venture company consisting of both companies wireless infrastructure divisions. Also during 2006, two other major OEM customers, Alcatel and Lucent, announced plans to merge, and their merger was completed during the fourth quarter of 2006. These customer consolidations within the wireless infrastructure industry have created greater uncertainty in the short-term and have made accurate forecasting of short-term demand extremely difficult and have had a negative impact on our business and results of operations. The loss of any of these customers, or a significant loss, reduction or rescheduling of orders from any of our customers would have a material adverse effect on our business, results of operations and financial condition. See "We rely upon a few customers for the majority of our revenues..." and "Our success is tied to the growth of the wireless services communications market." under Part II, Item 1A, "Risk Factors."

A limited number of large original equipment manufacturers and large global wireless network operators account for a majority of wireless base station equipment purchasers in the wireless equipment market, and our future success is dependent upon our ability to establish and maintain relationships with these types of customers. While we regularly attempt to expand our customer base, we cannot give any assurance that a major customer will not reduce, delay or eliminate its purchases from us. During fiscal 2006 and the first half of fiscal 2007 we experienced significant reductions in demand from AT&T and Nokia Siemens, which had an adverse effect on our business and results of operations. We have also previously experienced significant reductions in demand from our customers, including the significant reduction in demand during fiscal 2003 as compared to fiscal 2002 that had an adverse effect on our business and results of operations. Any future reductions in demand by any of our major customers would have a material adverse effect on our business, results of operations and financial condition. See "We rely upon a few customers for the majority of our revenues..." under Part II, Item 1A, "Risk Factors."

Due to our acquisition of the Wireless Infrastructure division business of Filtronic plc and the large operating losses incurred over the last two years, our cash balances significantly reduced from approximately \$237 million at January 1, 2006, to approximately \$48 million at December 31, 2006. We have generated negative cash flow from operations during fiscal 2007, and we have \$130 million of 1.25% Convertible Subordinated Notes coming due in July 2008. While we raised approximately \$145.5 (net of issuance costs) in September 2007, through the issuance of \$150 million of new 3.875% Convertible Subordinated Notes due 2027, we must begin to generate positive cash flow from operations to further reduce our outstanding debt and to improve our operations. While we are focused on improving our cash flow from operations, there can be no assurance that we will be able to significantly improve our cash flow from operations. If we are not able to improve our cash flow from operations, that will have a negative impact on our business and results of operations. See "*We may need additional capital in the future and such additional financing may not be available at favorable terms...*" under Part II, Item 1A Risk Factors.

We have experienced, and expect to continue to experience, declining average sales prices for our products. Consolidation among wireless service providers has enabled such companies to place increased pricing pressure on wireless infrastructure manufacturers, which in turn has resulted in downward pricing pressure on our products. In addition, ongoing competitive pressures and consolidation within the wireless infrastructure equipment market have put pressure on us to continually reduce the sales price of our products. Consequently, we believe that our gross margins may decline over time and that in order to maintain or improve our gross margins, we must achieve manufacturing cost reductions, reduce our overhead costs as well as our operating expenses and develop new products that incorporate advanced features that may generate higher gross margins. See “Our success is tied to the growth of the wireless services communications market...” and “Our average sales prices have declined...” under Part II, Item 1A, “Risk Factors.”

### **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 significant accounting policies and estimates, see Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) of Part II of our Annual Report on Form 10-K for the year ended December 31, 2006.

#### *Adoption of FASB Interpretation No. 48—Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. The cumulative effect of applying the provisions of FIN 48 has been reported as an adjustment to the opening balance of retained earnings as of January 1, 2007 (see Note 8 to our interim financial statements).

#### *Accruals for Restructuring and Impairment Charges*

We recorded \$53.0 million, \$1.3 million and \$2.6 million of restructuring and impairment charges during fiscal years 2006, 2005 and 2004, respectively. In the first nine months of 2007, the Company recorded restructuring and impairment charges of approximately \$30.4 million.

Such charges relate to our restructuring plans to consolidate and integrate LGP Allgon and REMEC’s Wireless Systems Business, our 2006 Plan for Consolidation of Operations and our 2007 Restructuring Plan. See further discussion of these plans in Note 7 of the Notes to Condensed Consolidated Financial Statements, “Restructuring and Impairment Charges.”

All of these 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.

## Results of Operations

The following table summarizes Powerwave's results of operations as a percentage of net sales for the three and nine months ended September 30, 2007 and October 1, 2006:

	Three Months Ended		Nine months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales:				
Cost of goods	80.0	83.5	81.3	78.5
Intangible asset amortization	2.4	2.5	2.7	1.8
Restructuring and impairment charges	4.0	—	4.5	—
Acquired inventory incremental costs	—	—	—	—
Total cost of sales	86.4	86.0	88.5	80.3
Gross profit	13.6	14.0	11.5	19.7
Operating expenses:				
Sales and marketing	6.5	6.6	7.3	4.9
Research and development	8.9	10.6	12.0	8.4
General and administrative	9.1	9.1	10.2	7.2
Intangible asset amortization	1.4	1.7	1.5	1.2
Restructuring and impairment charges	0.1	14.3	1.1	3.9
Total operating expenses	26.0	42.3	32.1	25.6
Operating loss	(12.4)	(28.3)	(20.6)	(5.9)
Other income (expense), net	(1.1)	2.0	(0.7)	0.8
Loss from continuing operations before income taxes	(13.5)	(26.3)	(21.3)	(5.1)
Income tax provision (benefit)	0.8	(6.3)	0.6	(1.3)
Loss from continuing operations	(14.3)	(20.0)	(21.9)	(3.8)
Income from discontinued operations, net of income taxes	—	—	—	0.4
Loss on sale of subsidiary	—	(17.3)	—	(4.6)
Total discontinued operations, net of income taxes	—	(17.3)	—	(4.2)
Net loss	(14.3)%	(37.3)%	(21.9)%	(8.0)%

### Three Months ended September 30, 2007 and October 1, 2006

#### Net Sales

Our sales are derived from the sale of wireless communications network products and coverage solutions, including antennas, boosters, combiners, filters, radio frequency power amplifiers, repeaters, tower-mounted amplifiers and advanced coverage solutions for use in cellular, PCS, 3G and WiMAX wireless communications networks throughout the world. Sales increased by 38% to \$200.7 million for the three months ended September 30, 2007, from \$145.8 million, for the three months ended October 1, 2006. This increase was due to several factors, which included increased demand from our original equipment manufacturers and our direct operator customers, which both increased by approximately 38% for the three months ended September 30, 2007 from the three months ended October 1, 2006. The business with our OEM customers, increased by approximately \$40.0 million or 38% and our direct operator customers increased by approximately \$14.9 million or 38% for the three months ended September 30, 2007 compared to the three months ended October 1, 2006. The increase in our OEM business was primarily due to the impact of the Filtronic Wireless Acquisition in the fourth quarter of 2006.

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

Wireless Communications Product Group	Three Months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Antenna systems	\$ 44,351	22%	\$ 36,141	25%
Base station systems	146,368	73%	98,064	67%
Coverage systems	9,954	5%	11,563	8%
Total	\$ 200,673	100%	\$ 145,768	100%

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 increase in antenna systems and base station systems product groups is due to the impact of increased demand from both our OEM and direct operator customers during the three months ended September 30, 2007 as compared to the three months ended October 1, 2006. The slight decrease in coverage systems is primarily due to lower demand for coverage systems products and various customer deferrals while they wait for new product introductions scheduled for fiscal 2008.

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 reship 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:

Geographic Area	Three Months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Americas	\$ 55,820	28%	\$ 30,387	21%
Asia Pacific	52,775	26%	20,637	14%
Europe	81,796	41%	89,616	61%
Other international	10,282	5%	5,128	4%
Total net sales	\$ 200,673	100%	\$ 145,768	100%

Revenues increased in all regions except Europe in the third quarter of fiscal 2007 as compared to the third quarter of fiscal 2006. The increase in revenues in the Asia Pacific region, was partially attributed to growth in India, and to growth in China. The increase in Americas revenues was due to growth in the operator direct channel as well as increased OEM demand in North America. The reduction in revenues in the European region is largely attributable to an increase in European OEM business taking delivery of products in Asia Pacific for the Asian market and taking delivery of products for the Middle East in that region. 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 predictable trend for our future revenues by geographic area. In addition, as noted above, growth in one geographic location may not reflect actual demand growth in that location due to the centralized buying processes of our original equipment manufacturer customers.

For the quarter ended September 30, 2007, total sales to Nokia Siemens accounted for approximately 35% of sales and sales to Alcatel-Lucent accounted for approximately 17% of sales for the quarter. For the quarter ended October 1, 2006, total sales to Nokia accounted for approximately 34% of sales, and sales to Siemens accounted for approximately 17% 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; and 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 (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Net sales	\$ 200,673	100.0%	\$ 145,768	100.0%
Cost of sales:				
Cost of goods	160,499	80.0%	121,789	83.5%
Intangible amortization	4,910	2.4%	3,615	2.5%
Acquired inventory incremental costs	—	— %	—	— %
Restructuring and impairment charges	7,998	4.0%	—	— %
Total cost of sales	<u>173,407</u>	<u>86.4%</u>	<u>125,404</u>	<u>86.0%</u>
Gross profit	<u>\$ 27,266</u>	<u>13.6%</u>	<u>\$ 20,364</u>	<u>14.0%</u>

Our total gross profit increased during the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 primarily as a result of our increased revenues. As a percentage of revenue, our gross profit declined during the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 due to increased intangible amortization combined with restructuring and impairment charges incurred in the third quarter of fiscal 2007. The increased intangible amortization costs are due to the Filtronic Wireless Acquisition. We incurred approximately \$8.0 million of restructuring and impairment charges during the third quarter of fiscal 2007 related to restructuring plans implemented in conjunction with our outsourced Philippines manufacturing location and termination of our margin and revenue commitments associated with the original sale of the Philippines manufacturing location, impairment of our land at that location and the final consolidation of our Swedish operating location (see Note 7 of the Notes to Condensed Consolidated Financial Statements, “Restructuring and Impairment Charges.”)

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 decision to close our Costa Rica, Shanghai and Wuxi, China manufacturing operations as part of our plan 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. See “Our average sales prices have declined...” and “Our reliance on contract manufacturers exposes us to risks...” under Part II, Item 1A. “Risk Factors.”

### Operating Expenses

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

Operating Expenses	Three Months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Sales and marketing	\$ 13,090	6.5%	\$ 9,556	6.6%
Research and development	17,896	8.9%	15,513	10.6%
General and administrative	18,282	9.1%	13,210	9.1%
Intangible amortization	2,656	1.4%	2,487	1.7%
Restructuring and impairment charges	224	0.1%	20,854	14.3%
Total operating expenses	<u>\$ 52,148</u>	<u>26.0%</u>	<u>\$ 61,620</u>	<u>42.3%</u>

Sales and marketing expenses consist primarily of sales salaries and commissions, travel expenses, advertising and marketing expenses, selling expenses, charges for customer demonstration units and trade show expenses. Sales and marketing expenses increased by \$3.5 million, or 37%, during the quarter ended September 30, 2007 as compared to the quarter ended October 1, 2006. The increase was due to increased salary expense associated with higher headcount added over the last year that was added as part of the Filtronic Wireless Acquisition, as well as increased sales commissions due to higher sales and an increase in the accounts receivable reserve.

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 increased by \$2.4 million, or 15%, during the quarter ended September 30, 2007 as compared to the quarter ended October 1, 2006 primarily due to the Filtronic Wireless Acquisition in the fourth quarter of 2006. During the second quarter of 2007, we initiated restructuring activities which reduced research and development personnel in various locations, which contributed to reduced expenses during the third quarter of 2007 compared with the first two quarters of fiscal 2007. (see Note 7 of the Notes to Condensed Consolidated Financial Statements, "Restructuring and Impairment Charges.")

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 increased \$5.1 million, or 38%, during the quarter ended September 30, 2007 as compared to the quarter ended October 1, 2006. This increase was due to additional expenses associated with the Filtronic Wireless Acquisition as well as increased professional fees associated with legal and accounting compliance activities on behalf of the Company.

Amortization of customer-related intangibles from our acquisitions, amounted to \$2.7 million for the third quarter of fiscal 2007, compared to \$2.5 million for the third quarter of fiscal 2006. The increase was due to amortization of the Filtronic Wireless intangibles acquired in October 2006.

We also recorded a restructuring charge of \$0.2 million in the third quarter of fiscal 2007 for severance and facility closure costs compared to a charge of \$20.9 million in the third quarter of fiscal 2006 related to consolidation and sale of the Company's Swedish facilities.

### *Other Income (Expense), net*

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

	Three Months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Interest income	\$ 455	0.2%	\$ 1,988	1.4%
Interest expense	(2,349)	(1.2)%	(2,020)	(1.4)%
Foreign currency gain, net	(1,843)	(0.9)%	2,695	1.8%
Other income, net	1,458	0.7%	299	0.2%
Other income (expense), net	<u>\$ (2,279)</u>	<u>(1.1)%</u>	<u>\$ 2,962</u>	<u>2.0%</u>

Interest income decreased by \$1.5 million during the third quarter ended September 30, 2007 compared to the third quarter ended October 1, 2006 primarily due to decreased cash balances following the Filtronic Wireless Acquisition in the fourth quarter of 2006. As part of the Filtronic Wireless Acquisition, we paid \$185 million in cash, along with 17.7 million shares of our common stock. Also contributing to lower other income (expense) was a net foreign exchange loss of approximately \$1.8 million which was due the strength of the Euro relative to the Swedish Krona and US Dollar in the third quarter, which caused Euro and US Dollar denominated accounts receivables held in Sweden to be impacted during the quarter ended September 30, 2007. Interest expense increased primarily due to borrowings under the Company's line of credit which were repaid by the end of the quarter and the issuance of the 3.875% Convertible Subordinated notes due 2027 in September 2007.

### *Income Tax Provision*

Our effective tax rate for the three months ended September 30, 2007 was an expense of approximately 5.4% of our pre-tax losses of \$27.2 million. We have recorded a valuation allowance against a portion of our deferred tax assets pursuant to SFAS No. 109 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 due to the uncertainty of the recoverability of the deferred tax assets. Accordingly, for the three months ended September 30, 2007, tax expense consisted primarily of taxes or tax benefits in certain foreign jurisdictions. However, for the third quarter of 2007, income tax expense was impacted by a charge of \$0.3 million related to a settlement with the Internal Revenue Service related to an income tax examination for the 2005 tax year.

### *Net Loss*

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

	Three Months Ended (dollars in thousands)	
	September 30, 2007	October 1, 2006
Operating loss	\$ (24,882)	\$ (41,256)
Other income (expense), net	(2,279)	2,962
Loss from continuing operations before income taxes	(27,161)	(38,294)
Provision (benefit) from income taxes	1,457	(9,080)
Loss from continuing operations	(28,618)	(29,214)
Loss from discontinued operations, net of income taxes	—	(25,156)
Net loss	<u>\$ (28,618)</u>	<u>\$ (54,370)</u>

Our loss from continuing operations for the quarter ended September 30, 2007 of \$28.6 million compared to our loss of \$29.2 million for the quarter ended October 1, 2006. The reduced loss from continuing operations during the third quarter of fiscal 2007 as compared to the third quarter of fiscal 2006 is primarily the result of increased revenues, reduced manufacturing overhead costs and reduced operating expenses offset by a \$9.1 million tax benefit in the third quarter of 2006, which resulted in a relatively flat loss from continuing operations.

## Nine months ended September 30, 2007 and October 1, 2006

### Net Sales

Sales increased by 1% to \$549.9 million for the nine months ended September 30, 2007, from \$547.1 million, for the nine months ended October 1, 2006. This increase was due to several factors, which both increased and decreased revenue during these periods. During fiscal year 2006, revenue peaked in the second quarter of 2006 and then declined significantly for the remainder of the year due to reductions in demand by both network operators and consolidations within the OEM market. For fiscal 2007, during the first nine months we have seen a return in demand in the OEM market coupled with a gradual growth in demand by network operators. For the first nine months of 2007, we have seen lower demand overall from our direct network operator customers when compared with the first nine months of 2006. The increase in our OEM business was primarily due to the impact of our Filtronic Wireless Acquisition in the fourth quarter of 2006, and the return to more normal demand levels by Nokia Siemens.

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

Wireless Communications Product Group	Nine months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Antenna systems	\$ 115,408	21%	\$ 151,482	28%
Base station systems	399,397	73%	343,844	63%
Coverage systems	35,141	6%	51,808	9%
Total	\$ 549,946	100%	\$ 547,134	100%

The decrease in antenna systems and coverage systems product groups is due to the impact of lower demand from direct network operators customers during the nine months ended September 30, 2007 as compared to the nine months ended October 1, 2006.

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

Geographic Area	Nine months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Americas	\$ 158,222	29%	\$ 158,715	29%
Asia Pacific	141,280	26%	69,361	13%
Europe	234,840	43%	309,670	56%
Other international	15,604	2%	9,388	2%
Total net sales	\$ 549,946	100%	\$ 547,134	100%

Revenues in the Americas were basically flat in the first nine months of fiscal 2007 as compared to the first nine months of fiscal 2006. The increase in revenues in the Asia Pacific region is largely attributable to an increase in European OEM business taking delivery of products in Asia for the Asian market, and increased demand in parts of the Asian region including India and China. The reduction in European revenues relates to the shift in OEM deliveries to Asia mentioned above, and to a reduction in the European direct operator business.

For the nine months ended September 30, 2007, total sales to Nokia Siemens accounted for approximately 36% of sales and sales to Alcatel-Lucent accounted for approximately 16% of sales for the period. For the nine months ended October 1, 2006, total sales to Nokia accounted for approximately 23% of sales and sales to Siemens accounted for approximately 10% of sales.

### Cost of Sales and Gross Profit

The following table presents an analysis of our gross profit:

	Nine months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Net sales	\$ 549,946	100.0%	\$ 547,134	100.0%
Cost of sales:				
Cost of sales	447,306	81.3%	429,393	78.5%
Intangible amortization	14,716	2.7%	9,594	1.8%
Acquired inventory incremental costs	—	— %	235	— %
Restructuring and impairment charges	24,656	4.5%	—	— %
Total cost of sales	<u>486,678</u>	<u>88.5%</u>	<u>439,222</u>	<u>80.3%</u>
Gross profit	<u>\$ 63,268</u>	<u>11.5%</u>	<u>\$ 107,912</u>	<u>19.7%</u>

Our total gross profit decreased during the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006 primarily as a result of our increased cost of sales and increased intangible amortization combined with restructuring and impairment charges incurred in the first nine months of fiscal 2007. Our increased cost of sales was due to increased manufacturing overhead coupled with delayed material cost reductions due to the lower purchasing volumes associated with the Filtronic Wireless Acquisition. The completion of the Filtronic Wireless Acquisition in the fourth quarter of 2006 added significant additional manufacturing overhead expenses which are not being fully absorbed by our lower than expected revenues. Also contributing to the reduction in our gross margins was a significant reduction in direct operator sales, which typically have carried higher margins than our OEM based sales. The increased intangible amortization costs are due to the Filtronic Wireless Acquisition. We incurred approximately \$24.7 million of restructuring and impairment charges during the first nine months of fiscal 2007, which included restructuring plans implemented in conjunction with our China manufacturing consolidation, the closure of our Costa Rica and Philippines manufacturing locations and our 2007 restructure activities (see Note 7 of the Notes to Condensed Consolidated Financial Statements, "Restructuring and Impairment Charges").

### Operating Expenses

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

Operating Expenses	Nine months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Sales and marketing	\$ 40,351	7.3%	\$ 26,765	4.9%
Research and development	65,965	12.0%	45,944	8.4%
General and administrative	56,298	10.2%	39,564	7.2%
Intangible amortization	8,313	1.5%	6,739	1.2%
Restructuring and impairment charges	5,783	1.1%	21,025	3.9%
Total operating expenses	<u>\$ 176,710</u>	<u>32.1%</u>	<u>\$ 140,037</u>	<u>25.6%</u>

Sales and marketing expenses increased by \$13.6 million, or 51%, during the nine months ended September 30, 2007 as compared to the nine months ended October 1, 2006. The increase resulted primarily due to increased salaries associated with increased headcount added over the last year, as well as increased travel expenses, trade show expenses, customer demonstration units and selling expenses.

Research and development expenses increased by \$20.0 million, or 44%, during the nine months ended September 30, 2007 as compared to the nine months ended October 1, 2006 primarily due to the Filtronic Wireless Acquisition in the fourth quarter of 2006, which originally added approximately 210 personnel to our research and development area as well as increased the number of active projects, which generated increased material expenses.

General and administrative expenses increased \$16.7 million, or 43%, during the nine months ended September 30, 2007 as compared to the nine months ended October 1, 2006. This increase was due to additional expenses associated with the Filtronic Wireless Acquisition as well as increased professional fees associated with legal and accounting compliance activities.

Amortization of customer-related intangibles from our acquisitions, amounted to \$8.3 million for the first nine months of fiscal 2007, compared to \$6.7 million for the first nine months of fiscal 2006. The increase was due to amortization of the Filtronic Wireless

intangibles acquired in October 2006. We also recorded restructuring and impairment charges of \$5.8 million in the first nine months of fiscal 2007 for severance and facility closure costs related to our 2007 restructuring plan, 2006 Plan for Consolidation of Operations, compared to \$21.0 million for the first nine months of fiscal 2006 (see Note 7 of the Notes to Condensed Consolidated Financial Statements, "Restructuring and Impairment Charges").

*Other Income (Expense), net*

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

	Nine months Ended (dollars in thousands)			
	September 30, 2007		October 1, 2006	
Interest income	\$ 931	0.2%	\$ 6,273	1.1%
Interest expense	(6,823)	(1.2)%	(6,002)	(1.0)%
Foreign currency gain, net	2,507	0.4%	2,961	0.5%
Other expense, net	(99)	0.0%	1,193	0.2%
Other income (expense), net	<u>\$ (3,484)</u>	<u>(0.6)%</u>	<u>\$ 4,425</u>	<u>0.8%</u>

Interest income decreased by \$5.3 million during the nine months ended September 30, 2007 primarily due to decreased cash balances following the Filtronic Wireless Acquisition in October 2006. As part of the Filtronic Wireless Acquisition, we paid \$185 million in cash, along with 17.7 million shares of our common stock. In addition, we incurred additional interest expense during 2007 due to borrowings under our line of credit as well as a reduction in our net foreign currency gain which was primarily due to the weakness of the Swedish Krona versus the Euro during the first nine months of 2007 as compared with 2006.

*Income Tax Provision*

Our effective tax rate for the nine months ended September 30, 2007 was an expense of approximately 2.9% of our pre-tax losses of \$89.8 million. We have recorded a valuation allowance against a portion of our deferred tax assets pursuant to SFAS No. 109 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 nine months ended September 30, 2007, tax expense consisted primarily of taxes or tax benefits in certain foreign jurisdictions. However, for the nine months ended September 30, 2007, income tax expense was impacted by a charge of approximately \$0.7 million related to a settlement with the Internal Revenue Service related to an income tax examination for the 2004 and 2005 tax years.

*Net Loss*

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

	Nine months Ended (in thousands)	
	September 30, 2007	October 1, 2006
Operating loss	\$ (113,442)	\$ (32,125)
Other income (expense), net	(3,484)	4,425
Loss from continuing operations before income taxes	(116,926)	(27,700)
Provision (benefit) from income taxes	3,344	(6,836)
Loss from continuing operations	<u>(120,270)</u>	<u>(20,864)</u>
Loss from discontinued operations, net of income taxes	—	(23,164)
Net loss	<u>\$ (120,270)</u>	<u>\$ (44,028)</u>

Our loss from continuing operations for the nine months ended September 30, 2007 of \$120.3 million compared to our loss of \$20.9 million for the nine months ended October 1, 2006 is primarily the result of lower gross margins due to increased manufacturing overhead due to the Filtronic Wireless Acquisition and increased operating expenses associated with the Filtronic Wireless Acquisition, all resulting in larger operating and net losses. Our net loss of \$44.0 million for the nine months ended October 1, 2006 reflects the loss on the sale of the Arkivator business, which is shown as a discontinued operation. The Arkivator business was sold in the third quarter of 2006.

## 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 bank line of credit. As of September 30, 2007, we had working capital of \$211.4 million, including \$190.4 million in unrestricted cash and cash equivalents as compared to working capital of \$423.5 million at October 1, 2006, which included \$236.3 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 nine months ended September 30, 2007 and October 1, 2006:

	Nine months Ended	
	September 30, 2007	October 1, 2006
Net cash provided by (used in):		
Operating activities	\$ (11,259)	\$ (37,202)
Investing activities	9,206	27,912
Financing activities	148,771	8,995
Effect of foreign currency translation on cash and cash equivalents	2,168	4,114
Net increase (decrease) in cash and cash equivalents	<u>\$ 148,886</u>	<u>\$ 3,819</u>

Net cash used in operations during the nine months ended September 30, 2007 was \$11.3 million as compared to a net use of cash of \$37.2 million during the nine months ended October 1, 2006. The increase in cash provided by operations during the first nine months of fiscal 2007 is primarily due to lower inventory and lower accrued expenses when compared to the first nine months of 2006.

Net cash provided by investing activities during the first nine months of fiscal 2007 was \$9.2 million as compared to \$27.9 million during the first nine months of fiscal 2006. The \$148.8 million in net cash provided by financing activities during the nine months ended September 30, 2007 resulted primarily from the issuance of the \$150 million of 3.875% Convertible Subordinate Notes. The cash provided by investing activities in the first nine months of 2006 was primarily related to \$19.1 million in proceeds from the disposition of our Philippines operations and the sale of Arkivator for \$24.7 million offset by the \$7.4 million spent for an acquisition during the first nine months of fiscal 2006 and capital spending. Total capital expenditures during the nine months ended September 30, 2007 and October 1, 2006 were approximately \$9.7 million and \$10.4 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 \$3 million and \$5 million, consisting of test and production equipment, as well as computer hardware and software.

We currently believe that our existing cash balances, funds expected to be generated from operations and borrowings under our receivables facility will provide us with sufficient funds to finance our current operations for at least the next twelve months. Our principal source of liquidity consists of our existing cash balances, funds expected to be generated from operations and our credit facility with Deutsche Bank AG, 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.

We have a total of \$480 million of convertible subordinate notes outstanding, of which \$130 million aggregate principal amount of 1.25% convertible subordinated notes are due in July 2008. The notes due in July 2008 are callable by us beginning July 22, 2007 subject to certain terms and conditions. No assurance 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. While we raised net cash proceeds of \$145.5 million in September 2007 through the issuance of \$150.0 million aggregate 3.875% convertible subordinated notes due October 2027, 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, including the notes due July 2008. 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. If we continue to generate losses from operations, 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, our ability to maintain operations may be impacted.

### *Financing Activities*

On September 24, 2007, Powerwave completed the private placement of \$150.0 million aggregate principal amount of convertible subordinated notes due October 2027. The notes are convertible into the Common Stock of Powerwave at a conversion rate of \$8.71 per share and accrue interest at an annual rate of 3.875%. The notes mature in 2027. Powerwave may redeem the notes beginning on October 8, 2013 until October 7, 2014, if the closing price of Powerwave's Common Stock is more than \$11.32 for at least 20 trading days within a 30 consecutive trading day period ending on the last trading day of the calendar month preceding the calendar month in which the notice of redemption is made. The notes may be redeemed by Powerwave at any time after October 8, 2014. Holders of the notes may require Powerwave 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 up to but not including the date of such repurchase.

Powerwave received net cash proceeds of approximately \$145.5 million from the sale of the notes. Such net proceeds are available for working capital and general corporate purposes, including to repay our existing debt. Specifically, depending on market and other conditions, from time to time, we may repurchase a portion of our outstanding 1.25% Convertible Subordinated Notes due 2008 in open market purchases, in privately negotiated transactions, or otherwise. Powerwave intends to invest the net proceeds in short-term money market instruments, including time deposits, commercial paper and money market funds with maturities of three months or less, pending specific application of the funds.

On October 13, 2006, we entered into a \$75 million Credit Agreement with Bank of America N.A., as Documentation Agent and Comerica Bank as Administrative Agent. In February 2007, the Credit Agreement was amended with an effective date of December 31, 2006, to adjust certain covenants. Prior to the Amendment, the Company received waivers from the banks waiving certain covenants under the Credit Agreement, which required maintenance of certain financial measures. On April 24, 2007, we terminated the Amended Credit Agreement. As of the date of termination, the Company had not borrowed any amounts under the Amended Credit Agreement. In addition, the Company did not incur any early termination penalties in connection with the termination of the Amended Credit Agreement.

On April 24, 2007, Powerwave and certain of its subsidiaries, entered into a Revolving Trade Receivables Purchase Agreement with Deutsche Bank AG, New York Branch, as Administrative Agent (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement provides for a receivables sales facility pursuant to which certain trade receivables are sold to a group of banks, which group initially consists of Deutsche Bank AG, New York Branch. The outstanding amount of trade receivables sold under the receivables facility may not exceed \$65.0 million at any given time. Pursuant to the receivables sales facility, Powerwave and certain subsidiaries can sell eligible trade receivables on a recourse basis to the bank group for a purchase price equal to 90% of the face amount thereof, and Powerwave acts as the servicer for such receivables. Powerwave's appointment as the servicer is subject to termination events that are customary for such transactions. The receivables sales facility is also subject to conditions to funding, representations and warranties, undertakings and early termination events that are customary for transactions of this nature. The Receivables Purchase Agreement is available for working capital and general corporate purposes.

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 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 financings, 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 both directly impacted by our ability to grow revenues and generate profits. We can make no guarantees 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.

### **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 below under "Contractual Obligations and Commercial Commitments." As of September 30, 2007, 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.

## Contractual Obligations and Commercial Commitments

We incur various contractual obligations and commercial commitments in our normal course of business. Such obligations and commitments consist primarily of the following:

### *Long-Term Debt*

At September 30, 2007, we had \$480.0 million of long-term debt consisting of our \$130.0 million 1.25% convertible subordinated notes due July 2008, our \$200.0 million 1.875% convertible subordinated notes due November 2024 and our \$150.0 million 3.875% convertible subordinated notes due 2027. These notes are convertible into shares of our Common Stock at the option of the holder. See "Note 10. Financing Arrangements and Long-Term Debt" in the "Notes to Consolidated Financial Statements" included under Part II, Item 8, "Financial Statements and Supplementary Data" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for additional information.

### *Operating Lease Obligations*

We have various operating leases covering vehicles, equipment, facilities and sales offices located throughout the world.

### *Purchase Commitments with Contract Manufacturers*

We generally issue purchase orders to our contract manufacturers with delivery dates from four to six weeks from the purchase order date. In addition, we regularly provide such contract manufacturers with rolling six-month forecasts of material and finished goods requirements for planning and long-lead time parts procurement purposes only. We are committed to accept delivery of materials pursuant to our purchase orders subject to various contract provisions which allow us to delay receipt of such orders or cancel orders beyond certain agreed lead times. Such cancellations may or may not result in cancellation costs payable by us. In the past, we have been required to take delivery of materials from our suppliers that were in excess of our requirements and we have previously recognized charges and expenses related to such excess material. If we are unable to adequately manage our contract manufacturers and adjust such commitments for changes in demand, we may incur additional inventory expenses related to excess and obsolete inventory. Such expenses could have a material adverse effect on our business, financial condition and results of operations.

### *Other Commitments*

We also incur various purchase obligations with other vendors and suppliers for the purchase of inventory, as well as other goods and services, in the normal course of business. These obligations are generally evidenced by purchase orders with delivery dates from four to six weeks from the purchase order date, and in certain cases, supply agreements that contain the terms and conditions associated with these purchase arrangements. We are committed to accept delivery of such materials pursuant to such purchase orders subject to various contract provisions which allow us to delay receipt of such orders or cancel orders beyond certain agreed lead times. Such cancellations may or may not result in cancellation costs payable by us. In the past, we have been required to take delivery of materials from our suppliers that were in excess of our requirements and we have previously recognized charges and expenses related to such excess material. If we are not able to adequately manage our supply chain and adjust such commitments for changes in demand, we may incur additional inventory expenses related to excess and obsolete inventory. Such expenses could have a material adverse effect on our business, financial condition and results of operations.

### *Guarantees Under Letters of Credit*

We occasionally issue 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 our bank that may be secured by cash deposits or pledges, or performance bonds issued by an insurance company.

As of September 30, 2007, expected future cash payments related to contractual obligations and commercial commitments were as follows:

	Payments Due by Period (in thousands)				Total
	Less than 1 Year	1-3 Years	3-5 Years	Thereafter	
Long-term debt (including interest)	\$ 141,188	\$ 19,125	\$ 19,125	\$ 534,063	\$ 713,501
Capital lease obligations	13	—	—	—	13
Operating lease obligations	5,344	4,837	1,829	70	12,080
Purchase commitments with contract manufacturers	42,502	—	—	—	42,502
Other commitments	38,677	—	—	—	38,677
Guarantees	—	—	—	—	—
Total contractual obligations and commercial commitments	<u>\$ 227,724</u>	<u>\$ 23,962</u>	<u>\$ 20,954</u>	<u>\$ 534,133</u>	<u>\$ 806,773</u>

We have excluded the reserve for uncertain income tax positions of \$1.3 million at September 30, 2007 as we cannot reasonably estimate when such liabilities will be settled.

We believe that our existing cash balances, funds expected to be generated from future operations and available borrowings under bank credit facilities will be sufficient to satisfy these contractual obligations and commercial commitments and that the ultimate payments associated with these commitments will not have a material adverse effect on our liquidity position.

### Disclosure About Stock Option Plans

Our stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees and align stockholder and employee interests. The program consists of six separate plans: one under which non-employee directors may be granted options to purchase shares of stock and five broad-based plans under which options may be granted to all employees, including officers. One plan provides for both option grants and stock based awards including restricted stock awards. Options granted under these plans expire either 5 or 10 years from the grant date and generally vest over two to four years.

During the nine months ended September 30, 2007, we granted options to purchase a total of 1,701,000 shares of Common Stock and we granted 155,000 shares of restricted stock to employees. After deducting 914,115 shares for options forfeited, the result was net grants of 941,885. Net option grants during the year represented 0.7% of our total outstanding common shares of 130,952,880 as of September 30, 2007. The following table summarizes the net stock option grants to our employees, directors and executive officers during the three most recent fiscal periods:

	<u>Nine months Ended September 30, 2007</u>	<u>Year Ended December 31, 2006</u>	<u>Year Ended January 1, 2006</u>
Net grants (forfeitures) during the period as a % of total outstanding common shares	0.7%	0.8%	(0.4)%
Grants to executive officers during the period as a % of total options granted during the period	33.2%	27.0%	— %
Grants to executive officers during the period as a % of total outstanding common shares	0.4%	0.4%	— %
Cumulative options held by executive officers as a % of total options outstanding	35.5%	34.8%	30.5%

At September 30, 2007, a total of 7,043,896 options were available for grant under all of our option plans and a total of 39,175 shares of Common Stock were held in escrow to cover all remaining exercises under the 1995 Stock Option Plan. See “Note 13. Stock Option Plans” in the “Notes to Consolidated Financial Statements” included under Part II, Item 8, and “Financial Statements and Supplementary Data” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for further information regarding the 1995 Stock Option Plan. The following table summarizes activity for outstanding options under all of our stock option plans during the three months ended September 30, 2007:

	<u>Number of Shares</u>	<u>Price Per Share</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2006	7,056,242	\$ 2.19-\$67.08	\$ 9.57	4,136,329	\$ 10.99
Granted	1,701,000	\$ 5.17-\$ 6.80	\$ 6.51		
Exercised	(488,160)	\$ 2.19-\$ 6.52	\$ 4.34		
Cancelled	(914,115)	\$ 5.01-\$52.98	\$ 10.43		
Balance at September 30, 2007	<u>7,354,967</u>	<u>\$ 2.29-\$67.08</u>	<u>\$ 9.10</u>	3,966,995	\$ 10.77

The following table summarizes outstanding stock options that are “in-the-money” and “out-of-the-money” as of September 30, 2007. For purposes of this table, in-the-money stock options are those options with an exercise price less than \$6.16 per share, the closing price of Powerwave Common Stock on September 28, 2007, the last trading day of the fiscal quarter, and out-of-the-money stock options are stock options with an exercise price greater than or equal to the \$6.16 per share closing price.

	Exercisable		Unexercisable		Total Shares
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	
In-the-Money	1,445,626	\$ 5.05	145,834	\$ 5.18	1,591,460
Out-of-the-Money	2,521,369	\$ 14.05	3,242,138	\$ 7.23	5,763,507
Total Options Outstanding	3,966,995	\$ 10.77	3,387,972	\$ 7.15	7,354,967

The following table sets forth certain information concerning the exercise of options by each of our executive officers during the nine months ended September 30, 2007, including the aggregate value of gains on the date of exercise held by such executive officers, as well as the number of shares covered by both exercisable and unexercisable stock options as of September 30, 2007. Also reported are the values for the in-the-money options which represent the positive spread between the exercise prices of any such existing stock options and the closing price of the Company’s Common Stock on the last trading day of the fiscal quarter.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at September 30, 2007		Value of Unexercised In-the-Money Options at September 30, 2007 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ronald J. Buschur	—	\$ —	904,166	195,834	\$ 257,082	\$ 47,917
Kevin T. Michaels	—	\$ —	496,020	253,230	\$ 410,584	\$ 47,917
J. Marvin Magee	—	\$ —	—	260,000	\$ —	\$ —
Khurram Sheikh	—	\$ —	—	185,000	\$ —	\$ —

<sup>(1)</sup> In accordance with the Securities and Exchange Commission’s rules, values are calculated by subtracting the exercise price from the fair market value of the underlying Common Stock. For purposes of this table, fair market value per share is deemed to be \$6.16, the Company’s closing Common Stock price reported by Nasdaq on September 28, 2007, the last trading day of the fiscal quarter.

Our shareholders have previously approved all stock option plans under which our Common Stock is reserved for issuance. The following table provides summary information as of September 30, 2007, for all of our stock option plans:

	Number of Shares of Common Stock to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares of Common Stock Remaining Available for Future Issuance under our Stock Option Plans (Excluding Shares Reflected in Column 1)
Equity Compensation Plans Approved by Shareholders	7,354,967	\$ 9.10	7,043,896 <sup>(1)</sup>
Equity Compensation Plans Not Approved by Shareholders	—	—	—
Total	7,354,967	\$ 9.10	7,043,896

<sup>(1)</sup> The number of securities remaining available for future issuance has also been reduced to reflect 355,000 shares of restricted stock issued under the 2005 Stock Incentive Plan.

### 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. At September 30, 2007, the carrying values of our financial instruments approximated their fair values based upon current market prices and rates.

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 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, Hungary, Singapore, Sweden 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. Such foreign currency revenues and expenses expose us to foreign currency risk and give rise to foreign exchange gains and losses.

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, with our international customers accounting for approximately 74% of our net sales during the nine months ended September 30, 2007, 74% of our fiscal 2006 net sales, 63% of our fiscal 2005 net sales and 74% of our fiscal 2004 net sales. Such 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. In addition, certain 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. As we sell products or services in foreign currencies, we may be required to convert the payments received into U.S. Dollars or utilize such foreign currencies as payments for expenses of our business, which may give rise to foreign exchange gains and losses. Given the uncertainty as to when and what specific foreign currencies we may be required or decide to accept as payment from our international customers, we cannot predict the ultimate impact that such a decision would have on our business, gross margins and results of operations.

While we monitor our foreign currency exposures, we do not currently maintain an active foreign currency hedging program. We may decide in the future to implement an active hedging program utilizing derivative instruments to assist in managing our foreign exchange rate risk. Based on our overall foreign exchange rate exposure at September 30, 2007, a 10% change in the Euro and the Swedish Krona could have a material effect on our consolidated results of operations or cash flows.

## **Interest Rate Risk**

As of September 30, 2007, we had cash equivalents of approximately \$197.7 million in both interest and non-interest bearing accounts, including restricted cash. We also had \$130.0 million of convertible subordinated notes due July 2008 at a fixed annual interest rate of 1.25%, \$200.0 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 rate of 3.875%. We are exposed to interest rate risk primarily through our convertible subordinated debt and our cash investment portfolio. While short-term investment rates have increased significantly during the last year, we believe that we are not subject to material fluctuations in principal of our cash portfolio 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. In terms of our debt, our convertible subordinate notes carry fixed interest rates while our Receivables Purchase Agreement utilizes variable rates. Based on our overall interest rate exposure at September 30, 2007, we do not believe that a 100 basis point change in interest rates would have a material effect on our consolidated financial position, results of operations or cash flows.

## **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 risk 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. 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 would likely be forced to pay such higher prices and we may be unable to pass such costs onto our customers. 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 such components or cease to produce such products. In such events, our business, results of operations and financial condition could be adversely affected. Additionally, we require specialized electronic test equipment, which is utilized in both the design and manufacture of our products. Such 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 such 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. Such delays and any potential additional costs could have a material adverse effect on our business, results of operations and financial condition.

## ITEM 4. CONTROLS AND PROCEDURES

### Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to Powerwave and its consolidated subsidiaries is made known to the officers who certify the Company's 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, Powerwave carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information related to the Company that is required to be included in Powerwave's 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

There has been no change in the Company's internal control over financial reporting during the first nine months of fiscal 2007 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the first quarter of 2007, four purported shareholder class action complaints were filed in the United States District Court for the Central District of California against the Company, its President and Chief Executive Officer, its former Executive Chairman of the Board of Directors and its Chief Financial Officer. The complaints are Jerry Crafton v. Powerwave Technologies, Inc., et. al., Kenneth Kwan v. Powerwave Technologies, Inc., et. al., Achille Tedesco v. Powerwave Technologies, Inc., et. al. and Farokh Etemadieh v. Powerwave Technologies, Inc. et. al. and were brought under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The complaints purport to state claims on behalf of all persons who purchased Powerwave securities between May 2, 2005 and October 9, 2006 and seek compensatory damages in an amount to be proven at trial. The essence of the allegations are that the defendants made misleading statements or omissions concerning the Company's projected and actual sales revenues, the integration of certain acquisitions and the sufficiency of the Company's internal controls. In June 2007, the four cases were consolidated into one case, and a lead plaintiff was appointed. In October 2007, the lead plaintiff filed an amended complaint asserting the same causes of action. The amended complaint purports to state claims on behalf of all persons who purchased Powerwave securities between May 2, 2005 and November 2, 2006. The Company believes that the purported consolidated shareholder class action is without merit and intends to defend it vigorously.

In March 2007, one additional lawsuit that relates to the pending shareholder class action was filed. The lawsuit, Cucci v. Edwards, et al., filed in the Superior Court of California, is a shareholder derivative action, purported to be brought by an individual shareholder on behalf of Powerwave, against current and former directors of Powerwave. Powerwave is also named as a nominal defendant. The allegations of the derivative complaint closely resemble those in the class action and pertain to the time period of May 2, 2005 through October 9, 2006. Based on those allegations, the derivative complaint asserts various claims for breach of fiduciary duty, waste of corporate assets, mismanagement, and insider trading under state law. The derivative complaint has been removed to federal court and the case has been stayed by court order pending a resolution of the motion to dismiss the related securities class action litigation described above. Powerwave disputes the allegations raised in the derivative action and plans to pursue a vigorous defense of this matter.

### ITEM 1A. RISK FACTORS

*We rely upon a few customers for the majority of our revenues and the loss of any one 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, results of operations and financial condition.*

We sell most of our products to a small number of customers, and we expect this will continue. For the nine months ended September 30, 2007, sales to Nokia Siemens accounted for approximately 36% of net sales and sales to Alcatel-Lucent accounted for

approximately 16% of our net sales. Nokia and Siemens, who combined their wireless business effective April 1, 2007, accounted for approximately 34% of our revenues in 2006. For fiscal year 2005, Cingular Wireless (now known as AT&T), accounted for approximately 16% of our net sales and Nokia accounted for approximately 14% of our net sales. During fiscal years 2006 and 2007, our direct sales to AT&T significantly declined compared to 2005 and such decline contributed to our operating loss and reduced financial performance for fiscal years 2006 and 2007. During the fourth quarter of 2006, Nokia and Siemens significantly reduced their demand, which also contributed to our operating loss for 2006 and the first nine months of 2007. The new Nokia Siemens is our largest customer and any decline in this business will have an adverse 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, Alcatel-Lucent, AT&T, and network operator customers and any fluctuations in demand from such customers or other customers would negatively impact our 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 results of operations and financial condition. 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 customer could significantly reduce demand for our products;
- reductions in a single customer's forecasts and demand could result in excess inventories;
- 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.

*We may incur unanticipated costs as we complete the integration of our business with businesses we recently acquired.*

On May 3, 2004, we completed the exchange offer for the outstanding shares of LGP Allgon Holding AB. On September 2, 2005, we completed the REMEC Wireless Acquisition and on October 15, 2006, we completed the Filtronic Wireless Acquisition. Each of these acquisitions involve the integration of companies and operations, many of which are based in different countries that previously operated independently. This is a complex, costly and time consuming process. We have limited experience integrating operations as substantial and geographically diverse as those of LGP Allgon, REMEC Wireless and Filtronic Wireless, and as a result, we may not successfully integrate these operations with our own in a timely manner, or at all. We have previously encountered difficulties and delays in integrating and consolidating operations which have had a negative impact on our results of operations. The failure to successfully integrate these operations could undermine the anticipated benefits and synergies of the acquisitions, which could adversely affect our business, financial condition and results of operations. The anticipated benefits and synergies of these acquisitions relate to cost savings associated with operational efficiencies, greater economies of scale and revenue enhancement opportunities. However, these anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a smooth and successful integration of these businesses.

In addition, the recent acquisition of Filtronic's Wireless Systems business is one of the largest acquisitions we have undertaken and the complex process of integrating this business requires significant resources. We have incurred and will continue to incur significant costs and commit significant management time in integrating this operation, information, communications and other systems and personnel, among other items. The integration of this business has resulted and will continue to result in cash outflows related to the integration process, such as:

- additional restructuring costs, including the closure of facilities and personnel severance costs;
- fees and expenses of professionals and consultants involved in completing the integration process;
- settling existing liabilities of the acquired businesses;
- integrating and converting technology and manufacturing systems as well as bills of material; and
- integrating personnel.

*We may need additional capital in the future and such additional financing may not be available at favorable terms.*

In conjunction with the acquisition of Filtronic's Wireless Infrastructure business, we paid \$185 million to Filtronic, significantly reducing our cash balance. In April 2007, we entered into a revolving trade receivables purchase agreement which

provides a sales facility for our trade receivables, up to a maximum of \$65.0 million. In September 2007, Powerwave completed the private placement of \$150.0 million in aggregate principal amount of convertible subordinated notes due October 2027. Powerwave received net cash proceeds of approximately \$145.5 million from the sale of these notes. While the revolving trade receivables purchase agreement gives us additional sources of liquidity, we may need to raise additional funds through public or private debt or equity financings in order to take advantage of opportunities, including more rapid international expansion or acquisitions of complementary businesses or technologies. If we are not successful in integrating our businesses, reducing our inventories and managing the worldwide aspects of our company, our operations may not generate profits 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 \$480.0 million of outstanding convertible debt that we issued in 2003, 2004, and 2007, of which \$130.0 million is due in July 2008. 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. Our ability to increase revenues and generate profits is subject to numerous risks and uncertainties and 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 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 cash required to operate our business. Our ability to secure additional financing is also dependent upon the credit markets, which have recently come under pressure due to credit concerns arising from the subprime mortgage lending market. If we are unable to secure additional financing or such financing is not available at acceptable terms, we may not be able to take advantage of such opportunities, otherwise respond to unanticipated competitive pressures, or repay our convertible debt.

*We are in the process of implementing a new worldwide enterprise resource planning system and if we are unsuccessful in deploying the system or, if it takes longer than anticipated to deploy the system, we may incur significant additional costs which would negatively impact our financial results as well as potentially weaken our systemic internal controls.*

At the end of 2004, we made the decision to replace our existing enterprise resource planning systems with a single global system from Oracle. We have begun the implementation phase and have converted the majority of the existing Powerwave operations to the Oracle system. With the Filtronic Wireless Acquisition, we are now planning the conversion of the Filtronic systems and intend to convert the Filtronic enterprise resource planning systems during the remainder of fiscal 2007 and fiscal 2008 to the Oracle platform. System conversions are expensive and time consuming undertakings that impact all areas of the Company. While a successful implementation will provide many benefits to the Company, an unsuccessful or delayed implementation will cost the Company significant time and resources, as well as expense. During the third quarter of 2006, we encountered delays in our conversion of our European operations. These delays coupled with production transfer issues, resulted in delayed production and less revenues which negatively impacted our results in the same quarter. While we have implemented our plans to finish the conversion process, these delays did have a negative impact on our operating costs. In addition, due to the systemic internal control features within enterprise resource planning systems, any changes in our enterprise resource planning system will have an impact on the testing of our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. If we encounter unanticipated delays in deploying our new enterprise resource planning system, we may be unable to complete within the currently required time period our Section 404 testing of the systemic internal controls within such system, which could create a material weakness or significant deficiency in our overall internal controls as of the end of a fiscal year.

*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 demonstrates the risks related to our customer and industry concentration levels. While our revenues have increased at times during fiscal years 2005 and 2006, a significant portion of this increase was due to our acquisitions of LGP Allgon and REMEC Wireless. During fiscal 2006, we experienced significantly reduced demand for our products due to lower than anticipated purchasing plans by a major North American wireless network operator. In addition, in the fourth quarter of 2006, when we acquired Filtronic Wireless, Nokia and Siemens significantly reduced their demand which had a significant negative impact on both Powerwave and the Filtronic Wireless businesses. As a result of this reduction and general slowness in the wireless infrastructure marketplace during the fourth quarter of fiscal 2006, our revenues decreased to \$169.8 million in the fourth quarter of fiscal 2006 from \$249.4 million in the fourth quarter of 2005. This slowdown continued in the first six months of 2007, when our revenues declined from the fourth quarter of 2006 and when compared to the first six months of 2006, even though the first six months of 2007 included the Filtronic Wireless acquisition. These types of reductions in overall market demand had a negative impact on our business and results of operations.

During fiscal 2005, 2006 and 2007, we also experienced a significant reduction in demand from Nortel. We cannot guarantee that we will be able to continue to generate new demand to offset reductions from existing customers. If we are unable to continue to generate new demand, our revenues will go down and our results of operations will be negatively impacted.

Also, in the past we have experienced significant unanticipated reductions in wireless network operator demand as well as significant delays in demand for 3G, 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. The continuation of any delays in development of 3G networks will result in reduced demand for our products which will have a material adverse effect on our business.

*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 any obligation by our customers to purchase their forecasted demand for our products;
- cost associated with restructuring activities, including severance, inventory obsolescence and facility closure costs;
- variations in the timing, cancellation, or rescheduling of customer orders and shipments;
- cost 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; and
- discounts given to certain customers for large volume purchases.

We have regularly generated a large percentage of our revenues in the last month of a quarter. Since 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 such 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 revenues and results of operations.

Order deferrals and cancellations by our customers, declining average sales prices, changes in the mix of products sold, delays in the introduction of new products and longer than anticipated sales cycles for our products have, in the past, adversely affected our results of operations. 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 desire to purchase products in excess of the forecasted amounts or in a different product mix, there may not be enough 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 public 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. In addition, the consolidation of original equipment manufacturers such as Alcatel-Lucent and Nokia Siemens is concentrating their purchasing power at the surviving entities, which is placing further pricing pressures on the products we sell to such customers. We may be forced to further reduce our prices to such customers, which would have a negative impact on our business and results of operations. We believe that the average sales prices of our products will continue to decline for the foreseeable future. The average sales price for our products declined by between 2% to 12% from fiscal 2005 to fiscal 2006. 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 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. We believe that this practice will continue. In the event that our customers manufacture or design their own wireless communications network products, such customers could reduce or eliminate their purchases of our products, which would result in reduced revenues and would adversely impact our results of operations and liquidity. 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, 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 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 experienced during fiscal 2003 and again in fiscal 2006. During fiscal 2006 and into fiscal 2007, a major North American wireless network operator significantly reduced demand for new products. In addition, during the same period, several major original equipment manufacturers began a process of consolidating their operations, which significantly reduced their demand for products. During fiscal 2003, wireless network operators reduced or delayed capital spending on wireless networks in order to preserve their operating cash and improve their balance sheets. Such 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 operating results will be negatively impacted.

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

If our contract manufacturers are unable to timely respond to changes in customer demand, we may be unable to produce enough products to respond to sudden increases in demand resulting in lost revenues, or 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 other 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 inventory 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 pay inventory carrying costs or purchase excess inventory. 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 operating results and liquidity would be negatively impacted.

*Our acquisition of Filtronic's Wireless Infrastructure Division business, as well as 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.*

On October 15, 2006, we completed the Filtronic Wireless Acquisition. 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. In addition to the Filtronic Wireless Acquisition, 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, and such costs 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 effectively manage these risks as part of any acquisition or joint venture, our business would be adversely affected.

*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.*

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. To date, the missed customer delivery dates have not 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 results of operations.

As part of the Filtronic Wireless Acquisition, we are purchasing certain components from Filtronic plc for use in certain products included in the acquisition. Filtronic plc is a sole source of these components. If we were unable to obtain such components, we would have to redesign certain products and find an alternative source of supply, which would likely increase our costs and have a negative impact on our business and results of operations. We may also be subject to penalties if we could not find a timely replacement if we were unable to meet customer delivery requirements.

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 results of operations.

*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 U.S., Europe and Asia, as well as our contract manufacturers' staff of assembly workers and trained technicians predominantly located in Asia. 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.*

We have had quality problems with our products in the past and may have similar 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 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 recent acquisitions. While we intend to seek recovery of amounts that we have paid, or may pay in the future, to resolve warranty claims through indemnification from the prior manufacturer, such process can be costly and time consuming.

*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 such persons, 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, results of operations and financial condition. The departure of any of our management and technical personnel, the breach of their confidentiality and non-disclosure obligations to Powerwave 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.*

As part of our manufacturing strategy, we utilize contract manufacturers in China, Philippines, Singapore and Thailand. We also maintain our own manufacturing operations in China, Hungary, Finland and Estonia, as well as limited capability in the United States. We closed our Costa Rica manufacturing facility in December 2006.

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 and 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 February 2006, the Philippines experienced a failed coup to overturn the existing government, which prompted the government to declare a state of emergency. While the state of emergency was eventually lifted, this highlights some of the political risks of relying upon manufacturing operations in this location. In September 2006, Thailand experienced a military coup which overturned the existing government. We are not able to currently estimate what the long-term impact of this coup will have on our operations in Thailand. If there were to be 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 operations and financial results.

We require air or ocean transport to ship products built in our various manufacturing locations to our customers. High energy costs have increased our transportation cost which has had a negative impact on our production costs. Transportation costs would 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 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 adversely 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 results of operations.

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

For the nine months ended September 30, 2007, and fiscal years 2006, 2005, and 2004, international revenues (excluding North American sales) accounted for approximately 72%, 72%, 62%, and 69% 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 dealings 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;
- terrorists 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.

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, results of operations and financial condition. 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. Such claims, whether or not valid, could result in substantial costs 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 such 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 cancelled customer orders.

*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 two years ended December 31, 2006, the price of our Common Stock ranged from a high of \$15.76 to a low of \$5.87. The fluctuations in the price of our Common Stock have occasionally 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 has also been influenced by:

- fluctuations in our results of operations or the operations of our competitors or customers;
- 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 of 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.

The increase in the number of shares of our outstanding Common Stock due to the Filtronic Wireless Acquisition which added 17.7 million shares, in addition to the potential conversion of our outstanding convertible debt instruments would add approximately 47.6 million shares of Common Stock to our outstanding shares. Such an increase may lead to sales of such shares or the perception that such 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 their Powerwave shares at or above their acquisition price.

*We may need to recognize an impairment of our goodwill*

If our revenues do not grow or reach anticipated levels or if our common stock continues to trade at current low levels, it is possible that in the near future an indicator of impairment of our goodwill may exist and we may need to recognize an impairment in our goodwill. A large portion of the value of the Company is dependent upon continued future growth in demand for our products. If such growth does not materialize or our forecasts and internal expectations are significantly reduced, we will likely have to recognize an impairment in the value of our goodwill. At September 30, 2007, goodwill totaled \$502.3 million, which equates to approximately 89% of our total equity. Such an impairment could result in a significant loss for the period in which such impairment occurs. In addition, our acquisition of Filtronic's Wireless Infrastructure Division business has an initial accounting value of \$353.2 million, which includes approximately \$186 million of goodwill identified in the preliminary allocation of the purchase price to the fair value of the assets acquired. The accounting value, which reflects a purchase price that includes \$185 million in cash and 17.7 million shares of our Common Stock valued at an average price of \$9.22 per share based on the average closing price for three days before and after our announcement of the Filtronic Wireless Acquisition in June 2006. Since that date our stock has declined significantly. On October 13, 2006, the last trading day prior to the close of the Filtronic Wireless Acquisition, our stock closed at \$6.28 per share. On November 8, 2007, our stock closed at \$4.68 per share.

*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, results of operations and financial condition 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, results of operations and financial condition.

Our current competitors include Andrew Corporation, 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, Motorola, Nokia Siemens, Nortel, and Samsung. Some competitors have adopted aggressive pricing strategies in an attempt to gain market share, which in return, has caused us to lower our prices in order to remain competitive. Such pricing actions have had an adverse effect on our 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 results of operations. During the second quarter of 2007, Andrew Corporation announced that it had agreed to be acquired by CommScope, Inc. This could create a much larger and well-financed competitor which could have an impact on business.

*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 operating results due to high research and development expenses.

*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 implementing Section 404 of 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 or not 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. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of 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, particularly because Section 404 and Auditing Standard No. 2 are newly effective, some of the 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.

While we currently believe our internal controls over financial reporting are effective, we are required to comply with Section 404 on an annual basis. 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 will be unable to assert such internal controls are effective. Although we currently anticipate being able to continue to satisfy 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. In addition, we have begun the process of replacing our enterprise resource planning system and such system replacement during fiscal 2007 may create unanticipated delays in completing the documentation and testing requirements of Section 404. 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.

*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.

*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, operating results and financial condition. 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.

## 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 three months ended September 30, 2007.

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)
July 2 – July 31	—	—	—	—
August 1 – August 31	—	—	—	—
September 1 – September 30	7,150 <sup>(1)</sup>	\$ 6.33	—	—

<sup>(1)</sup> On September 19, 2007, Ronald Buschur, the Company's President and Chief Executive Officer, surrendered 7,150 shares of common stock to cover his tax withholding obligation with respect to the vesting of 20,000 shares under a December 2005 restricted stock grant.

## ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description</u>
4.11	Indenture, dated September 24, 2007, by and between Powerwave Technologies, Inc. and Deutsche Bank Trust Company America (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 September 24, 2007).
4.12	Registration Rights Agreement, dated September 24, 2007 by and between the Company and Deutsche Bank Securities, Inc. (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2007).
4.13	Form of Global 3.875% Convertible Subordinated Note due 2027 (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 September 24, 2007).
10.33.2	Amended and Restated Amending Agreement dated October 5, 2007 between Powerwave Technologies Inc. and Celestica Corporation (incorporated by reference to Exhibit 10.33.2 of the Company's Current Report of Form 8-K filed with the Securities and Exchange Commission on October 9, 2007).
10.62	Letter Agreement regarding Change of Control Benefits between the Company and Khurram Sheikh dated July 13, 2007.*
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.**

\* Indicates Item 15(a)(3) exhibit (management contract or compensation plan or arrangement).

\*\* 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.

POWERWAVE TECHNOLOGIES, INC.

Date: November 9, 2007

By: /s/ KEVIN T. MICHAELS

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Kevin T. Michaels  
Chief Financial Officer

**CEO CERTIFICATION**

I, Ronald J. Buschur, certify that:

1. I have reviewed this report on Form 10-Q of Powerwave Technologies, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 9, 2007

By: /s/ RONALD J. BUSCHUR

Ronald J. Buschur  
*President and Chief Executive Officer*  
*Powerwave Technologies, Inc.*

**CFO CERTIFICATION**

I, Kevin T. Michaels, certify that:

1. I have reviewed this report on Form 10-Q of Powerwave Technologies, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 9, 2007

By: /s/ KEVIN T. MICHAELS

Kevin T. Michaels  
*Chief Financial Officer*  
*Powerwave Technologies, Inc.*

**CEO CERTIFICATION OF PERIODIC REPORT**

I, Ronald J. Buschur, Chief Executive Officer of Powerwave Technologies, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2007

By: /s/ RONALD J. BUSCHUR

Ronald J. Buschur  
*President and Chief Executive Officer*  
*Powerwave Technologies, Inc.*

**CFO CERTIFICATION OF PERIODIC REPORT**

I, Kevin T. Michaels, Chief Financial Officer of Powerwave Technologies, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2007

By: /s/ KEVIN T. MICHAELS

Kevin T. Michaels  
*Chief Financial Officer*  
*Powerwave Technologies, Inc.*