

NextWave Wireless Inc.  
Form 10-Q  
August 14, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2012

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 001-33226

**NEXTWAVE WIRELESS INC.**

(Exact name of registrant as specified in its charter)

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

**20-5361360**  
(IRS Employer  
Identification No.)

**12264 El Camino Real, Suite 305, San Diego, California**  
(Address of principal executive offices)

**92130**  
(Zip Code)

**(619) 573-1570**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 9, 2012, there were 24,938,132 shares of the registrant's common stock outstanding.

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**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****NEXTWAVE WIRELESS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value data)

(unaudited)

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 6,160         | \$ 11,087            |
| Restricted cash   | 1,697            | 1,047                |
| Marketable securities   | 6,268            | 10,000               |
| Prepaid expenses and other current assets   | 514              | 827                  |
| Current assets of discontinued operations   | 4,151            | 3,511                |
| <br>  |                  |                      |
| Total current assets  | 18,790           | 26,472               |
| Wireless spectrum licenses, net   | 431,391          | 435,522              |
| Property and equipment, net   | 907              | 1,313                |
| Other assets  | 77               | 362                  |
| <br>  |                  |                      |
| Total assets  | \$ 451,165       | \$ 463,669           |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable  | \$ 467           | \$ 5                 |
| Accrued expenses  | 1,447            | 2,328                |
| Current portion of long-term obligations  | 1,104,212        | 142,019              |
| Other current liabilities   | 10               | 10                   |
| Current liabilities of discontinued operations  | 709              | 172                  |
| <br>  |                  |                      |
| Total current liabilities   | 1,106,845        | 144,534              |
| Deferred income tax liabilities   | 83,735           | 83,334               |
| Long-term obligations, net of current portion   | 15,157           | 896,568              |
| <br>  |                  |                      |
| Commitments and contingencies   |                  |                      |
| Stockholders' deficit:  |                  |                      |
| Preferred stock, \$0.001 par value; 25,000 shares authorized; 355 shares designated as Series A Senior Convertible Preferred Stock; no other shares issued or outstanding |                  |                      |
| Common stock, \$0.007 par value; 57,143 shares authorized; 24,938 shares issued and outstanding at June 30, 2012 and December 31, 2011                                    | 175              | 175                  |
| Additional paid-in-capital  | 888,749          | 888,505              |
| Accumulated other comprehensive income  | 4,035            | 21,805               |
| Accumulated deficit   | (1,647,531)      | (1,571,252)          |
| <br>  |                  |                      |
| Total stockholders' deficit   | (754,572)        | (660,767)            |

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|   |            |            |
|---|------------|------------|
| Total liabilities and stockholders' deficit | \$ 451,165 | \$ 463,669 |
|---|------------|------------|

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

## NEXTWAVE WIRELESS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS

(in thousands, except per share data)

(unaudited)

|   | Three Months Ended |                 | Six Months Ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012 | July 2,<br>2011 |
| <b>Operating expenses:</b>  |                    |                 |                  |                 |
| General and administrative  | \$ 5,087           | \$ 6,142        | \$ 10,683        | \$ 12,275       |
| Restructuring credit  |                    |                 |                  | (1,076)         |
| Total operating expenses  | 5,087              | 6,142           | 10,683           | 11,199          |
| Net gains on sales of wireless spectrum licenses  | 71                 | 251             | 100              | 253             |
| Loss from operations  | (5,016)            | (5,891)         | (10,583)         | (10,946)        |
| <b>Other income (expense):</b>  |                    |                 |                  |                 |
| Interest income   | 10                 | 14              | 26               | 29              |
| Interest expense  | (43,111)           | (61,743)        | (84,668)         | (120,245)       |
| Other income (expense), net   | (4)                | (3)             | (4)              | 1,252           |
| Total other expense, net  | (43,105)           | (61,732)        | (84,646)         | (118,964)       |
| Loss from continuing operations before income taxes   | (48,121)           | (67,623)        | (95,229)         | (129,910)       |
| Income tax benefit  | 210                | 1,659           | 397              | 1,820           |
| Net loss from continuing operations   | (47,911)           | (65,964)        | (94,832)         | (128,090)       |
| <b>Income from discontinued operations before income taxes, net of gains on divestitures of discontinued operations of \$3, \$465, \$19,862 and \$2,120, respectively</b> |                    |                 |                  |                 |
| Income tax provision  | 171                | 912             | 20,013           | 2,674           |
| Income tax provision  | (54)               | (333)           | (1,460)          | (976)           |
| Net income from discontinued operations   | 117                | 579             | 18,553           | 1,698           |
| Net loss  | \$ (47,794)        | \$ (65,385)     | \$ (76,279)      | \$ (126,392)    |
| <b>Other comprehensive loss:</b>  |                    |                 |                  |                 |
| Net loss  | \$ (47,794)        | \$ (65,385)     | \$ (76,279)      | \$ (126,392)    |
| Foreign currency translation adjustment transferred to earnings upon substantial liquidation of foreign entities  |                    |                 | (17,578)         | 1,305           |
| Foreign currency translation adjustment   | (909)              | 317             | (192)            | 1,368           |
| Total other comprehensive loss  | (48,703)           | (65,068)        | (94,049)         | (123,719)       |
| <b>Amounts attributed to net income (loss) per common share:</b>  |                    |                 |                  |                 |
| Net loss from continuing operations   | \$ (47,911)        | \$ (65,964)     | \$ (94,832)      | \$ (128,090)    |
| Net income from discontinued operations   | 117                | 579             | 18,553           | 1,698           |

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|   |             |             |             |              |
|---|-------------|-------------|-------------|--------------|
| Net loss  | \$ (47,794) | \$ (65,385) | \$ (76,279) | \$ (126,392) |
| Net income (loss) per common share basic and diluted  |             |             |             |              |
| Continuing operations                                 | \$ (1.98)   | \$ (2.71)   | \$ (3.94)   | \$ (5.28)    |
| Discontinued operations                               |             | 0.02        | 0.77        | 0.07         |
| Net loss  | \$ (1.98)   | \$ (2.69)   | \$ (3.17)   | \$ (5.21)    |
| Weighted-average shares used in per share calculation | 24,127      | 24,279      | 24,097      | 24,279       |

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

## NEXTWAVE WIRELESS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|   | Six Months Ended |                 |
|---|------------------|-----------------|
|   | June 30,<br>2012 | July 2,<br>2011 |
| <b>OPERATING ACTIVITIES</b>   |                  |                 |
| Net loss  | \$ (76,279)      | \$ (126,392)    |
| Net income from discontinued operations   | 18,553           | 1,698           |
| Net loss from continuing operations   | (94,832)         | (128,090)       |
| Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations: |                  |                 |
| Amortization of intangible assets   | 3,716            | 3,832           |
| Depreciation  | 406              | 438             |
| Non-cash share-based compensation   | 244              | 421             |
| Paid-in-kind interest   | 81,112           | 63,295          |
| Amortization of deferred financing costs and discounts  | 3,551            | 56,947          |
| Gains on sales of wireless spectrum licenses  | (100)            | (253)           |
| Gains from changes in estimated fair values of embedded derivatives   |                  | (1,261)         |
| Other non-cash adjustments  | (10)             | (1,045)         |
| Changes in operating assets and liabilities:  |                  |                 |
| Prepaid expenses and other current assets   | 308              | 351             |
| Other assets  | 277              |                 |
| Accounts payable and accrued liabilities  | (423)            | (1,397)         |
| Other liabilities and deferred credits  | (389)            | (844)           |
| Net cash used in operating activities of continuing operations  | (6,140)          | (7,606)         |
| <b>INVESTING ACTIVITIES</b>   |                  |                 |
| Proceeds from the maturity of investment securities   | 12,563           |                 |
| Purchase of held-to-maturity investment securities  | (8,813)          | (5,000)         |
| Proceeds from the sale of wireless spectrum licenses, net of selling costs  | 277              | 253             |
| Net cash provided by (used in) investing activities of continuing operations  | 4,027            | (4,747)         |
| <b>FINANCING ACTIVITIES</b>   |                  |                 |
| Payments on long-term obligations   | (3,877)          | (9,913)         |
| Payments to restricted cash account used to redeem long-term obligations  | (647)            |                 |
| Net cash used in financing activities of continuing operations  | (4,524)          | (9,913)         |
| Cash provided (used) by discontinued operations:  |                  |                 |
| Net cash provided (used) by operating activities of discontinued operations   | 83               | (909)           |
| Net cash provided by investing activities of discontinued operations  | 2,304            | 3,491           |
| Net cash provided by discontinued operations  | 2,387            | 2,582           |
| Effect of foreign currency exchange rate changes on cash  | (33)             | 31              |



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|  |          |           |
|--|----------|-----------|
| Net decrease in cash and cash equivalents                                | (4,283)  | (19,653)  |
| Cash and cash equivalents, beginning of period                           | 11,092   | 42,598    |
| Cash and cash equivalents, end of period                                 | 6,809    | 22,945    |
| Less cash and cash equivalents of discontinued operations, end of period | (649)    | (378)     |
| Cash and cash equivalents of continuing operations, end of period        | \$ 6,160 | \$ 22,567 |

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

## NEXTWAVE WIRELESS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of Presentation and Significant Accounting Policies*****Financial Statement Preparation***

The condensed consolidated financial statements of NextWave Wireless Inc. (together with its subsidiaries, the Company, NextWave, we, our us) are unaudited. We have prepared the condensed consolidated financial statements in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC), and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated financial statements for the periods presented reflect all adjustments necessary to fairly state our financial position, results of operations and cash flows, including adjustments related to asset impairment write-offs and restructuring-related credits. These condensed consolidated financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2011, from which the balance sheet data was derived, included in our Annual Report on Form 10-K filed with the SEC on March 12, 2012.

***Basis of Presentation and Liquidity***

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of our liabilities in the normal course of business. We generated net losses of \$76.3 million and \$126.4 million during the six months ended June 30, 2012 and July 2, 2011, respectively, and have an accumulated deficit of \$1,647.5 million at June 30, 2012. We used cash from operating activities of our continuing operations of \$6.1 million and \$7.6 million during the six months ended June 30, 2012 and July 2, 2011, respectively. Our unrestricted cash, cash equivalents and marketable securities included in current assets of continuing operations totaled \$12.4 million at June 30, 2012. We had a net working capital deficit of \$1,088.1 million at June 30, 2012.

We have funded our operations, business combinations, strategic investments and wireless spectrum license acquisitions primarily with the \$550.0 million in cash received in our initial capitalization in 2005, the net proceeds of \$295.0 million from our issuance of Senior Secured Notes (the Senior Notes) in 2006 and 2010, the net proceeds of \$351.1 million from our issuance of Series A Senior Convertible Preferred Stock (the Series A Preferred Stock) in 2007, which, in 2008, we exchanged for Third Lien Subordinated Secured Convertible Notes (the Third Lien Notes) in the aggregate principal amount of \$478.3 million, and the net proceeds of \$101.0 million from our issuance of our Senior Subordinated Secured Second Lien Notes (the Second Lien Notes) and together with the Senior Notes and the Third Lien Notes, the Notes) in 2008 and 2009. We did not receive any proceeds from the issuance of the Third Lien Notes.

As of June 30, 2012, the aggregate principal amount of our secured indebtedness was \$1,103.1 million. This amount includes our Senior Notes with an aggregate principal amount of \$148.1 million, our Second Lien Notes with an aggregate principal amount of \$207.9 million and our Third Lien Notes with an aggregate principal amount of \$747.1 million. Our current cash reserves are not sufficient to meet our payment obligations under our secured notes at their current maturity dates. Additionally, we may not be able to consummate sales of our wireless spectrum assets yielding sufficient proceeds to retire this indebtedness at the current scheduled maturity dates. If we are unable to further extend the maturity of our secured notes, or identify and successfully implement alternative financing to repay our secured notes, the holders of our Notes could proceed against the assets pledged to collateralize these obligations. These conditions raise substantial doubt about our ability to continue as a going concern. Insufficient capital to repay our debt at maturity would significantly restrict our ability to operate and could cause us to seek relief through a filing in the United States Bankruptcy Court. Any alternative financing and/or maturity extension of our Notes may be costly to obtain, and could involve the issuance of equity securities that could cause significant dilution to our existing stockholders and potentially limit our net operating loss carry forwards.

During 2011, we had capital expenditure needs associated with certain build-out or substantial service requirements which apply to our domestic licensed wireless spectrum, which generally must be satisfied as a condition of the license. The substantial service deadlines applicable to our domestic and Canadian wireless spectrum assets, and our activities to meet these requirements, are described below:

The substantial service deadline for our domestic Wireless Communication Services (WCS) spectrum was July 21, 2010 under the Federal Communications Commission (FCC) rules effective at that time. However, the FCC adopted new rules on May 20, 2010, that, when they became effective on September 1, 2010, purported to replace the July 21, 2010 substantial service requirement with

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new requirements that must be met by March 4, 2014 and additional requirements that must be met by September 1, 2016. We filed substantial service showings with the FCC on July 20, 2010 for all of our WCS licenses under the rules then in effect. The FCC dismissed them on June 14, 2011 in accordance with its June 2010 announcement that all substantial service showings would be dismissed given the new performance requirements it had adopted. Failure to make the substantial service demonstrations by the new deadlines of March 4, 2014 and September 1, 2016 without seeking and obtaining an extension from the FCC would result in license forfeiture.

Educational Broadband Service ( EBS ) licensees were required to demonstrate that they are providing substantial service in their license areas by November 1, 2011. To meet the substantial service requirements for EBS spectrum, we arranged with our EBS licensees to either (a) have the EBS licensee continue to use the spectrum to provide educational services in the cases where the EBS licensee is currently providing such service or (b) provide educational services on a network that was installed by us, at our cost, either of which option was intended to deliver educational services over the spectrum in compliance with the FCC's educational safe harbor to meet the substantial service showing by the deadline. We have completed build-out activities for our EBS leases. All of the EBS licensees with whom we have leases filed substantial service showings by the deadline, which the FCC accepted.

The substantial service deadline for Broadband Radio Service ( BRS ) spectrum was May 1, 2011. With respect to our domestic BRS spectrum, we have constructed and are operating a commercial system using the spectrum to meet the FCC substantial service requirement. The FCC accepted our substantial service showings and renewed our BRS licenses on September 20, 2011.

We also operate or hold spectrum licenses through various subsidiaries in Canada and Norway. In Canada, our 2.3 GHz licenses were subject to mid-term in-use demonstration deadlines of November 2012 and April 2013 for 59 and 24 of our licenses, respectively. On March 29, 2012, the Canadian regulatory authority, Industry Canada, granted an extension of two years, resulting in new in-use demonstration deadlines of November 2014 and April 2015. In order for us to operate our Canadian spectrum under current Canadian ownership rules, we will need a Canadian-controlled partner. Changes to the Canadian ownership rules have been proposed, but not yet adopted. There can be no assurance that: 1) we will find a Canadian-controlled partner who will be able to provide a viable business plan and attract appropriate financing by the build out deadline, or 2) that the new ownership rules will enable us to develop a viable business plan and attract appropriate financing by the build out deadline. Failure to make the in-use demonstrations for each of these licenses, in the absence of a further extension by Industry Canada, could result in forfeiture of the applicable licenses. At June 30, 2012, we held a total of 83 licenses in Canada. We do not have specific build-out obligations in Norway.

#### ***Principles of Consolidation***

Our consolidated financial statements include the assets, liabilities and operating results of our wholly-owned subsidiaries as of June 30, 2012 and July 2, 2011, and for the three and six months then ended, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### ***Fiscal Year End***

We operate on a 52-53 week fiscal year ending on the Saturday nearest to December 31 of the current calendar year or the following calendar year. Normally, each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks. Fiscal years 2012 and 2011 are 52-week years ending on December 29, 2012 and December 31, 2011, respectively. The three- and six-month periods ending on June 30, 2012 and July 2, 2011 include 13 and 26 weeks each, respectively.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to income taxes, share-based awards, wireless spectrum licenses and other long-lived assets. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

We consider all highly liquid investments with a remaining time to maturity of three months or less when acquired to be cash equivalents. Cash equivalents at June 30, 2012 and December 31, 2011 consisted primarily of money market funds the carrying amounts of which approximate fair value due to the short maturities of these instruments.

#### ***Restricted Cash***

Restricted cash at June 30, 2012 and December 31, 2011 primarily represents net proceeds from the sale of wireless spectrum licenses that must be used to redeem our Senior Notes. Under the Note Purchase Agreement for our Senior Notes, we are not required to redeem our Senior Notes until the aggregate principal amount to be redeemed exceeds \$2.5 million.

*Marketable Securities*

At June 30, 2012 our short-term held-to-maturity marketable securities consisted of \$5.0 million and \$1.3 million in a bank certificate of deposit and a U.S. Treasury bill, respectively, with remaining maturities of less than one year. At December 31, 2011 our short-term held-to-maturity marketable securities consisted of \$10.0 million in bank certificates of deposit with remaining maturities of less than one year. These securities are stated at their amortized costs which approximate their respective fair values at June 30, 2012 and December 31, 2011.

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***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance requires us to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. This guidance also establishes a fair value hierarchy that prioritizes the inputs used in valuation techniques into the following three levels:

Level 1: Quoted prices in active markets for identical assets and liabilities that the reporting entity can access at the measurement date

Level 2: Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly

Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions

***Net Income (Loss) Per Common Share***

Basic and diluted net income (loss) per common share for the three and six months ended June 30, 2012 and July 2, 2011 is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the respective periods, without consideration of common stock equivalents. If there is a loss from continuing operations, diluted net income (loss) per share is computed in the same manner as basic net income (loss) per share is computed, even if we report net income after adjusting for discontinued operations.

***Recently Adopted Accounting Pronouncement***

In May 2011, the FASB issued authoritative guidance related to fair value measurements and disclosures. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between accounting principles generally accepted in the United States and International Financial Reporting Standards. Our adoption of this guidance on January 1, 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

**2. Related Party Transactions**

***Debt-Related Transactions***

As of June 30, 2012, Avenue Capital Group and its affiliates ( Avenue Capital ) had an interest in shares of our issued and outstanding common stock, such that Avenue Capital would be considered a related party. At June 30, 2012, Avenue Capital held \$111.2 million, or 75%, of the aggregate principal amount of our Senior Notes; \$161.9 million, or 78%, of the aggregate principal amount of our Second Lien Notes; and \$210.5 million, or 28%, of the aggregate principal amount of our Third Lien Notes.

As of June 30, 2012, Solus Core Opportunities Master Fund Ltd and its affiliates and co-investors ( Solus ) had an interest in shares of our issued and outstanding common stock, such that Solus would be considered a related party. At June 30, 2012, Solus held \$36.9 million, or 25%, of the aggregate principal amount of our Senior Notes; \$46.1 million, or 22%, of the aggregate principal amount of our Second Lien Notes; and \$126.7 million, or 17%, of the aggregate principal amount of our Third Lien Notes. At June 30, 2012 and December 31, 2011, Solus also held 0.4 million of warrants exercisable for shares of our common stock for an exercise price of \$0.07 each. In April 2012, the expiration date of these warrants was extended to April 2013.

***Business Divestitures***

In 2009, we sold the majority of the assets and liabilities of our Inquam Broadband GmbH ( IBG ) subsidiary to Inquam Holding GmbH ( IHG ), a limited liability company and a related party, for a nominal amount under an Asset Purchase Agreement. In connection with the sale, we entered into an earn-out agreement with IHG that provided for payment to us upon the subsequent sale of the outstanding share capital of IHG. In March 2012, the shareholders of IHG sold and transferred all of the share capital of IHG to a third party, whereby we received \$2.3 million in cash consideration and could receive up to an additional \$2.8 million in cash consideration in the 12 to 24 months following the sale if regulatory and other conditions are met. As a result of the sale of IHG to a third party and final realization of our investments in our WiMax Telecom AG and

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IBG subsidiaries, we have deemed these entities to be substantially liquidated as of March 2012 and have recognized a net gain on disposal of \$19.9 million during the six months ended June 30, 2012, all of which is reported in discontinued operations in the consolidated statement of operations and other comprehensive loss. The net gain represents the \$2.3 million in cash received plus \$17.6 million accumulated in the foreign currency translation adjustment component of equity for these two consolidated subsidiaries that was transferred to earnings upon substantial liquidation.

In June 2010, we sold the capital stock of our WiMAX Telecom Slovakia, s.r.o ( WT SRO ) subsidiary to flyhigh Partners s. r. o. ( flyhigh ), a private limited liability company of which the controlling shareholder is the former managing director and statutory representative of WT SRO, for \$0.1 million and recognized an \$8.8 million net loss from business divestitures. Upon closing of the sale, we have no remaining obligations to provide financing to support the ongoing operations of WT SRO. In connection with the sale, we entered into an additional consideration agreement with flyhigh that provided for payment to us upon the sale of all or part of the capital stock of WT SRO by flyhigh to any third party. In May 2011, flyhigh sold all of the capital stock of WT SRO to a third party whereby we received \$0.5 million under the terms of the additional consideration agreement and recognized a net gain on business divestitures of \$0.5 million during the three and six months ended July 2, 2011, all of which is reported in discontinued operations in the condensed consolidated statement of operations.

### 3. Wireless Spectrum Licenses

We continue to market for sale our wireless spectrum holdings and have retained Moelis & Company to explore the sale of our wireless holdings in the United States and Canada. Any sale or transfer of the ownership of our wireless spectrum holdings is generally subject to regulatory approval. We are required to use the net proceeds from the sale of our wireless spectrum licenses to redeem our Notes.

As of June 30, 2012, we do not believe it is probable that these wireless spectrum licenses will be sold within the next twelve months and, therefore, have not classified them as assets held for sale.

During the three months ended June 30, 2012, we sold wireless spectrum licenses in Canada for \$0.1 million and recognized a net gain on the sale of \$0.1 million.

During the six months ended June 30, 2012, we sold wireless spectrum licenses in Canada for \$0.3 million and recognized net gains on the sales of \$0.1 million.

During the three and six months ended July 2, 2011, we recognized \$0.3 million in net gains on the sale of wireless spectrum licenses, which represents our receipt of a \$0.3 million holdback payment that was pending FCC clearance of a prior sale by us.

### 4. Long-Term Obligations

Long-term obligations held by continuing operations consist of the following:

| <i>(dollars in thousands)</i>   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| 15% Senior Secured Notes, due December 31, 2012   | \$ 148,037               | \$ 137,795                   |
| 15% Senior-Subordinated Secured Second Lien Notes due January 31, 2013  | 207,932                  | 193,291                      |
| 16% Third Lien Subordinated Secured Convertible Notes due February 28, 2013, net of unamortized discounts of \$3,342 and \$5,834 at June 30, 2012 and December 31, 2011, respectively   | 743,807                  | 685,086                      |
| Wireless spectrum leases, net of unamortized discounts of \$12,196 and \$13,251 at June 30, 2012 and December 31, 2011, respectively; expiring from 2014 through 2036 with one to five renewal options ranging from 10 to 15 years each | 19,593                   | 22,415                       |
| <b>Long-term obligations</b>  | <b>1,119,369</b>         | <b>1,038,587</b>             |
| Less current portion  | (1,104,212)              | (142,019)                    |
| <b>Long-term portion</b>  | <b>\$ 15,157</b>         | <b>\$ 896,568</b>            |

The following table summarizes the activity related to our long-term obligations, net of any unamortized discounts, for the six months ended June 30, 2012 and July 2, 2011:



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| <i>(in thousands)</i>                                      | <b>Senior<br/>Notes</b> | <b>Second<br/>Lien<br/>Notes</b> | <b>Third<br/>Lien<br/>Notes</b> | <b>Other</b> | <b>Total</b> |
|--|-------------------------|----------------------------------|---------------------------------|--------------|--------------|
| <b>Balance, December 31, 2011</b>                          | \$ 137,795              | \$ 193,291                       | \$ 685,086                      | \$ 22,415    | \$ 1,038,587 |
| Paid-in-kind interest                                      | 10,242                  | 14,641                           | 56,229                          |              | 81,112       |
| Amortization of debt discount                              |                         |                                  | 2,492                           | 1,055        | 3,547        |
| Cash payments  |                         |                                  |                                 | (3,877)      | (3,877)      |
| <b>Balance, June 30, 2012</b>                              | \$ 148,037              | \$ 207,932                       | \$ 743,807                      | \$ 19,593    | \$ 1,119,369 |
| <b>Balance, January 1, 2011</b>                            | \$ 122,261              | \$ 158,876                       | \$ 497,574                      | \$ 25,759    | \$ 804,470   |
| Paid-in-kind interest                                      | 9,047                   | 12,822                           | 41,426                          |              | 63,295       |
| Amortization of debt discount                              | 2,051                   | 4,267                            | 47,748                          | 1,127        | 55,193       |
| Extension of wireless spectrum lease                       |                         |                                  |                                 | 398          | 398          |
| Cash payments  | (5,300)                 |                                  |                                 | (4,613)      | (9,913)      |
| Favorable settlement reclassified to restructuring credits |                         |                                  |                                 | (1,076)      | (1,076)      |
| <b>Balance, July 2, 2011</b>                               | \$ 128,059              | \$ 175,965                       | \$ 586,748                      | \$ 21,595    | \$ 912,367   |

The following table summarizes the activity related to our unamortized deferred financing costs for the six months ended June 30, 2012 and July 2, 2011:

| <i>(in thousands)</i>                    | Unamortized Deferred Financing Costs |                   |                  | Total    |
|--|--------------------------------------|-------------------|------------------|----------|
|  | Senior Notes                         | Second Lien Notes | Third Lien Notes |          |
| <b>Balance at December 31, 2011</b>      | \$                                   | \$                | \$ 9             | \$ 9     |
| Amortization of deferred financing costs |                                      |                   | (4)              | (4)      |
| <b>Balance at June 30, 2012</b>          | \$                                   | \$                | \$ 5             | \$ 5     |
| <b>Balance at January 1, 2011</b>        | \$ 35                                | \$ 3,076          | \$ 151           | \$ 3,262 |
| Amortization of deferred financing costs | (32)                                 | (1,651)           | (71)             | (1,754)  |
| <b>Balance at July 2, 2011</b>           | \$ 3                                 | \$ 1,425          | \$ 80            | \$ 1,508 |

## 5. Business Divestiture and Discontinued Operations

### *Business Divestiture*

During the six months ended July 2, 2011, we completed the sale of our remaining subsidiaries in Latin America to a third party for \$3.0 million and recognized a gain on the divestiture of \$1.7 million, all of which is reported in discontinued operations in the condensed consolidated statement of operations.

### *Discontinued Operations*

In an effort to reduce our future working capital requirements and in order to comply with the terms of our Notes our Board of Directors approved the implementation of a global restructuring initiative in 2008, pursuant to which we have divested, either through sale, dissolution or closure, our multimedia, network infrastructure and semiconductor businesses.

Our continuing operations are comprised of our portfolio of licensed wireless spectrum assets. We continue to pursue sales of our wireless spectrum license assets, the net proceeds of which will be used to reduce our outstanding indebtedness.

The results of operations of our Global Services Support strategic business unit and our WiMAX Telecom, Inquam and South American businesses, have been reported as discontinued operations in the consolidated financial statements for all periods presented, prior to sale or dissolution of the respective business.

The carrying amounts of the assets and liabilities of our discontinued operations are as follows:

| <i>(in thousands)</i>                          | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Cash and cash equivalents                      | \$ 649        | \$ 5              |
| Property and equipment held for sale           | 3,500         | 3,500             |
| Other assets                                   | 2             | 6                 |
| Current assets of discontinued operations      | \$ 4,151      | \$ 3,511          |
| Current liabilities of discontinued operations | \$ 709        | \$ 172            |

The financial results of our discontinued operations are as follows:

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| <i>(in thousands)</i>                             | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b>  |                         |
|---|---------------------------|-------------------------|--------------------------|-------------------------|
|   | <b>June 30,<br/>2012</b>  | <b>July 2,<br/>2011</b> | <b>June 30,<br/>2012</b> | <b>July 2,<br/>2011</b> |
| Revenues  | \$                        | \$                      | \$                       | \$ 6                    |
| Total operating expense credits <sup>(1)</sup>    | (168)                     | (447)                   | (151)                    | (548)                   |
| Net gains on business divestitures <sup>(2)</sup> | 3                         | 465                     | 19,862                   | 2,120                   |
| Income before income taxes                        | 171                       | 912                     | 20,013                   | 2,674                   |
| Net income from discontinued operations           | 117                       | 579                     | 18,553                   | 1,698                   |

- (1) Total operating expense credits for the three months ended June 30, 2012 includes \$0.1 million in sublease revenue. Total operating expense credits for the six months ended June 30, 2012 includes \$0.2 million in sublease revenue

Total operating expense credits for the three months ended July 2, 2011 include a \$0.3 million favorable settlement with a service vendor, \$0.1 million in net gains on the sale of equipment and \$0.1 million in sublease revenue. Total operating expense credits for the six months ended July 2, 2011 include a \$0.3 million favorable settlement with a service vendor, \$0.2 million in net gains on the sale of equipment and \$0.1 million in sublease revenue.

- (2) Net gains on business divestitures for the six months ended June 30, 2012 includes \$2.3 million in cash consideration received plus \$17.6 million accumulated in the foreign currency translation adjustment component of equity that was transferred to earnings upon substantial liquidation of two of our foreign entities.

#### 6. Net Income (Loss) Per Common Share Information

Our weighted-average number of common shares outstanding includes the weighted-average number of 0.4 million warrants during each of the three and six months ended June 30, 2012 and 1.8 million warrants during each of the three and six months ended July 2, 2011, held by a related party (Note 2), exercisable for shares of our common stock, as they are issuable for an exercise price of \$0.07 each. At June 30, 2012, 0.4 million of these warrants remained outstanding.

The following securities that could potentially reduce net income or increase net loss per share in the future are not included in the determination of diluted income (loss) per share as they are antidilutive. The share amounts are determined using a weighted-average of the common stock equivalents outstanding during the respective periods.

|                           | Three Months Ended |              | Six Months Ended |              |
|---------------------------|--------------------|--------------|------------------|--------------|
|                           | June 30, 2012      | July 2, 2011 | June 30, 2012    | July 2, 2011 |
| <i>(in thousands)</i>     |                    |              |                  |              |
| Third Lien Notes          | 9,293              | 8,010        | 9,115            | 7,882        |
| Outstanding stock options | 2,175              | 1,486        | 1,979            | 1,523        |
| Unvested restricted stock | 1,169              | 1,236        | 1,199            | 1,236        |

#### 7. Stockholders Deficit

Changes in shares of common stock outstanding and total stockholders deficit for the six months ended June 30, 2012 are as follows:

|  | Shares of Common Stock Outstanding | Total Stockholders Deficit |
|--|------------------------------------|----------------------------|
| <i>(in thousands)</i>  |                                    |                            |
| Balance at December 31, 2011   | 24,938                             | \$ (660,767)               |
| Share-based compensation expense   |                                    | 244                        |
| Foreign currency translation adjustment transferred to earnings upon substantial liquidation of foreign entities |                                    | (17,578)                   |
| Foreign currency translation adjustment  |                                    | (192)                      |
| Net loss   |                                    | (76,279)                   |
| Balance at June 30, 2012   | 24,938                             | \$ (754,572)               |

#### 8. Fair Value Measurements

##### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes our assets and liabilities that require fair value measurements on a recurring basis and their respective input levels based on the fair value hierarchy contained in accounting guidance for fair value measurements and disclosures:

**Fair Value Measurements at End of Period Using:**  
**Quoted Market**  
**Prices for**  
**Identical Assets**  
**(Level**  
**1)**  
**Significant Other**  
**Observable**  
**Inputs**  
**(Level 2)**  
**Significant**  
**Unobservable**  
**Inputs**  
**(Level 3)**

*(in thousands)*

|                                    | <b>Fair Value</b> |    |    |        |
|------------------------------------|-------------------|----|----|--------|
| <b><u>At June 30, 2012</u></b>     |                   |    |    |        |
| Marketable securities              | \$ 6,268          | \$ | \$ | 6,268  |
| <b><u>At December 31, 2011</u></b> |                   |    |    |        |
| Marketable securities              | \$ 10,000         | \$ | \$ | 10,000 |

Level 2 valuations for our marketable securities which consist of bank certificates of deposit and a U.S. Treasury bill approximate carrying value due to their short-term nature.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

There have been no significant changes to our assets and liabilities measured at fair value on a nonrecurring basis during the six months ended June 30, 2012.

**Fair Value of Other Financial Instruments**

The carrying amounts of certain of our financial instruments of continuing operations, including cash and cash equivalents, short-term investments, accounts payable and accrued expenses, approximate fair value due to their short-term nature. The carrying amounts and fair values of our long-term obligations of continuing operations are as follows:

| <i>(in thousands)</i>    | June 30, 2012   |            | December 31, 2011 |            |
|--------------------------|-----------------|------------|-------------------|------------|
|                          | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| Senior Notes             | \$ 148,037      | \$ 148,339 | \$ 137,795        | \$ 138,353 |
| Second Lien Notes        | 207,932         | 208,796    | 193,291           | 194,701    |
| Third Lien Notes         | 743,807         | 751,223    | 685,086           | 697,803    |
| Wireless spectrum leases | 19,593          | 16,840     | 22,415            | 19,289     |

At June 30, 2012 and December 31, 2011, we determined the fair value of our long-term obligations using discounted cash flow models with discount rates that represent our respective estimated incremental borrowing rates as of that date for that type of instrument (level 2 inputs).

**9. Commitments and Contingencies****Legal Proceedings**

On September 16, 2008, a putative class action lawsuit, captioned Sandra Lifschitz, On Behalf of Herself and All Others Similarly Situated, Plaintiff, v. NextWave Wireless Inc. et al., Defendants, was filed in the U.S. District Court for the Southern District of California against us and certain of our officers. The suit alleges that the defendants made false and misleading statements and/or omissions in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The suit seeks unspecified damages, interest, costs, attorneys' fees, and injunctive, equitable or other relief on behalf of a purported class of purchasers of our common stock during the period from March 30, 2007 to August 7, 2008. A second putative class action lawsuit captioned Benjamin et al. v. NextWave Wireless Inc. et al. was filed on October 21, 2008 alleging the same claims on behalf of purchasers of our common stock during an extended class period, from November 27, 2006 through August 7, 2008. On February 24, 2009, the Court issued an Order consolidating the two cases and appointing a lead plaintiff pursuant to the Private Securities Litigation Reform Act. On May 15, 2009, the lead plaintiff filed an Amended Complaint, and on June 29, 2009, we filed a Motion to Dismiss that Amended Complaint. On March 5, 2010, the Court granted our Motion to Dismiss without prejudice, permitting the lead plaintiff to file an Amended Complaint. On March 26, 2010, the lead plaintiff filed a Second Amended Consolidated Complaint, and we subsequently filed a Motion to Dismiss. On March 16, 2011, the Court granted our Motion and dismissed the complaint without prejudice. On May 5, 2011, the lead plaintiff filed a Third Amended Complaint, and we again filed a Motion to Dismiss. On November 21, 2011, the Court granted our Motion and dismissed the case with prejudice. On December 19, 2011, the lead plaintiff filed a Notice of Appeal with the Ninth Circuit Court of Appeals. We and our insurance carrier have agreed with the lead plaintiff on the final terms of a settlement. The settlement provides for a full release and dismissal of all claims asserted against all defendants in the litigation and the appeal, in exchange for payment of \$1.4 million by our insurance carrier. The settlement is subject to court approval following notice to the potential class members. The Court of Appeals dismissed the appeal on June 25, 2012 and the case has been returned to the district court for the approval process. The district court has approved the application for preliminary approval of the settlement and the final approval hearing is scheduled for November 9, 2012. We have not recorded any significant accruals for contingent liabilities associated with this matter based on our belief that a liability, while possible, is not probable.

We are also currently involved in other legal proceedings, which we do not believe will result in a material liability. We estimate the range of liability related to pending litigation where the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the claim. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. As of June 30, 2012, we have not recorded any significant accruals for contingent liabilities associated with our legal proceedings based on our belief that a liability, while possible, is not probable. Further, any possible range of loss cannot be estimated at this time. Revisions to our estimate of the potential liability could materially impact future results of operations.



## 10. Subsequent Event

On August 1, 2012, we entered into an Agreement and Plan of Merger (the *Merger Agreement*) with AT&T Inc., a Delaware corporation ( *AT&T* ) and Rodeo Acquisition Sub Inc., a Delaware corporation and a direct wholly-owned subsidiary of AT&T ( *Merger Sub* ). Under the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and a direct wholly-owned subsidiary of AT&T (the *Merger* ).

The Merger Agreement provides that AT&T will acquire all of the outstanding common shares of NextWave for \$1.00 per share plus a non-transferrable contingent payment right representing a pro rata interest in an amount of up to \$25 million in the residual balance of a \$50 million escrow fund to be funded initially with (i) a \$25 million payment by AT&T pursuant to the terms of the Merger Agreement and (ii) \$25 million of the price to be paid by AT&T for Third Lien Notes pursuant to the terms of a note purchase agreement entered into between AT&T and the holders of Third Lien Notes and described below, with such escrow fund and the contingent payment rights being subject to reduction to satisfy indemnification rights held by AT&T in respect of losses, resulting from, among other things, breaches of representations and warranties, certain pre-closing liabilities, balance sheet adjustments and other items described in the Merger Agreement and the purchase agreement for the Third Lien Notes, and to pay fees to be incurred under the contingent payment rights agreement and the escrow agreement.

AT&T has entered into note purchase agreements with each of the holders of our Notes. Pursuant to the note purchase agreements, immediately prior to the consummation of the Merger, AT&T will purchase the Notes for a cash amount equal to \$600 million, less the \$25 million cash consideration to be paid by AT&T at closing of the Merger pursuant to terms of the Merger Agreement and the \$25 million to be deposited into the \$50 million escrow fund in respect of the contingent payment rights at closing pursuant to the Merger Agreement and subject to a \$25 million escrow hold-back to secure post-closing indemnification rights held by AT&T and other deductions pursuant to the note purchase agreement for the Third Lien Notes. The amount of cash to be paid at closing in respect of the Third Lien Notes will also be subject to reduction for closing date liabilities of NextWave, including certain tax amounts, and amounts necessary to repay a new working capital facility of up to \$15 million to be provided by the holders of the Senior Notes.

In connection with the Merger Agreement, on August 1, 2012, the Company and its wholly owned subsidiary NextWave Wireless LLC, and certain subsidiary guarantors entered into a Forbearance Agreement (the *Forbearance Agreement*) with the holders of the Notes. Pursuant to the Forbearance Agreement, each holder has agreed, and directed The Bank of New York Mellon, as collateral agent, to temporarily forbear from exercising their respective rights and remedies in connection with potential defaults and events of default that may occur during the forbearance period. The forbearance period will terminate on the earliest to occur of the effective time of the Merger, sixty days after the date of any termination of the Merger Agreement and January 31, 2014.

At the time of the merger, NextWave will hold only its U.S. WCS and AWS spectrum assets, with the remainder of its assets and liabilities, including its Canadian WCS spectrum and its 2.5 MHz EBS/BRS spectrum assets, being held by a newly formed subsidiary ( *NextWave Holdco* ). Prior to the AT&T note purchase transactions described above, NextWave will redeem the outstanding amount of its Third Lien Notes that will not be purchased by AT&T for the equity interests in NextWave Holdco. The holders of the Third Lien Notes will also have the right to receive the equity interests in NextWave Holdco in connection with certain bankruptcy events and following any termination of the Merger Agreement, in redemption of the Third Lien Notes which become the direct obligations of NextWave Holdco (as described below), and in the case of any termination of the Merger Agreement, in consideration of a payment of \$25 million for the benefit of our stockholders. The Merger Agreement and the Forbearance Agreement require the Company to complete the transactions in connection with the formation of NextWave Holdco within thirty days following the date of the Merger Agreement or, if regulatory approval is required, as promptly as practicable following receipt of such regulatory approval.

To permit the consummation of the transactions described above, the holders of the Notes will amend and restate the Notes and amend certain documents ancillary to the Notes. The Third Lien Notes will be amended and restated and split into two series to provide that certain of the Company's obligations to the holders of the Third Lien Notes will remain with the Company and the remaining obligations will become direct obligations of NextWave Holdco. Specifically, the parties have agreed that \$325 million of the Company's outstanding obligations under the Third Lien Notes will remain the Company's direct obligations and the remaining principal balance of the Company's Third Lien Notes plus accrued and unpaid interest as of the date the Third Lien Notes are amended and restated will become the direct obligations of NextWave Holdco. AT&T will also have the option upon the occurrence of certain insolvency filing events to purchase the Third Lien Notes which remain the Company's direct obligations. NextWave Holdco will provide a first priority guarantee of the Company's obligations to the First Lien Holders and a second priority guarantee of the Company's obligations to the Second Lien Holders in addition to the guarantees, security interests and pledges previously in place in connection with the Notes. It is contemplated that the interest rate on the Third Lien Notes transferred to NextWave Holdco will be 16% and that the covenants applicable to the Third Lien Notes will be amended, including without limitation to provide for the following, subject to the receipt of any required regulatory approvals:

a restriction on the sale of the assets transferred to NextWave Holdco unless holders of 75% of the NextWave Holdco Third Lien Notes provide consent and a requirement that all net proceeds received from such sales will be held on behalf of and in trust of the



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holders of the NextWave Holdco Third Lien Notes by a noteholder representative;

the holders of 75% of the NextWave Holdco Third Lien Notes will also have the right to direct NextWave Holdco to sell the assets transferred to it, and all net proceeds received from such sales will similarly be held on behalf of and in trust of the holders of the NextWave Holdco Third Lien Notes by the noteholder representative;

the noteholder representative will hold all such proceeds described above until the First Lien Notes and the Second Lien Notes have been satisfied in full or the holders of 66 2/3% of the First Lien Notes and 66 2/3% of the Second Lien Notes have consented to release of the proceeds to the holders of the NextWave Holdco Third Lien Notes; and

the noteholder representative will also have the right to purchase (on behalf of and in trust for the holders of the NextWave Holdco Third Lien Notes) all of the Company's First Lien Notes and Second Lien Notes subject to the obligation to keep such notes outstanding until the consummation of the Merger until (A) the consummation of the Merger, or (B) in the event a bankruptcy proceeding is initiated, the exercise of a call right by AT&T to acquire the Third Lien Notes and the payment of the First Lien Notes and Second Lien Notes in the bankruptcy proceeding.

In addition, the holders of the Senior Notes have agreed to provide a working capital line (subject to negotiation and execution of mutually agreeable documentation) of up to \$15 million to be available to the Company prior to the closing of the Merger, which may be pari passu with the Senior Notes (or senior in priority to the Senior Notes, Second Lien Notes or Third Lien Notes) and senior to any other debt obligation of the Company. Proceeds from disbursements under the working capital line are to be used solely to pay expenses incurred in the ordinary course of operations of the Company or in connection with payments to be made in connection with the Merger.

The Merger Agreement will terminate automatically if the Merger has not occurred on or prior to July 31, 2013 (the Termination Date). The Termination Date may be extended for up to two three-month periods at the option of AT&T if requisite regulatory approvals have not been obtained. In addition, either the Company or AT&T can terminate the Merger Agreement under specified circumstances. The Merger Agreement also provides that, upon termination of the Merger Agreement under specified circumstances, NextWave, or an alternative acquiror of NextWave will pay AT&T a termination payment of \$5 million.

The Merger and the transactions contemplated thereby were unanimously approved by the Independent Committee of NextWave's Board of Directors and NextWave's Board of Directors.

The transaction is subject to closing conditions, including approval of NextWave's stockholders of record as of September 4, 2012 and regulatory approvals, including approval of the FCC.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operation**

*In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Our actual results could differ substantially from those anticipated by such forward-looking information due to a number of factors, including, but not limited to, risks described in the section entitled "Risk Factors" and elsewhere in this Quarterly Report. Additionally, the following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2011 contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2012. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those described in the forward-looking statements due to a number of factors, including, without limitation, those factors described under "Risk Factors" and elsewhere in this Quarterly Report. Any forward-looking statements should be considered in light of these factors. Unless otherwise required by law, the Company undertakes no obligation, and expressly disclaims any obligation, to update or 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, or otherwise.*

*We operate on a 52-53 week fiscal year ending on the Saturday nearest to December 31 of the current calendar year or the following calendar year. Normally, each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks. Fiscal years 2012 and 2011 are 52-week years ending on December 29, 2012 and December 31, 2011, respectively. The three- and six-month periods ending June 30, 2012 and July 2, 2011 include 13 weeks and 26 weeks each, respectively.*

*The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. As more fully described in Note 1 to the consolidated financial statements, we have incurred recurring operating losses and have substantial debt maturities in 2012 and 2013 and our cash reserves will not be sufficient to meet these payment obligations. These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.*

**OVERVIEW**

**Second Quarter of 2012**

Our net loss from continuing operations during the second quarter of 2012 was \$47.9 million compared to \$66.0 million for the second quarter of 2011.

Our net loss from continuing operations during the first six months of 2012 was \$94.8 million compared to \$128.1 million for the first six months of 2012.

Our net loss is driven by the accrual of substantial payment-in-kind interest on our secured debt, expenses in maintaining our wireless spectrum assets and expenses of remaining a public company, which expenses are not offset by any material revenue. We expect that these losses will persist as we continue our efforts to monetize our wireless spectrum assets.

**Our Business**

NextWave Wireless Inc. is a holding company for our wireless spectrum portfolio. Our continuing operations are focused on the management of our wireless spectrum interests. Our total domestic spectrum holdings consist of approximately 3.9 billion MHz POPs. The term "MHz-POPs" is defined as the product derived from multiplying the number of megahertz associated with a license by the population of the license's service area. Our wireless license portfolio covers approximately 218.6 million total POPs, with 104.8 million POPs covered by 20 MHz or more of spectrum, and an additional 94.9 million POPs covered by at least 10 MHz of spectrum. In addition, a number of markets, including much of the New York City metropolitan region, are covered by 30 MHz or more of spectrum. Our domestic spectrum resides in the 2.3 GHz Wireless Communication Services (WCS), 2.5 GHz Broadband Radio Service (BRS)/Educational Broadband Service (EBS), and 1.7/2.1 GHz Advanced Wireless Service (AWS) bands and offers propagation and other characteristics suitable to support high-capacity, mobile broadband services.

Our international spectrum included in continuing operations include 2.3 GHz licenses in Canada with 15 million POPs covered by 30 MHz of spectrum.

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On August 1, 2012, we entered into an Agreement and Plan of Merger (the Merger Agreement ) with AT&T and Rodeo Acquisition Sub Inc., a Delaware corporation and a direct wholly-owned subsidiary of AT&T ( Merger Sub ). Under the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and a direct wholly-owned subsidiary of AT&T (the Merger ).

Completion of the Merger is not subject to a financing condition, but is subject to approval of the Merger by the Company s stockholders, conditions relating to approval by the Federal Communications Commission ( FCC ), and other conditions to closing.

The Merger and the related transactions are described in more detail in Note 10 to the Condensed Consolidated Financial Statements.

***Discontinued Operations***

The results of operations of our Global Services Support strategic business units and our WiMAX Telecom, Inquam and South American businesses, have been reported as discontinued operations in the condensed consolidated financial statements for all periods presented, prior to sale or dissolution of the respective business.

Our discontinued international operations hold a nationwide 2.0 GHz license in Norway.

**RESULTS OF OPERATIONS**

The results of operations of our Global Services Support strategic business units and our WiMAX Telecom, Inquam and South American businesses, have been reported as discontinued operations in the consolidated financial statements for all periods presented, prior to sale or dissolution of the respective business.

***Comparison of Our Second Quarter of 2012 to Our Second Quarter of 2011 Continuing Operations***

**General and Administrative**

General and administrative expenses from continuing operations during the second quarter of 2012 were \$5.1 million compared to \$6.1 million for the second quarter of 2011. The \$1.0 million decrease is attributable primarily to lower headcount related and professional fee expenditures in addition to lower share-based compensation expense.

Included in general and administrative expenses during each of the second quarters of 2012 and 2011 is \$1.9 million of amortization of finite-lived wireless spectrum. Also included in general and administrative expenses during the second quarters of 2012 and 2011 is \$0.1 million and \$0.2 million, respectively, of share-based compensation expense.

**Net gains on Sales of Wireless Spectrum Licenses**

During the second quarter of 2012 we recognized a net gain of \$0.1 million on the sale of our wireless spectrum licenses in Canada.

During the second quarter of 2011, we recognized a \$0.3 million gain on the sale of wireless spectrum licenses which represents our receipt of a \$0.3 million holdback payment that was pending FCC clearance of a prior sale by us.

### **Interest Expense**

Interest expense from continuing operations during the second quarter of 2012 was \$43.1 million, compared to \$61.7 million during the second quarter of 2011, a decrease of \$18.6 million. The decrease is primarily attributable to lower interest accretion of debt discounts and issuances costs of \$1.0 million, \$3.0 million and \$23.3 million on our Senior Notes, Second Lien Notes and Third Lien Notes, respectively. These decreases were partially offset by higher principal and paid-in-kind interest of \$0.7 million, \$1.0 million and \$7.0 million on our Senior Notes, Second Lien Notes and Third Lien Notes, respectively.

Interest expense on our Senior Notes, Second Lien Notes and Third Lien Notes during 2012 is expected to be lower than that recognized during 2011 by approximately \$69.1 million and is expected to be attributed to lower accretion of debt discounts and issuance costs related to these notes of approximately \$100.9 million, partially offset by higher paid-in-kind interest of approximately \$31.8 million.

### **Income Taxes**

During the second quarters of 2012 and 2011, substantially all of our U.S. subsidiaries had net losses for tax purposes with full valuation allowances.

Our effective income tax rate during the second quarter of 2012 was 0.4% resulting in an income tax benefit of \$0.2 million on our pre-tax loss of \$48.1 million. The income tax benefit is a result of taxes provided on income from discontinued operations that can be offset by losses from continuing operations.

Our effective income tax rate during the second quarter of 2011 was 2.5%, resulting in an income tax benefit of \$1.7 million on our pre-tax loss of \$67.6 million. The income tax benefit consists of a \$1.3 million tax benefit from the effect of the change in the effective income tax rate on the deferred tax liabilities associated with indefinite-lived intangible assets and a \$0.4 million tax benefit on taxes provided on income from discontinued operations that can be offset by losses from continuing operations.

### ***Comparison of Our First Six Months of 2012 to Our First Six Months of 2011 Continuing Operations***

#### **General and Administrative**

General and administrative expenses from continuing operations during the first six months of 2012 were \$10.7 million compared to \$12.3 million for the first six months of 2011. The \$1.6 million decrease is attributable primarily to lower headcount related and professional fee expenditures in addition to lower share-based compensation expense during 2012. Of this decrease, \$0.4 million is also attributed to maintenance expenditures incurred during 2011 associated with certain build-out or substantial service requirements of our licensed wireless spectrum, which generally must be satisfied as a condition of the license.

Included in general and administrative expenses during the first six months of 2012 and 2011 is \$3.7 million and \$3.8 million, respectively, of amortization of finite-lived wireless spectrum. Also included in general and administrative expenses during the first six months of 2012 and 2011 is \$0.2 million and \$0.4 million, respectively, of share-based compensation expense.

#### **Restructuring Credit**

During the first six months of 2011, we recognized a benefit of \$1.1 million resulting from a renegotiation of our \$1.9 million long-term obligation stemming from a previous renegotiation of one of our abandoned lease liabilities whereby we paid \$0.8 million in full settlement of the obligation.

#### **Net gain on Sale of Wireless Spectrum License**

During the first six months of 2012 we recognized a net gain of \$0.1 million on the sale of our wireless spectrum licenses in Canada.

During the first six months of 2011, we recognized a \$0.3 million gain on the sale of wireless spectrum licenses which represents our receipt of a \$0.3 million holdback payment that was pending FCC clearance of a prior sale by us.

### **Interest Expense**

Interest expense from continuing operations during the first six months of 2012 was \$84.7 million, compared to \$120.2 million during the first six months of 2011, a decrease of \$35.5 million. The decrease is primarily attributable to lower interest accretion of debt discounts and issuances

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costs of \$2.1 million, \$5.9 million and \$45.3 million on our Senior Notes, Second Lien Notes and Third Lien Notes, respectively. These decreases were partially offset by higher principal and paid-in-kind interest of \$1.2 million, \$1.8 million and \$14.8 million on our Senior Notes, Second Lien Notes and Third Lien Notes, respectively.

### **Other Income and Expense, Net**

Other income, net, from continuing operations during the first six months of 2011 was \$1.3 million, and reflects primarily changes in the estimated fair values of our embedded derivatives.

**Income Taxes**

During the first six months of 2012 and 2011, substantially all of our U.S. subsidiaries had net losses for tax purposes with full valuation allowances.

Our effective income tax rate during the first six months of 2012 was 0.4% resulting in an income tax benefit of \$0.4 million on our pre-tax loss of \$95.2 million. The income tax benefit is a result of taxes provided on income from discontinued operations that can be offset by losses from continuing operations.

Our effective income tax rate during the first six months of 2011 was 1.4%, resulting in an income tax benefit of \$1.8 million on our pre-tax loss of \$129.9 million. The income tax benefit consists of a \$1.3 million tax benefit from the effect of the change in the effective income tax rate on the deferred tax liabilities associated with indefinite-lived intangible assets and a \$0.5 million tax benefit on taxes provided on income from discontinued operations that can be offset by losses from continuing operations.

**Comparison of Our Second Quarter and First Six Months of 2012 to Our Second Quarter and First Six Months of 2011 – Discontinued Operations**

The results of operations of our discontinued Global Services Support, WiMAX Telecom, Inquam and South American businesses, are as follows:

|   | Three Months Ended |                 |                        | Six Months Ended |                 |                        |
|---|--------------------|-----------------|------------------------|------------------|-----------------|------------------------|
|   | June 30,<br>2012   | July 2,<br>2011 | Increase<br>(Decrease) | June 30,<br>2012 | July 2,<br>2011 | Increase<br>(Decrease) |
| <i>(in millions)</i>                      |                    |                 |                        |                  |                 |                        |
| Total operating expense credits           | \$ (0.2)           | \$ (0.4)        | \$ 0.2                 | \$ (0.2)         | \$ (0.5)        | \$ 0.3                 |
| Net gains on business divestitures        |                    | 0.5             | (0.5)                  | 19.9             | 2.1             | 17.8                   |
| Income before income taxes                | 0.2                | 0.9             | (0.7)                  | 20.0             | 2.7             | 17.3                   |
| Net income from discontinued operations   | 0.1                | 0.6             | (0.5)                  | 18.6             | 1.7             | 16.9                   |
| <b>Total Operating Expenses (Credits)</b> |                    |                 |                        |                  |                 |                        |

Total operating expense credits for the second quarter and first six months of 2012 include \$0.1 million and \$0.2 million, respectively, in sublease revenue.

Total operating expense credits for the second quarter of 2011 include a \$0.3 million favorable settlement with a service vendor, \$0.1 million in net gains on the sale of equipment and \$0.1 million in sublease revenue. Total operating expense credits for the first six months of 2011 include a \$0.3 million favorable settlement with a service vendor, \$0.2 million in net gains on the sale of equipment and \$0.1 million in sublease revenue.

**Net Gains on Business Divestitures**

In 2009, we sold the majority of the assets and liabilities of our Inquam Broadband GmbH ( IBG ) subsidiary to Inquam Holding GmbH ( IHG ), a limited liability company and a related party, for a nominal amount under an Asset Purchase Agreement. In connection with the sale, we entered into an earn-out agreement with IHG that provided for payment to us upon the subsequent sale of the outstanding share capital of IHG. In March 2012, the shareholders of IHG sold and transferred all of the share capital of IHG to a third party, whereby we received \$2.3 million in cash consideration. As a result of the sale of IHG and final realization of our investments in our WiMax Telecom AG and IBG subsidiaries, we recognized a net gain on disposal of \$19.9 million during the first six month of 2012 which represents the \$2.3 million in cash received plus \$17.6 million accumulated in the foreign currency translation adjustment component of equity for these two consolidated subsidiaries that was transferred to earnings upon substantial liquidation.

During the second quarter and first six months of 2011 we recognized \$0.5 million under the terms of an additional consideration agreement that we entered into upon the sale of WT SRO in June 2010.

During the first six months of 2011, we completed the sale of our remaining subsidiaries in Latin America to a third party for \$3.0 million and recognized a gain on the divestiture of \$1.7 million.

**Income Taxes**

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The effective income tax rate for discontinued operations during the second quarter of 2012 was 31.6% resulting in an income tax provision of \$54,000 on pre-tax income from discontinued operations of \$171,000. The tax provision was recorded as a result of an allocation of the loss from continuing operations during the respective periods.



The effective income tax rate for discontinued operations during the first six months of 2012 was 7.3% resulting in an income tax provision of \$1.5 million on pre-tax income from discontinued operations of \$20.0 million. The tax provision was recorded as a result of an allocation of the loss from continuing operations during the respective periods.

The effective income tax rate for discontinued operations during the second quarter and first six months of 2011 was 36.5%, resulting in income tax provisions of \$0.3 million and \$1.0 million on pre-tax income from discontinued operations of \$0.9 million and \$2.7 million, respectively. The tax provision was recorded as a result of an allocation of the loss from continuing operations during the respective periods.

## LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations, business combinations, strategic investments and wireless spectrum license acquisitions primarily with the \$550.0 million in cash received in our initial capitalization in April 2005, the net proceeds of \$295.0 million from the issuance of the Senior Notes in 2006 and 2010, the net proceeds of \$351.1 million from our issuance of Series A Senior Convertible Preferred Stock in March 2007 and the net proceeds of \$101.0 million from our issuance of the Second Lien Notes in 2008 and 2009. Our total unrestricted cash, cash equivalents and marketable securities included in current assets of continuing operations totaled \$12.4 million at June 30, 2012. We had a net working capital deficit of \$1,088.1 million at June 30, 2012.

In an effort to reduce our future working capital requirements and in order to comply with the terms of our Senior Notes, Second Lien Notes and Third Lien Notes our Board of Directors approved the implementation of a global restructuring initiative in 2008, pursuant to which we have divested, either through sale, dissolution or closure, our multimedia, network infrastructure and semiconductor businesses. We have also taken other cost reduction actions. The results of operations of these businesses are reported as discontinued operations in the accompanying condensed consolidated financial statements.

During the first six months of 2012, our continuing operations used cash of \$6.1 million for operations, which includes costs to maintain our wireless spectrum licenses and costs associated with being a public reporting company. We expect that our cash requirements for our continuing operations will continue at this rate during the remainder of 2012. If we refinance or extend our secured notes, we anticipate that additional funding for operations will be needed during the first quarter of 2013, and there can be no assurance at this time that we will obtain this additional funding.

In 2011, we had capital expenditure needs associated with certain build-out or substantial service requirements which apply to our licensed domestic wireless spectrum, which generally must be satisfied as a condition of the license. The substantial service deadlines applicable to our domestic and Canadian wireless spectrum assets, and our activities to meet these requirements, are described below:

The substantial service deadline for our domestic Wireless Communication Services ( WCS ) spectrum was July 21, 2010 under the FCC rules effective at that time. However, the FCC adopted new rules on May 20, 2010, that, when they became effective on September 1, 2010, purported to replace the July 21, 2010 substantial service requirement with new requirements that must be met by March 4, 2014 and additional requirements that must be met by September 1, 2016. We filed substantial service showings with the FCC on July 20, 2010 for all of our WCS licenses under the rules then in effect. The FCC dismissed them on June 14, 2011 in accordance with its June 2010 announcement that all substantial service showings would be dismissed given the new performance requirements it had adopted. Failure to make the substantial service demonstrations by March 4, 2014 and by September 1, 2016 without seeking and obtaining an extension from the FCC would result in license forfeiture.

Educational Broadband Service ( EBS ) licensees were required to demonstrate that they are providing substantial service in their license areas by November 1, 2011. To meet the substantial service requirements for EBS spectrum, we arranged with our EBS licensees to either (a) have the EBS licensee continue to use the spectrum to provide educational services in the cases where the EBS licensee is currently providing such service or (b) provide educational services on a network that was installed by us, at our cost, either of which option was intended to deliver educational services over the spectrum in compliance with the FCC's educational safe harbor to meet the substantial service showing by the deadline. We have completed build-out activities for our EBS leases. All of the EBS licensees with whom we have leases filed substantial service showings by the deadline, which the FCC accepted.

We also operate or hold spectrum licenses through various subsidiaries in Canada and Norway. In Canada, our 2.3 GHz licenses were subject to mid-term in-use demonstration deadlines of November 2012 and April 2013 for 59 and 24 of our licenses, respectively. On March 29, 2012, the Canadian regulatory authority, Industry Canada, granted an extension of two years, resulting in new in-use demonstration deadlines of November 2014 and April 2015. In order for us to operate our Canadian spectrum under

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current Canadian ownership rules, we will need a Canadian-controlled partner. Changes to the Canadian ownership rules have been proposed, but not yet adopted. There can be no assurance that: 1) we will find a Canadian-controlled partner who will be able to provide a viable business plan and attract appropriate financing by the build out deadline, or 2) that the new ownership rules will enable us to develop a viable business plan and attract appropriate financing by the build out deadline. Failure to make the in-use demonstrations for each of these licenses, in the absence of a further extension by Industry Canada, could result in forfeiture of the applicable licenses. At June 30, 2012, we held a total of 83 licenses in Canada. We do not have specific build-out obligations in Norway.

**Debt Maturities and Ability to Continue as Going Concern**

As of June 30, 2012, the aggregate principal amount of our secured indebtedness was \$1,103.1 million. This amount includes our Senior Notes, due December 2012, with an aggregate principal amount of \$148.1 million, our Second Lien Notes, due January 2013, with an aggregate principal amount of \$207.9 million and our Third Lien Notes, due February 2013, with an aggregate principal amount of \$747.1 million. Our current cash reserves are not sufficient to meet our payment obligations under our secured notes at their current maturity dates.

In connection with the Merger Agreement, on August 1, 2012, the Company and its wholly owned subsidiary NextWave Wireless LLC, and certain subsidiary guarantors entered into the Forbearance Agreement with the holders of the Notes. Pursuant to the Forbearance Agreement, each holder has agreed, and directed The Bank of New York Mellon, as collateral agent, to temporarily forbear from exercising their respective rights and remedies in connection with potential defaults and events of default that may occur during the forbearance period. The forbearance period will terminate on the earliest to occur of the effective time of the Merger, sixty days after the date of any termination of the Merger Agreement and January 31, 2014.

In addition, the holders of the Senior Notes have agreed to provide a working capital line (subject to negotiation and execution of mutually agreeable documentation) of up to \$15 million to be available to the Company prior to the closing of the Merger, which may be pari passu with the Senior Notes (or senior in priority to the Senior Notes, Second Lien Notes or Third Lien Notes) and senior to any other debt obligation of the Company. Proceeds from disbursements under the working capital line are to be used solely to pay expenses incurred in the ordinary course of operations of the Company or in connection with payments to be made in connection with the Merger.

If the Merger Agreement is terminated and if we are unable to further extend the maturity of our secured notes, or identify and successfully implement alternative financing to repay our secured notes, the holders of our Notes could proceed against the assets pledged to collateralize these obligations. These conditions raise substantial doubt about our ability to continue as a going concern. Insufficient capital to repay our debt at maturity would significantly restrict our ability to operate and could cause us to seek relief through a filing in the United States Bankruptcy Court. Any alternative financing and/or maturity extension of our Notes may be costly to obtain, and could involve the issuance of equity securities that could cause significant dilution to our existing stockholders and potentially limit our net operating loss carry forwards.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. This basis contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business.

The following table presents our working capital deficit, our cash, cash equivalents and short-term investment balances:

| <i>(in millions)</i>   | <b>June 30,<br/>2012</b> | <b>March 31,<br/>2012</b> | <b>Increase<br/>(Decrease)</b> | <b>December 31,<br/>2011</b> | <b>Increase<br/>(Decrease)</b> |
|--|--------------------------|---------------------------|--------------------------------|------------------------------|--------------------------------|
| Working capital deficit  | \$ (1,088.1)             | \$ (1,042.8)              | \$ (45.3)                      | \$ (118.1)                   | \$ (970.0)                     |
| Cash and cash equivalents  | \$ 6.1                   | \$ 8.6                    | \$ (2.5)                       | \$ 11.1                      | \$ (5.0)                       |
| Marketable securities  | 6.3                      | 6.3                       |                                | 10.0                         | (3.7)                          |
| Cash, cash equivalents and marketable securities – continuing operations | 12.4                     | 14.9                      | (2.5)                          | 21.1                         | (8.7)                          |
| Cash and cash equivalents – discontinued operations                      | 0.6                      | 0.7                       | (0.1)                          |                              | 0.6                            |
| Total cash, cash equivalents and marketable securities                   | \$ 13.0                  | \$ 15.6                   | \$ (2.6)                       | \$ 21.1                      | \$ (8.1)                       |

**Uses of Cash, Cash Equivalents and Short-Term Investments**

The following table presents our utilization of cash, cash equivalents and short-term investments:

| <i>(in millions)</i> | <b>Three Months Ended</b> | <b>Six Months Ended</b> |
|----------------------|---------------------------|-------------------------|
|----------------------|---------------------------|-------------------------|

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|  | June 30,<br>2012 | July 2,<br>2011 | June 30,<br>2012 | July 2,<br>2011 |
|--|------------------|-----------------|------------------|-----------------|
| Beginning cash, cash equivalents and marketable securities                       | \$ 15.6          | \$ 31.5         | \$ 21.1          | \$ 42.6         |
| Net operating cash used by continuing operations                                 | (2.3)            | (4.0)           | (6.1)            | (7.6)           |
| Payments on long-term obligations, excluding wireless spectrum lease obligations |                  |                 |                  | (6.1)           |
| Proceeds from the sale of wireless spectrum licenses, net of selling costs       | 0.1              | 0.3             | 0.3              | 0.3             |
| Cash paid for wireless spectrum license lease obligations                        | (0.2)            | (0.2)           | (3.9)            | (3.8)           |
| Payments to restricted cash account used to redeem long-term obligations         | (0.1)            |                 | (0.6)            |                 |
| Other, net   | (0.2)            |                 | (0.2)            |                 |
| Net operating and investing cash provided by discontinued operations             | 0.1              | 0.4             | 2.4              | 2.6             |
| Ending cash, cash equivalents and marketable securities                          | 13.0             | 28.0            | 13.0             | 28.0            |
| Less: ending cash and cash equivalents - discontinued operations                 | (0.6)            | (0.4)           | (0.6)            | (0.4)           |
| Ending cash, cash equivalents and marketable securities - continuing operations  | \$ 12.4          | \$ 27.6         | \$ 12.4          | \$ 27.6         |

There were no significant investing or financing activities during the first six months of 2012.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, valuation of intangible assets and investments, and litigation. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results that differ from our estimates could have a significant adverse effect on our operating results and financial position. Our accounting policies are described in more detail in Note 1 to our consolidated financial statements for the year ended December 31, 2011, contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2012.

There have been no significant changes in our critical accounting policies and estimates since December 31, 2011.

## CONTRACTUAL OBLIGATIONS

The following table summarizes our cash contractual obligations for continuing and discontinued operations at June 30, 2012, and the effect that such obligations are expected to have on our liquidity and cash flows in future periods.

| <i>(in thousands)</i>  | Total        | Payments Due by Fiscal Year Period |                    |                    | Years 2017<br>and<br>Thereafter |
|--|--------------|------------------------------------|--------------------|--------------------|---------------------------------|
|  |              | Remainder<br>of<br>2012            | Years<br>2013-2014 | Years<br>2015-2016 |                                 |
| Continuing Operations:   |              |                                    |                    |                    |                                 |
| Long-term obligations:   |              |                                    |                    |                    |                                 |
| Notes payable <sup>(1)(2)</sup>                                  | \$ 1,103,118 | \$ 148,037                         | \$ 955,081         | \$                 | \$                              |
| Wireless spectrum leases <sup>(3)</sup>                          | 31,789       | 347                                | 8,736              | 7,515              | 15,191                          |
| Minimum royalty payments on wireless spectrum lease arrangements | 6,641        |                                    | 656                | 1,376              | 4,609                           |
| Operating leases   | 344          | 316                                | 28                 |                    |                                 |
|  | 1,141,892    | 148,700                            | 964,501            | 8,891              | 19,800                          |
| Discontinued Operations - Services agreement                     | 8,153        |                                    |                    |                    | 8,153                           |
| Total  | \$ 1,150,045 | \$ 148,700                         | \$ 964,501         | \$ 8,891           | \$ 27,953                       |

- (1) Amounts presented do not include the future issuance of additional Senior Notes, Second Lien Notes and Third Lien Notes in payment of interest.
- (2) On August 1, 2012, we entered into the Merger Agreement with AT&T, whereby the holders of our Notes entered into separate note purchase agreements with AT&T. Pursuant to the note purchase agreements, upon consummation of the Merger, AT&T will purchase the Notes for a cash amount equal to \$600 million, less the \$25 million cash consideration to be paid by AT&T at closing of the Merger pursuant to the terms of the Merger Agreement and the \$25 million to be deposited into the \$50 million escrow fund in respect of the contingent payment rights at closing pursuant to the Merger Agreement and subject to a \$25 million escrow hold-back to secure post-closing indemnification rights held by AT&T and other deductions pursuant to the note purchase agreement for the third Lien Notes. The amount of cash to be paid at closing in respect of the Third Lien Notes will also be subject to reduction for closing date liabilities of NextWave, including certain tax amounts, and amounts necessary to repay a new working capital facility of up to \$15 million to be provided by the holders of the Senior Notes. AT&T will also have the option in the event the Merger is not consummated and upon the occurrence of certain other events, to purchase the Third Lien Notes.

At the time of the Merger, NextWave will hold only its U.S. WCS and AWS spectrum assets, with the remainder of its assets and liabilities, including its Canadian WCS spectrum and its 2.5 MHz EBS/BRS spectrum assets, being held by a new holding company ( NextWave Holdco ). Prior to the AT&T note purchase transactions described above, NextWave will transfer the equity interest in NextWave Holdco in partial redemption of its Third Lien Notes that will not be purchased by AT&T. The holders of the Third Lien Notes will also have the right to receive the equity interests in NextWave Holdco in connection with certain bankruptcy events and following any termination of the Merger Agreement, in redemption of the Third Lien Notes and, in the case of any termination of the Merger Agreement, in consideration of a payment of \$25 million for the benefit of our stockholders.

- (3) Amounts presented do not include adjustments for future changes in the consumer price index.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 4. Controls and Procedures

#### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarterly period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

On September 16, 2008, a putative class action lawsuit, captioned Sandra Lifschitz, On Behalf of Herself and All Others Similarly Situated, Plaintiff, v. NextWave Wireless Inc. et al., Defendants, was filed in the U.S. District Court for the Southern District of California against us and certain of our officers. The suit alleges that the defendants made false and misleading statements and/or omissions in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The suit seeks unspecified damages, interest, costs, attorneys' fees, and injunctive, equitable or other relief on behalf of a purported class of purchasers of our common stock during the period from March 30, 2007 to August 7, 2008. A second putative class action lawsuit captioned Benjamin et al. v. NextWave Wireless Inc. et al. was filed on October 21, 2008 alleging the same claims on behalf of purchasers of our common stock during an extended class period, from November 27, 2006 through August 7, 2008. On February 24, 2009, the Court issued an Order consolidating the two cases and appointing a lead plaintiff pursuant to the Private Securities Litigation Reform Act. On May 15, 2009, the lead plaintiff filed an Amended Complaint, and on June 29, 2009, we filed a Motion to Dismiss that Amended Complaint. On March 5, 2010, the Court granted our Motion to Dismiss without prejudice, permitting the lead plaintiff to file an Amended Complaint. On March 26, 2010, the lead plaintiff filed a Second Amended Consolidated Complaint, and we subsequently filed a Motion to Dismiss. On March 16, 2011, the Court granted our Motion and dismissed the complaint without prejudice. On May 5, 2011, the lead plaintiff filed a Third Amended Complaint, and we again filed a Motion to Dismiss. On November 21, 2011, the Court granted our Motion and dismissed the case with prejudice. On December 19, 2011, the lead plaintiff filed a Notice of Appeal with the Ninth Circuit Court of Appeals. We and our insurance carrier have agreed with the lead plaintiff on the final terms of a settlement. The settlement provides for a full release and dismissal of all claims asserted against all defendants in the litigation and the appeal, in exchange for payment of \$1.4 million by our insurance carrier. The settlement is subject to court approval following notice to the potential class members. The Court of Appeals dismissed the appeal on June 25, 2012 and the case has been returned to the district court for the approval process. The district court has approved the application for preliminary approval of the settlement and the final approval hearing is scheduled for November 9, 2012. We have not recorded any significant accruals for contingent liabilities associated with this matter based on our belief that a liability, while possible, is not probable.

We are also currently involved in other legal proceedings, which we do not believe will result in a material liability. We estimate the range of liability related to pending litigation where the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the claim. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. As of June 30, 2012, we have not recorded any significant accruals for contingent liabilities associated with our legal proceedings based on our belief that a liability, while possible, is not probable. Further, any possible range of loss

cannot be estimated at this time. Revisions to our estimate of the potential liability could materially impact future results of operations.



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**ITEM 1A. Risk Factors**

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

**Risks Relating to Our Business**

*There are risks and uncertainties associated with our proposed acquisition by AT&T.*

There are risks and uncertainties associated with our proposed acquisition by AT&T. For example, the acquisition may not be consummated, or may not be consummated when or as currently anticipated, as a result of several factors, including but not limited to: (i) the inability to obtain approval by the FCC; or (ii) the failure to satisfy the other conditions for closing set forth in the Merger Agreement. Further, if the Merger Agreement is terminated, the temporary forbearance agreed to by the holders of the Notes will expire sixty (60) days after such termination and we would not have sufficient cash reserves to meet the payment obligations under our secured notes at their current maturity dates.

The Merger Agreement also restricts us from engaging in certain activities and taking certain actions without AT&T's approval, which could prevent us from pursuing opportunities that may arise prior to the closing of the acquisition.

In addition, we have incurred, and will continue to incur, significant fees for professional services and other transaction costs in connection with the proposed acquisition by AT&T, and many of these fees and costs are payable by us regardless of whether we consummate the transaction.

*Our cash reserves will not be sufficient to meet the payment obligations under our secured notes at their current maturity dates and in the event of any termination of the Merger Agreement there can be no assurance that a further maturity extension or refinancing transaction will be achieved. Any maturity extension or refinancing transaction may involve significant cost, including the accrual of payment-in-kind interest for an extended term which will increase our aggregate amount of indebtedness.*

As of June 30, 2012, the aggregate principal amount of our secured indebtedness was \$1,103.1 million. This amount includes our Senior Notes with an aggregate principal amount of \$148.1 million, our Second Lien Notes with an aggregate principal amount of \$207.9 million and our Third Lien Notes with an aggregate principal amount of \$747.1 million. Our current cash reserves are not sufficient to meet our payment obligations under our Notes at their current maturity dates. Additionally, in the event of any termination of the Merger Agreement, we will not be able to consummate sales of our wireless spectrum assets yielding sufficient proceeds to retire this indebtedness at the current scheduled maturity dates. If we are unable to further extend the maturity of our Notes, or identify and successfully implement alternative financing to repay our Notes, the holders of our Notes could proceed against the assets pledged to collateralize these obligations in the event the Merger Agreement is terminated and our forbearance agreement expires. These conditions raise substantial doubt about our ability to continue as a going concern. Insufficient capital to repay our debt at maturity would significantly restrict our ability to operate and could cause us to seek relief through a filing in the United States Bankruptcy Court.

Any alternative financing and/or maturity extension of our Notes may be costly to obtain, could involve the issuance of equity securities that could cause significant dilution to our existing stockholders, and, if successful, will result in a greater aggregate amount of indebtedness due at maturity resulting from the accrual of payment-in-kind interest for the extended term.

*Because we currently do not have the ability to repay our debt at maturity, there is substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm has included an explanatory paragraph highlighting this uncertainty in its report dated March 12, 2012.*

A failure to obtain a maturity extension or refinancing transaction in the event of any termination of the Merger Agreement could cause the Company to seek relief through a filing in the United States Bankruptcy Court. In the event of a default, the holders of our notes could proceed against the assets pledged to collateralize these obligations, which include the Company's spectrum assets and the capital stock of its material subsidiaries. Our financial statements are prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. Our financial statements do not include any adjustments related to the recovery of assets and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern is predicated upon our ability to obtain a maturity extension or refinancing of our debt, or to consummate asset sales yielding net proceeds sufficient to retire our debt.

*In the event of any termination of the Merger Agreement, the value of our equity securities would be dependent on our ability to achieve a maturity extension or refinancing transaction and ultimately successfully retire our debt using the net proceeds of asset sales. We believe the*

*value of our equity securities will be significantly impaired or eliminated in the event of any termination of the Merger Agreement.*

In the event of any termination of the Merger Agreement, if we complete a refinancing transaction or obtain a maturity extension, the aggregate amount of our secured debt will be increased due to accrued payment-in-kind interest for the extended term to maturity. If the Merger Agreement is terminated, there can be no assurance that we will be able to find third parties interested in purchasing our wireless spectrum assets at prices sufficient to retire this debt prior to maturity, even if extended. If we are unable to consummate sales of our wireless spectrum assets for net proceeds that are sufficient to retire our indebtedness, the value of our equity securities will be significantly impaired or eliminated. The sale price of our wireless spectrum assets will be impacted by many factors beyond our control including, among other things:

the FCC's new technical rules relating to the operation of satellite digital audio radio services and services using our WCS spectrum licenses;

the timing and allocated costs of build-out or substantial service requirements attached to our domestic and international spectrum licenses, where a failure to comply with these requirements could result in license forfeiture;

timing of closure of potential sales, particularly if it is necessary to accelerate the planned sale of certain of our spectrum licenses in order to meet debt payment obligations if we are not able to obtain a maturity extension;

worldwide economic conditions, which we believe have adversely affected manufacturers of telecommunications equipment and technology and led to a delay in global network deployments;

timing and the availability of standardized technology and equipment that is able to operate in our licensed and leased spectrum;

availability of wireless spectrum in the United States in particular, which could be affected by potential government auctions of spectrum not previously available in the market; and

availability of capital for prospective spectrum bidders, which has been negatively impacted by the downturn in the credit and financial markets.

If we are unable to consummate sales of our wireless spectrum assets that are sufficient to retire our indebtedness, the holders of our notes could proceed against the assets pledged to collateralize these obligations, which include our spectrum assets and the capital stock of our material subsidiaries, which would impair our ability to continue as a going concern and the value of our equity securities would be impaired or eliminated.

***We will rely on our substantial net operating loss carryforwards to offset the taxable gains that may arise as a result of transactions contemplated by the Merger Agreement or other sales of our wireless spectrum assets. Accordingly, if the use of our expected net operating loss carryforwards becomes limited, the after-tax proceeds realized from such transactions and our spectrum sales may be reduced and the value of our equity securities or debt securities may be impaired.***

As stated above, our capital structure requires that we successfully monetize our wireless spectrum assets for net proceeds substantially in excess of our cost basis in order to retire our debt. The value of our equity securities is dependent on our ability to successfully retire our debt. We estimate that, as of December 31, 2011, we had federal income tax net operating loss carryforwards ( NOLs ) of approximately \$908.1 million, which begin to expire in 2023. We plan to use our NOLs to offset future gains on the sale of our spectrum assets. If our ability to use our NOLs as anticipated to offset any gains is limited, the after-tax proceeds realized from our spectrum sales may be reduced. Depending on the ultimate sale prices for our spectrum assets, the availability of our NOLs may be essential to ensuring the full payment of our Third Lien Notes and/or the realization of value for our equity securities.

Under Section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an ownership change may generally thereafter only utilize its pre-change losses to offset a fixed amount of taxable income per year, subject to certain adjustments. A corporation generally undergoes an ownership change if the percentage of stock of the corporation owned by one or more 5% shareholders has increased by more than 50 percentage points over a three-year period (with certain groups of less-than-5% shareholders treated as a single shareholder for this purpose).

Based on our analysis to date, we do not believe that we have undergone an ownership change in the past. However, subsequent changes in our stock ownership, including the purchase or sale of our common stock by 5% shareholders, changes in the indirect beneficial ownership of such stock, and issuances or redemptions of common stock or other equity securities by us, could result in an ownership change that would trigger the imposition of limitations under Section 382. If an ownership change occurs, the availability of our NOLs for use may be severely limited, subject to an adjustment for so-called net built-in gains that are recognized within the five-year period after the ownership change. Although we would expect to significantly benefit from the adjustment for net built-in gains with respect to any spectrum sales following an ownership change, the availability of our NOLs against any future gains from such sales may nevertheless be materially impaired.

The amount and availability of our NOLs is subject to examination and adjustment by the Internal Revenue Service (IRS). Accordingly, there is no assurance that the IRS will agree with our determination as to the available amount of NOLs in respect of any spectrum sales. In addition, the rules relating to U.S. federal income taxation are under ongoing review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts, as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely impair our currently expected ability to use our NOLs.

***We are highly leveraged and our operating flexibility will be significantly reduced by our debt covenants.***

As of June 30, 2012, the aggregate principal amount of our secured indebtedness was \$1,103.1 million. This amount includes our Senior Notes with an aggregate principal amount of \$148.1 million, our Second Lien Notes with an aggregate principal amount of \$207.9 million and our Third Lien Notes with an aggregate principal amount of \$747.1 million. Covenants in the purchase agreements for our Senior Notes and Second Lien Notes impose operating and financial restrictions on us. These restrictions prohibit or limit our ability, and the ability of our subsidiaries, to, among other things:

pay dividends to our stockholders;

incur, or cause to incur, additional indebtedness or incur liens;

sell assets for consideration other than cash or for net proceeds less than our cost basis;

consolidate or merge with or into other companies;

issue shares of our common stock or securities of our subsidiaries;

make capital expenditures or other strategic investments in our business not contemplated by our operating budget; or

acquire assets or make investments.

We anticipate that our overall level of indebtedness and covenant restrictions will:

limit our ability to pursue business opportunities;

render us more vulnerable to general adverse economic, regulatory and industry conditions; and

require us to dedicate proceeds from asset sales to service our debt.

A breach of any covenants contained in the agreements governing our Notes could result in a default under our indebtedness. If we are unable to repay or refinance those amounts, the holders of our notes could proceed against the assets pledged to collateralize these obligations, which include our spectrum assets and substantially all of our other assets.

***The terms of our Senior Notes and Second Lien Notes require us to certify our compliance with a restrictive operating budget and to maintain a minimum cash balance. If the forbearance agreement terminates, a failure to comply with these terms may result in an event of default which could result in the acceleration of maturity of our indebtedness and impair our ability to continue as a going concern.***

The terms of our Senior Notes and Second Lien Notes require us to deliver a six-month operating budget to the noteholders on a quarterly basis, which budget is reasonably acceptable to Avenue AIV US, L.P., an affiliate of Avenue Capital Management II, L.P. ( Avenue Capital II ). Avenue Capital II holds 78% of the aggregate principal amount of our Second Lien Notes and 75% of the aggregate principal amount of our Senior Notes. We must deliver monthly certifications relating to our cash balances to the holders of our Senior Notes and Second Lien Notes. If our forbearance agreement expires due to a termination of the Merger Agreement, and we are unable to certify that our cash balances have not deviated in a negative manner by more than 10% from budgeted balances, default interest will accrue and, if such condition persists for three monthly reporting periods, an event of default would occur under our Senior Notes and Second Lien Notes and, if the maturity of the foregoing indebtedness were to be accelerated, an event of default would occur under our Third Lien Notes. In addition, we must certify that we have maintained a minimum cash balance of \$1.0 million, and any failure to maintain such minimum cash balance will result in an immediate event of default under our Senior Notes and Second Lien Notes and, if the maturity of the foregoing indebtedness were to be accelerated, our Third Lien Notes. Upon an acceleration of our debt following an event of default, the holders of our notes could proceed against the assets pledged to collateralize these obligations, which include our spectrum assets and substantially all of our other assets, which would impair our ability to continue as a going concern.

***We have become and may continue to be the target of securities class action suits and derivative suits which could result in substantial costs and divert management attention and resources.***

Securities class action suits and derivative suits are often brought against companies following periods of volatility in the market price of their securities. Defending against these suits can result in substantial costs to us and divert the attention of our management.

On September 16, 2008, a putative class action lawsuit, captioned Sandra Lifschitz, On Behalf of Herself and All Others Similarly Situated, Plaintiff, v. NextWave Wireless Inc. et al., Defendants, was filed in the U.S. District Court for the Southern District of California against us and certain of our officers. The suit alleges that the defendants made false and misleading statements and/or omissions in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The suit seeks unspecified damages, interest, costs, attorneys fees, and injunctive, equitable or other relief on behalf of a purported class of purchasers of our common stock during the period from March 30, 2007 to August 7, 2008. A second putative class action lawsuit captioned Benjamin et al. v. NextWave Wireless Inc. et al. was filed on October 21, 2008 alleging the same claims on behalf of purchasers of our common stock during an extended class period, from November 27, 2006 through August 7, 2008. On February 24, 2009, the Court issued an Order consolidating the two cases and appointing a lead plaintiff pursuant to the Private Securities Litigation Reform Act. On May 15, 2009, the lead plaintiff filed an Amended Complaint, and on June 29, 2009, we filed a Motion to Dismiss that Amended Complaint. On March 5, 2010, the Court granted our Motion to Dismiss without prejudice, permitting the lead plaintiff to file an Amended Complaint. On March 26, 2010, the lead plaintiff filed a Second Amended Consolidated Complaint, and we subsequently filed a Motion to Dismiss. On March 16, 2011, the Court granted our Motion and dismissed the complaint without prejudice. On May 5, 2011, the lead plaintiff filed a Third Amended Complaint, and we again filed a Motion to Dismiss. On November 21, 2011, the Court granted our Motion and dismissed the case with prejudice. On December 19, 2011, the lead plaintiff filed a Notice of Appeal with the Ninth Circuit Court of Appeals. We and our insurance carrier have agreed with the lead plaintiff on the final terms of

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a settlement. The settlement provides for a full release and dismissal of all claims asserted against all defendants in the litigation and the appeal, in exchange for payment of \$1.4 million by our insurance carrier. The settlement is subject to court approval following notice to the potential class members. The Court of Appeals dismissed the appeal on June 25, 2012 and the case has been returned to the district court for the approval process. The district court has approved the application for preliminary approval of the settlement and the final approval hearing is scheduled for November 9, 2012. We have not recorded any significant accruals for contingent liabilities associated with this matter based on our belief that a liability, while possible, is not probable.

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***Our common stock is no longer traded on The Nasdaq Global Market ( Nasdaq ) or any national securities exchange, and investors no longer have the benefit of certain exemptions from state securities laws governing resales, liquidity benefits and governance protections afforded by a Nasdaq (or other national securities exchange) listing.***

As a result of our delisting from Nasdaq in July 2010, we are not currently subject to its corporate governance requirements and investors may not have the same protections as are afforded to stockholders of companies listed on Nasdaq. For example, we are no longer required to maintain a majority of independent directors on our Board of Directors. Delisting from Nasdaq may also result in increased obligations under state securities laws and decreased coverage by securities analysts.

Our common stock is quoted on the OTCQB, an over-the-counter electronic quotation service operated by Pink OTC Markets Inc. Markets operated by Pink OTC Markets Inc. are generally regarded as less efficient and liquid than Nasdaq. The ability to trade our common stock on the OTCQB depends on the presence and investment decisions of willing buyers and sellers. Accordingly, if an active and liquid trading market price for our common stock does not develop or, if developed, does not continue, the market price of our common stock will be adversely affected. In addition, because we are no longer listed on Nasdaq, sales of our common stock by brokers in certain states may be limited or prohibited pending completion of registration filings required under state securities laws.

Trading in our common stock may be subject to the requirements of certain rules promulgated by the SEC under the Securities Exchange Act of 1934, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a penny stock . A penny stock is any equity security that has a market price per share of less than \$5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. Additional disclosure burdens relating to penny stocks imposed upon broker-dealers by the SEC requirements could discourage broker-dealers from facilitating trades in our common stock, which could further limit the market liquidity of our stock and the ability of investors to trade our common stock.

#### **Risks Relating to Government Regulation**

***If we do not comply with build-out requirements relating to our domestic spectrum licenses, such licenses could be subject to forfeiture.***

Certain build-out or substantial service requirements apply to our licensed wireless spectrum, which generally must be satisfied as a condition of the license and/or license renewal. In particular, for our domestic WCS spectrum, there are two substantial service build-out deadlines: March 4, 2014 and September 1, 2016; and for our domestic AWS spectrum, the substantial service build-out deadline is December 18, 2021. Failure to make the substantial service demonstration domestically, without seeking and obtaining an extension from the FCC, would result in forfeiture of the affected license.

The substantial service deadline for our domestic WCS spectrum was July 21, 2010 under the FCC rules effective at that time. However, the FCC adopted new rules on May 20, 2010, that, when they became effective on September 1, 2010, purported to replace the July 21, 2010 substantial service requirement with new requirements that must be met by March 4, 2014 and additional requirements that must be met by September 1, 2016. We filed substantial service showings with the FCC on July 20, 2010 for all of our WCS licenses under the rules then in effect. The FCC dismissed them on June 14, 2011 in accordance with June 2010 announcement that all substantial service showings would be dismissed given the new performance requirements it had adopted. Failure to make the substantial service demonstrations by the new deadlines of March 4, 2014 and September 1, 2016 without seeking and obtaining an extension from the FCC would result in license forfeiture.

AWS licensees must comply with all applicable legal and technical rules imposed by the FCC, including those found in Part 27 of Title 47 of the CFR. All of our AWS licenses are granted for a 15-year license term, with a renewal term of ten years. AWS licensees are required to demonstrate that they are providing substantial service in their license area within the initial 15-year license term. For our AWS licenses, the renewal deadline and the substantial service build-out deadline is December 18, 2021. Failure to make the substantial service demonstration, without seeking and obtaining an extension from the FCC, would result in license forfeiture.

The AWS spectrum includes a large number of incumbent federal government and non-government operations that must be relocated to other spectrum. AWS licensees are required to coordinate their operations to avoid interfering with these incumbent stations until relocation is complete. A small number of these incumbent stations must be protected indefinitely. In certain cases, the AWS licensee must pay for the relocation of incumbent stations within the AWS licensee's license area. AWS licensees are effectively prohibited from deploying time-division duplex (TDD) systems in the AWS spectrum. These requirements could affect the value of our AWS spectrum.

The FCC's rules for meeting the substantial service requirements are written generally so as to enable flexibility in providing service. However, because the rules are subject to interpretation, the FCC has discretion in determining if the substantial service showing is adequate to meet the rules and there is a risk that the FCC may not approve our substantial service showing and any of our licenses that did not meet the substantial service requirement would then be subject to non-renewal.

*If we do not comply with build-out requirements relating to our Canadian spectrum licenses, such licenses could be subject to forfeiture.*



In Canada, our 2.3 GHz licenses were subject to mid-term in-use demonstration requirements by November 2012 and April 2013 for 59 and 24 of our licenses which are subject to renewal in November of 2014 and April of 2015, respectively. On March 29, 2012, the Canadian regulatory authority, Industry Canada, granted an extension of two years, resulting in new in-use demonstration deadlines of November 2014 and April 2015. In order for us to operate our Canadian spectrum under the current Canadian ownership rules, we will need a Canadian-controlled partner. Similar to the U.S., Canada has allocated the 2.3 GHz band for both SDARS and mobile broadband uses, which necessitates the adoption of technical rules to protect against interference between the two uses. Canada has recently begun the process of developing such technical rules for the band. Until the technical rules are final, which in turn will allow the development of manufacturing standards for vendors to use to produce readily available commercial mobile equipment, deployment in the band for mobile services cannot occur. There can be no assurance that: 1) we will find a Canadian-controlled partner who will be able to provide a viable business plan and attract appropriate financing by the build out deadline, or 2) that the new ownership rules will enable us to develop a viable business plan and attract appropriate financing by the build out deadline. Failure to make the in-use demonstrations for each of our licenses, in the absence of an extension by Industry Canada, could result in Industry Canada commencing a process to afford us the opportunity to demonstrate why the applicable licenses should not be revoked.

***Our use of EBS spectrum is subject to privately negotiated lease agreements. Changes in FCC rules governing such lease agreements, contractual disputes with EBS licensees, or failures by EBS licensees to comply with FCC rules could impact our use of the EBS spectrum.***

With few exceptions, commercial enterprises are restricted from holding licenses for EBS spectrum. Eligibility for EBS spectrum is limited to accredited educational institutions, governmental organizations engaged in the formal education of enrolled students (e.g., school districts), and nonprofit organizations whose purposes are educational. Access to EBS spectrum can only be gained by commercial enterprises through privately negotiated EBS lease agreements. FCC regulation of EBS leases, private interpretation of EBS lease terms, private contractual disputes, and failure of an EBS licensee to comply with FCC regulations all could impact our use of EBS spectrum and the value of our leased EBS spectrum. The FCC rules permit EBS licensees to enter into lease agreements with a maximum term of 30 years; lease agreements with terms longer than 15 years must contain a right of review by the EBS licensee every five years beginning in year 15. The right of review must afford the EBS licensee with an opportunity to review its educational use requirements in light of changes in educational needs, technology, and other relevant factors and to obtain access to such additional services, capacity, support, and/or equipment as the parties shall agree upon in the spectrum leasing arrangement to advance the EBS licensee's educational mission. A spectrum leasing arrangement may include any mutually agreeable terms designed to accommodate changes in the EBS licensee's educational use requirements and the commercial lessee's wireless broadband operations. In addition, the terms of EBS lease agreements are subject to contract interpretation and disputes could arise with EBS licensees. There can be no assurance that EBS leases will continue for the full lease term, or be extended beyond the current term, or be renewed or extended on terms that are satisfactory to us, or at all. Similarly, since we are not eligible to hold EBS licenses, we must rely on EBS licensees with whom we contract to comply with FCC rules. The failure of an EBS licensee from whom we lease spectrum to comply with the terms of their FCC authorization or FCC rules could result in termination, forfeiture or non-renewal of their authorization, which would negatively impact the amount of spectrum available for our use.

***We have no guarantee that the licenses we hold or lease will be renewed.***

The FCC generally grants wireless licenses for terms of ten or 15 years, and such licenses are subject to renewal and revocation. FCC rules require all wireless licensees to comply with applicable FCC rules and policies and the Communications Act of 1934, as amended (the Communications Act), in order to retain their licenses. For example, licensees must meet certain construction requirements, including making substantial service demonstrations, in order to retain and renew FCC licenses. Failure to comply with FCC requirements with respect to any license could result in revocation or non-renewal of a license. In general, most wireless licensees who meet their construction and/or substantial service requirements are afforded renewal expectancy; however, all FCC license renewals can be challenged in various ways, regardless of whether such challenges have any legal merit. Under FCC rules, licenses continue in effect during the pendency of timely filed renewal applications. Challenges to license renewals, while uncommon, may impact the timing of renewal grants and may impose legal costs. Accordingly, there is no guarantee that licenses we hold or lease will remain in full force and effect or be renewed.

We hold 30 licenses issued by the FCC for WCS spectrum. Renewal applications for all 2.3 GHz WCS licenses, including those issued to us, were due to be filed with the FCC on July 21, 2007. We filed our WCS renewal applications on April 23, 2007. Under FCC rules, licenses continue in effect during the pendency of timely filed renewal applications. We are aware of three parties that made filings purporting to be competing applications in response to the renewal applications that we, AT&T, and others filed. The basis on which the third-party filings were made was the alleged failure of WCS licensees to deploy service on WCS spectrum and satisfy substantial service requirements by July 21, 2007. However, on December 1, 2006, the FCC issued a waiver order extending the substantial service deadline for WCS licensees to July 21, 2010. The FCC's rules contain no procedures for processing competing applications filed for WCS spectrum and the FCC has not accepted them for filing. The FCC granted all pending WCS license renewal applications, including those that we filed in April of 2007. However, the grant of these applications was conditioned on the outcome of an ongoing FCC rulemaking proceeding regarding wireless license renewal procedures in which the FCC has proposed to dismiss all pending competing applications. There can be no assurance of how the FCC will ultimately treat the competing applications or the WCS license renewal applications.



Industry Canada, Canada's spectrum regulatory body, has similar rules and policies to those of the FCC and therefore the requirements for retention and renewal and the risks of revocation are similar to those stated above. For example, as in the U.S., licensees of Canadian spectrum must comply with construction requirements in order to retain their licenses. Our 87 Canadian licenses each have a 10 year term, 63 of which expire in November 2014 and 24 of which expire in April 2015.

*Interference could negatively impact our use of wireless spectrum we hold, lease or use.*

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

*Wireless devices utilizing WCS, BRS and EBS spectrum may be susceptible to interference from Satellite Digital Audio Radio Services (SDARS).*

Since 1997, the FCC has considered a proposal to permanently authorize terrestrial repeaters for SDARS operations adjacent to the C and D blocks of the WCS band. The FCC has permitted a large number of these SDARS terrestrial repeaters to operate on a special temporary authorization since 2001. Permanently authorizing SDARS repeaters adjacent to the WCS band could cause interference to WCS, BRS and EBS receivers. The extent of the interference from SDARS repeaters is unclear and will depend on the effectiveness of the new rules adopted by the FCC on May 20, 2010 (as further described below) and the operation of SDARS equipment under the new rules. Because WCS C and D block licenses are adjacent to the SDARS spectrum, the potential for interference to this spectrum is of greatest concern to us. We have a lesser magnitude concern regarding interference from SDARS to WCS A and B block licenses, and BRS and EBS licenses. The FCC adopted new technical rules on May 20, 2010 to govern WCS and SDARS operations. These rules became effective on September 1, 2010. Operation of both WCS and SDARS equipment under the new rules could result in interference to our WCS, BRS or EBS spectrum, which could impair the value of this spectrum.

*Increasing regulation of the tower industry may make it difficult to deploy new towers and antenna facilities, which could adversely affect the value of certain of our wireless spectrum assets.*

Our wireless operations are dependent upon access to towers and antenna sites which are subject to national, state and local regulatory requirements related to registration, zoning, siting, lighting, marking, environmental impacts and maintenance. Network service, enhancements to service and product launches can be delayed or made more expensive due to compliance with these regulatory requirements.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**ITEM 3. Default Upon Senior Securities**

None.

**ITEM 4. Mine Safety Information**

Not Applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

| Exhibit No. | Description   |
|-------------|---|
| 4.1         | Amendment No.1 to Warrant Agreement, entered into on April 16, 2012 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed April 16, 2012) |
| 31.1        | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Frank Cassou.   |
| 31.2        | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Francis J. Harding.   |
| 32.1        | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Frank Cassou.                             |
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| 101.INS     | XBRL Instance Document**  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document**   |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase document**   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase document**  |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase document**   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase document**  |

\*\* Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and Sections 11 or 12 of the Securities Act of 1933, as amended, and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of NextWave Wireless Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**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.

August 14, 2012  
(Date)

**NEXTWAVE WIRELESS INC.** (Registrant)

By: /s/ Francis J. Harding  
Francis J. Harding  
Executive Vice President and  
Chief Financial Officer

**Index to Exhibits**

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