

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-QSB**

MARK ONE

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period ended September 30, 2006; 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: 0-23723

**AMBIENT CORPORATION**

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0166007

(I.R.S. Employer Identification No.)

**79 CHAPEL STREET, NEWTON, MASSACHUSETTS, 02458**

(Address of principal executive offices)

**617-332-0004**

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of November 13, 2006, there were \_\_\_\_\_ shares of the registrant's common stock, par value \$.001 per share outstanding.

Transitional Small Business Disclosure Format (Check one) Yes  No

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\* The Balance Sheet at December 31, 2005 has been derived from audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. All other financial statements are unaudited.

## FORWARD LOOKING STATEMENTS

The following discussion and explanations should be read in conjunction with the financial statements and related notes contained elsewhere in this quarterly report on Form 10-QSB. We make forward-looking statements in this report, in other materials we file with the Securities and Exchange Commission (the "SEC") or otherwise release to the public, and on our website. In addition, our senior management might make forward-looking statements orally to analysts, investors, the media, and others. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings) and demand for our products and services, and other statements of our plans, beliefs, or expectations, including the statements contained in Item 2, "Management's Discussion and Analysis or Plan of Operation," regarding our future plans, strategies and expectations are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "predict," "expect," "intend," "plan," "project," "target," "continue," "can," "could," "may," "should," "will," "would," and similar expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

You are cautioned not to place undue reliance on these forward-looking statements because these forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Thus, our ability to predict results or the actual effect of our future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: economic conditions generally and the broadband over power lines ("BPL") market specifically, changes in technology, legislative or regulatory changes that affect us, the availability of working capital, changes in costs and the availability of goods and services, the introduction of competing products, changes in our operating strategy or development plans, our ability to attract and retain qualified personnel, and changes in our acquisition and capital expenditure plans. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the SEC, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material.

Moreover, we do not assume the responsibility for the accuracy and completeness of these forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

**AMBIENT CORPORATION**  
**(A Development Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,052,297	\$ 393,513
Accounts receivable	171,696	5,894
Inventory	486,882	629,035
Prepaid expenses and other current assets	95,109	169,534
<b>Total current assets</b>	<b>4,805,984</b>	<b>1,197,976</b>
Property and equipment, net	700,416	695,992
Deferred financing costs, net	1,067,267	-
Prepaid licensing fees	178,205	237,606
<b>Total assets</b>	<b>\$ 6,751,872</b>	<b>\$ 2,131,574</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 817,628	\$ 914,143
Accrued expenses and other current liabilities	160,160	212,711
Convertible debentures (net of discount of \$4,935,919) current portion	443,231	-
Advance from stockholder	-	325,000
<b>Total current liabilities</b>	<b>1,421,019</b>	<b>1,451,854</b>
<b>NON-CURRENT LIABILITIES</b>		
Convertible debentures (net of discount of \$2,809,943 and \$758,263), less current portion	434,857	391,737
<b>Total liabilities</b>	<b>1,855,876</b>	<b>1,843,591</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.001 par value;		
500,000,000 shares authorized; 187,195,448 and 165,153,882		
issued; 186,195,408 and 164,153,882 outstanding, respectively	187,195	165,154
Additional paid-in capital	100,553,622	86,562,899
Deficit accumulated during the development stage	(95,644,822)	(86,206,000)
Less: deferred compensation	-	(34,070)
Less: treasury stock; 1,000,000 shares at cost	(200,000)	(200,000)
<b>Total stockholders' equity</b>	<b>4,895,995</b>	<b>287,983</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 6,751,872</b>	<b>\$ 2,131,574</b>

See Notes to Consolidated Financial Statements.

**AMBIENT CORPORATION**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Nine Months Ended September 30,		Cumulative From Inception to September 30,	Three Months Ended September 30,	
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
Revenues (including \$325,000, \$-0-, and (\$325,000,\$-0-and \$,-0-),from a related party)	\$ 903,399	\$ 220,595	\$ 1,263,302	\$ 166,199	\$ 208,082
Less Cost of goods sold (includes an inventory markdown of (\$84,382 , \$151,278, \$230,696, \$84,382, and 151,278)	664,277	352,390	1,165,984	233,569	339,877
Gross margin	239,122	(131,795)	97,318	(67,370)	(131,795)
Expenses					
Research and Development (1)	2,427,528	1,956,861	14,570,022	912,217	651,475
Less - Participation by the Office of the Chief Scientist of the State of Israel	-	-	558,195	-	-
	2,427,528	1,956,861	14,011,827	912,217	651,475
Operating, general and administrative expenses (1)	2,556,834	2,637,642	22,838,633	969,902	728,275
Stock based compensation - net	47,059	42,253	17,612,173	21,283	17,427
Total expenses	5,031,421	4,636,756	54,462,633	1,903,402	1,397,177
Operating loss	(4,792,299)	(4,768,551)	(54,365,315)	(1,970,772)	(1,528,972)
Interest expense	(434,232)	(85,258)	(1,273,598)	(200,628)	(17,812)
Amortization of beneficial conversion feature of convertible debt	(1,534,612)	(2,274,419)	(7,968,010)	(991,184)	(100,579)
Amortization of deferred financing costs	(2,758,474)	(2,338,911)	(16,072,603)	(1,203,648)	(225,012)
Interest income	80,795	91,181	563,437	60,105	20,867
Legal settlement	-	-	(1,512,500)	-	-
Noncash financing expense	-	-	(1,600,000)	-	-
Write-off of convertible note receivable	-	-	(490,000)	-	-
Company's share in net losses of affiliate	-	-	(1,352,207)	-	-
Loss before minority interest and extraordinary item	(9,438,822)	(9,375,958)	(84,070,796)	(4,306,127)	(1,851,508)
Minority interest in subsidiary loss	-	-	25,000	-	-
Loss before extraordinary item	(9,438,822)	(9,375,958)	(84,045,796)	(4,306,127)	(1,851,508)
Extraordinary item - loss on extinguishment of debt	-	-	(9,778,167)	-	-

Net loss	(9,438,822)	(9,375,958)	(93,823,963)	(4,306,127)	(1,851,508)
Deemed dividends on convertible preferred stock	-	-	(1,820,859)	-	-
Net loss attributable to common stockholders	<u>\$ (9,438,822)</u>	<u>\$ (9,375,958)</u>	<u>\$ (95,644,822)</u>	<u>\$ (4,306,127)</u>	<u>\$ (1,851,508)</u>
Basic and diluted loss per share:					
Net loss before extraordinary item	\$ (0.06)	\$ (0.06)		\$ (0.03)	\$ (0.01)
Extraordinary loss from extinguishment of debt	-	-		-	-
Net loss	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>		<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>168,805,865</u>	<u>159,890,614</u>		<u>171,706,891</u>	<u>163,471,202</u>
(1) Excludes non-cash, stock based compensation expense as follows:					
Research and development, net	\$ -	\$ -	\$ 1,454,192	\$ -	\$ -
Operating, general and administrative, net	<u>47,059</u>	<u>42,253</u>	<u>16,157,981</u>	<u>21,283</u>	<u>29,908</u>
	<u>\$ 47,059</u>	<u>\$ 42,253</u>	<u>\$ 17,612,173</u>	<u>\$ 21,283</u>	<u>\$ 29,908</u>

See Notes to Consolidated Financial Statements.

**AMBIENT CORPORATION**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,		Cumulative From Inception to September 30,
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (9,438,822)	\$ (9,375,958)	\$ (95,644,822)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	258,068	167,024	1,061,685
Amortization of note discount	2,758,474	2,338,911	15,427,732
Beneficial conversion feature of convertible debt	1,534,612	2,274,419	7,968,010
Accretion of interest on note payable	144,333	-	144,333
Financing, consulting and other expenses paid via the issuance of common stock and warrants	315,054	86,656	31,351,165
Cancellation of officer loans in settlement of employment contract	-	-	724,447
Loss on sale of fixed assets	-	-	20,135
Deemed dividends on convertible preferred stock	-	-	1,820,859
Increase in net liability for severance pay	-	-	15,141
Accrued interest on loans and notes payable	-	-	210,016
Company's share in net losses of affiliates	-	-	1,352,207
Minority interest in subsidiary loss	-	-	(25,000)
Write-off of convertible note receivable	-	-	400,000
Write-down of long term investment	-	-	835,000
Write-off of fixed assets	-	-	136,066
Increase (decrease) in cash attributable to changes in assets and liabilities			
Accounts receivables	(165,802)	(135,190)	(151,171)
Inventory	142,153	(290,425)	(486,882)
Prepaid expenses and other current assets	74,425	174,739	(26,404)
Prepaid licensing fees	59,401	-	(43,205)
Accounts payable	(96,515)	79,125	1,093,923
Accrued expenses and other current liabilities	(377,551)	(108,841)	(14,184)
Net cash used in operating activities	<u>(4,792,170)</u>	<u>(4,789,540)</u>	<u>(33,830,949)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan provided to another company	-	-	(835,000)
Purchase of convertible promissory note	-	-	(400,000)
Investment in affiliated company	-	-	(375,000)
Additions to property and equipment	(262,492)	(449,260)	(1,959,537)
Proceeds from disposal of fixed assets	-	-	42,100
Loans to Officers	-	-	(2,137,677)
Repayment of loans to Officer	-	-	1,431,226

Net cash used in investing activities	(262,492)	(449,260)	(4,233,888)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from issuance of share capital	84,680	115,875	11,375,808
Proceeds from loans and advances	-	-	690,000
Net proceeds from issuance of notes payable	1,787,500	-	3,147,500
Net proceeds from issuance of convertible debentures	8,985,599	-	27,440,732
Repayment of notes payable	(2,144,333)	-	(2,944,333)
Proceeds of loans from shareholders, net	-	-	919,600
Repayment of loans from shareholders	-	-	(968,000)
Proceeds from long-term bank credit	-	-	95,969
Repayment of long-term bank credit	-	-	(87,996)
Increase (decrease) in short term bank credit	-	-	(32,004)
Public offering of common stock	-	-	3,433,027
Repayment of short-term debt	-	-	(250,000)
Proceeds from short-term debt	-	-	274,038
Loans to affiliate	-	-	(977,207)
Net cash provided by financing activities	8,713,446	115,875	42,117,134
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,658,784</b>	<b>(5,122,925)</b>	<b>4,052,297</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>393,513</b>	<b>6,954,512</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 4,052,297</b>	<b>\$ 1,831,587</b>	<b>\$ 4,052,297</b>
<b>Non-cash financing and investing activities:</b>			
Issuance of common stock upon conversion of debentures	\$ 2,526,052	\$ 4,350,000	
Issuance of warrants in connection with issuance of notes and convertible notes payable	\$ 5,983,927	\$ -	
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid during the period of:</b>			
Interest	\$ 161,190	\$ 31,326	

See Notes to Consolidated Financial Statements.

**AMBIENT CORPORATION**  
**(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Ambient Corporation and its subsidiaries (collectively the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2005, as filed with the Securities and Exchange Commission.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a limited operating history and has sustained losses since its inception. These losses have produced operating cash flow deficiencies, and negative working capital. The Company expects to incur additional losses for the immediate future and will need to raise additional funds in order to realize its business plan. The Company's ability to continue operating as a going concern is substantially dependent on its ability to generate operating cash flow through the execution of its business plan or to secure funding sufficient to provide for the working capital needs of its business. There is no assurance that the Company will generate revenue or raise the funds that it needs to realize its business plan or maintain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During May 2006, the Company raised net proceeds of approximately \$8.9 million through the private placement to individual and institutional investors of the Company's convertible debt securities. The Company has funded its operations primarily from the proceeds of the sale of its short-term notes and the convertible debentures. See Notes 7 (Bridge Loans) and 8 (Convertible Debentures).

**NOTE 2 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") Statement No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. SFAS No. 155 is not expected to have a material effect on the financial position or results of operations of the Company.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 and cannot yet determine the impact of its adoption until the first quarter of fiscal 2007.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurement. The implementation of this guidance is not expected to have any impact on the Company's consolidated financial statements.

### NOTE 3 - NET LOSS PER SHARE

Basic earnings (loss) per share (EPS) is computed by dividing net income (loss) applicable to common shares by the weighted-average of shares of common stock, par value \$0.001 per share (the "Common Stock") outstanding during the period. Diluted earnings (loss) per share adjusts basic earnings (loss) per share for the effects of convertible securities, stock options and other potentially dilutive instruments, only in the periods in which such effect is dilutive. The following securities have been excluded from the calculation of net loss per share, as their effect would be antidilutive.

	Shares of Common Stock Issuable upon Conversion/Exercise of as September 30,	
	2006	2005
Stock options	23,033,250	22,498,250
Warrants	120,672,504	36,733,505
Convertible debentures	56,613,000	4,600,000

### NOTE 4 - SALES AND MAJOR CUSTOMERS

Revenues for the nine months ended September 30, 2006 and 2005 were as follows:

	September 30, 2006 (Unaudited)		September 30, 2005 (Unaudited)	
Hardware	\$	557,997	\$	144,171
Software and services		345,402		76,424
	\$	903,399	\$	220,595

Three customers accounted for 100% of the hardware revenue in 2006 and 2005, of which one customer accounted for 92% and 56% respectively. The attribution of these percentages during each of the 2006 and 2005 periods is related to an ongoing pilot of the Company's BPL solution at a utility and the expansion in September 2006 of such pilot to an initial commercial build-out over such utility's distribution grid to approximately 6,000 homes. During the 2006 period, software and service revenues include \$325,000 from Consolidated Edison Company of New York, Inc. ("Con Edison"), an affiliate of Consolidated Edison, Inc., a principal stockholder of the Company. In 2005, one customer accounted for 66% of software and service revenues.

Revenues for the three months ended September 30, 2006 and 2005 were as follows:

	September 30, 2006 (Unaudited)		September 30, 2005 (Unaudited)	
Hardware	\$	157,999	\$	131,658
Software and services		8,200		76,424
	\$	166,199	\$	208,082

Three customers accounted for 100% of the hardware revenues during the 2006 and 2005 periods, of which one customer accounted for 71% and 61%, respectively. The attribution of these percentages during each of the 2006 and 2005 periods is related to an ongoing pilot of the Company's BPL solution at a utility and the expansion in September 2006 of such pilot to an initial commercial build-out over such utility's distribution grid to approximately 6,000 homes. Three customers accounted for 100% of software and service revenues in 2005, of which one customer accounted for 66%.

### NOTE 5 - STOCK BASED COMPENSATION PLANS

Effective January 1, 2006, the Company adopted SFAS Statement of Financial Accounting Standards Statement No. 123(R) "Share Based Payment" ("SFAS 123(R)) utilizing the "modified prospective" method as described in SFAS 123(R). In the "modified prospective" method, compensation cost is recognized for all share-based payments granted after the effective date and for all

unvested awards granted prior to the effective date. In accordance with SFAS (R), prior period amounts were not restated. SFAS 123(R) also requires the tax benefits associated with these share-based payments to be classified as financing activities in the Statement of Cash Flows, rather than operating cash flows as required under previous regulations. There was no effect to the Company's financial position or results of operations as a result of the adoption of this Standard.

Prior to the effective date, the Company accounted for stock-based employee and outside director compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

The following table illustrates the effect on net loss and earnings per share for the three months ended September 30, 2005 if the fair value based method had been applied to all awards:

	Nine Months ended September 30, 2005	Three Months ended September 30, 2005
Net loss, as reported	\$ (9,375,958)	\$ (1,851,507)
Add: Stock based compensation expense, as reported		
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards	(964,886)	(298,985)
Pro forma net loss	\$ (10,340,844)	\$ (2,150,492)
Basic and diluted loss per share, as reported	\$ (0.06)	\$ (0.01)
Basic and diluted loss per share, pro forma	\$ (0.06)	\$ (0.01)

The weighted average per share fair value of options granted during the nine months ended September 30, 2006 was \$.128. The fair value of each option granted in 2006 was estimated using the Black-Scholes option-pricing model with a weighted average volatility of 116%, expected life of options of six years, risk free interest rate of 4.82% and a dividend yield of 0%.

The weighted average per share fair value of options granted during the nine months ended September 30, 2005 was \$.318. The fair value of each option granted in 2005 was estimated using the Black-Scholes option-pricing model with a weighted average volatility of 157%, expected life of options of eight years, risk free interest rate of 4.18% and a dividend yield of 0%.

On July 1, 2006, the Company issued options to various employees from the Company's 2000 Equity Incentive Plan to purchase up to 2,100,000 of the Company's Common Stock, of which options for 1,325,000 shares were at a per share exercise price of \$0.20 and options for 775,000 shares were at a per exercise price of \$0.25.

On September 28, 2006 the Company issued options to members of the Board of Directors from the Company's 2002 Non-Employee Directors Stock Option Plan to purchase up to 2.8 million shares of its Common Stock and options from the 2000 Equity Incentive Plan to members of the its Advisory Board to purchase up to 350,000 shares of the Company's Common Stock, in each case at a per share exercise price of \$0.20.

#### NOTE 6 - INVENTORY

Inventory is valued at the lower of cost or market and is determined on first-in-first-out method. Inventory consists of the following:

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Raw materials	\$ 473,510	\$ 326,464
Finished goods	244,068	448,885
Inventory markdowns	(230,696)	(146,314)
	\$ 486,882	\$ 629,035

#### NOTE 7 - BRIDGE LOAN

In January and April 2006, the Company entered into a Bridge Loan Agreement with an institutional investor pursuant to which the investor loaned the Company \$2,000,000. The Company received net proceeds of \$1,787,500, after payment of offering related fees and expenses. Pursuant to the Bridge Loan Agreement, the Company issued to the investor a secured promissory note in the principal

amount of \$2,144,333 which reflects an 7.2% premium on the principle amount of the loan. The loan was repaid in May 2006 from the proceeds of the 2006 Debentures referred to below in Note 8 (Convertible Debentures).

In connection with the loan, the Company issued to the investor five-year warrants to purchase 4,000,000 shares of Common Stock at an exercise price of \$0.15 per share, subject to adjustment in the event of certain capital adjustments or similar transactions, such as a stock split or merger or if, prior to the expiration of exercise period, the Company issues warrants having a lower exercise price to investors in a subsequent financing transaction.

For financial reporting purposes, the Company recorded a discount of \$733,097 to reflect the value of the warrants and amortized this amount through the date of repayment.

#### **NOTE 8 - CONVERTIBLE DEBENTURES**

In May 2006, the Company raised net proceeds of \$8.986 million in a private placement of \$10,000,000 in principal amount of its two-year 8% Senior Secured Convertible Debentures (the "2006 Debentures"). Investors in the private placement also received Class A warrants, exercisable through June 30, 2009, to purchase up to 33,333,333 shares of the Company's Common Stock at a per share exercise price of \$0.20 and Class B warrants, exercisable through June 30, 2011, to purchase up to 33,333,333 shares of the Company's Common Stock at a per share exercise price of \$0.25.

At the option of the holder, the 2006 Debentures are convertible into shares of Common Stock at a conversion rate of \$0.15 per share (subject to adjustment if there are certain capital adjustments or similar transactions, such as a stock split or merger). Commencing on the first business day in September 2006 and on the first business day of each month thereafter, the Company is required to repay 4.77% of the aggregate principal amount of the Convertible Debentures that was originally issued together with all accrued interest due and payable up to such repayment date. At the option of the Company, the amount may be paid either in (i) shares of Common Stock at a rate equal to 75% of the value weighted average price (VWAP) of the Common Stock for the ten trading days ending on the trading day immediately preceding the Scheduled Payment Date, provided that at the time of payment there is then an effective registration statement covering the resale of the Common Stock underlying the 2006 Debentures and the accompanying warrants (the "Registration Statement") or (ii) cash, at 110% of the principal amount due and 100% of all other amounts due. The Registration Statement was filed on June 8, 2006 and declared effective on June 20, 2006. It will be assumed that the Company is electing to make such payment in shares unless the Company gives written notice of its intention to make payment in cash. If the closing sale price of the Company's Common Stock as quoted on the Over- The- Counter Bulletin Board is more than \$0.60 (which amount may be adjusted for certain capital events, such as stock split or merger) on each of fifteen consecutive trading days, then, under certain conditions, the Company is entitled to require the holders of the 2006 Debentures to convert all or a part of the outstanding principal amount of the 2006 Debentures.

To secure the Company's obligations under the 2006 Debentures, the Company granted to the holders of the 2006 Debentures a security interest in substantially all of its intellectual property. The security interest terminates upon the earlier of (i) the date on which less than \$2.5 million in principal amount of the 2006 Debentures is outstanding or (ii) payment or satisfaction of all of its obligations under the 2006 Debenture transaction documents.

In connection with the placement of the Debentures, the Company paid to a registered broker dealer that acted as placement agent, a cash fee of \$935,000, agreed to pay 10% of the proceeds realized in the future from exercise of warrants issued to the 2006 Debentures investors, and issued warrants consisting of (x) warrants to purchase an aggregate of 6,666,667 shares of Common Stock having an initial exercise price equal to \$0.15, (y) warrants to purchase an aggregate of 3,333,333 shares of Common Stock having an initial exercise price equal to \$0.20, and (z) warrants to purchase an aggregate of 3,333,333 shares of Common Stock having an initial exercise price equal to \$0.25. Except as specifically noted, these warrants otherwise are on substantially the same terms and conditions as the investor warrants.

For financial reporting purposes, the Company recorded a discount of \$4,862,878 to reflect the value of the warrants and in accordance with EITF No. 00-27, and an additional discount on the 2006 Debentures of \$5,137,122 to reflect the beneficial conversion feature of the 2006 Debentures.

Accordingly, all of the net proceeds from this financing have been credited to the stockholders' equity. The discounts are being amortized to the date of maturity unless converted earlier.

## **NOTE 9 - STOCKHOLDERS EQUITY**

### **COMMON STOCK**

On May 4, 2006, the Company amended its certificate of incorporation to increase the number of shares of Common Stock that the Company is authorized to issue from time to time to 500 million shares.

### **DEBENTURE CONVERSIONS**

From January 1, 2006 through September 30, 2006, principal in the amount of \$820,000 Company's three-year 6% convertible debentures issued in December 2004 (the "2004 Debentures") was converted into 3.28 million shares of Common Stock. By its terms, the 2004 Debentures are convertible into shares of Common Stock at a per share conversion rate of \$0.25. As of September 30, 2006, principle totaling \$330,000 of the 2004 Debentures remains outstanding.

From June 1, 2006 through September 30, 2006, principle in the amount of \$1,706,050 of the 2006 Debentures was converted into approximately 15.13 million shares of Common Stock. As of September 30, 2006, principle of \$8,293,950 of the 2006 Debentures remains outstanding.

From June 1, 2006 through September 30, 2006, interest in the amount of \$267,997 relating to the 2006 Debentures that was due and owing was converted into approximately 3.2 million shares of Common Stock.

From October 1, 2006 through November 13, 2006, principle in the amount of \$528,150 of the 2006 Debentures and \$56,353 of interest thereto was converted into approximately 5.97million shares of Common Stock.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES THERETO. SOME OF OUR DISCUSSION IS FORWARD-LOOKING AND INVOLVES RISKS AND UNCERTAINTIES. FOR INFORMATION REGARDING RISK FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REFER TO THE RISK FACTORS CONTAINED HEREIN AND THE RISK FACTORS SECTION OF THE ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2005 ON FORM 10-KSB.

### **OVERVIEW**

Ambient Corporation is primarily focused on the design, development, commercialization and marketing of Broadband over Power Lines ("BPL") equipment, technologies, and services. BPL technology enables power line infrastructure landlords (electric utilities and property owners) to use their existing medium voltage and low voltage power distribution infrastructure for the delivery of high-speed data services including consumer Internet access and utility, governmental, and industrial applications. At the present time, we have deployed a number of field trials and pilots in which utilities are evaluating the components, technologies, and business case of our BPL Solutions. During the current fiscal year, we strengthened our existing partnerships and strategic relationships with utilities and other technology companies to develop, deploy and commercialize our BPL technology and entered into new ones. Our patent portfolio continues to increase in size and presently includes eleven patents on power line technology and its application, with several other patent applications allowed, pending, or under review. Our technical personnel lead key industry committees working on BPL standardization and safety. During the past two years, we identified and addressed new market opportunities and developed a software solution for the management of BPL networks.

In September 2006, we initiated the expansion of the pilot that we previously announced in January 2006 at Duke Energy Corporation ("Duke") to an initial commercial build-out of our BPL Solutions over Duke's electric distribution grid to approximately 6,000 homes. In connection with the build out we received from Duke a purchase order for BPL equipment in the aggregate amount of approximately \$3.5 million which we are in the process of fulfilling.

Our objective over the remainder of Fiscal 2006 and Fiscal 2007 is to continue our development, testing, commercialization, and marketing efforts. We plan to continue to operate field trials and pilots of our BPL solutions and to actively seek new ones. Aided by our partnerships and strategic relationships we plan to continue development of the next generation of BPL equipment and technology. We plan to continue to strengthen our patent portfolio and to drive industry standardization efforts. We will also continue to seek new alliances and to identify and address new marketing opportunities. In addition, we will continue to pursue a role as a leading BPL systems designer, integrator, and coordinator, and to further enhance our network management solution, to position our company to generate revenue from all phases of our BPL solutions.

As of September 30, 2006, we had an accumulated deficit of approximately \$95.65 million (which includes approximately \$56.7 million in stock-based charges and other non-cash charges).

### **CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

**REVENUE RECOGNITION.** We recognize revenue from product sales upon shipment to customers and when all requirements related to the shipments have occurred. We recognize revenue from design and installation services at the time services are performed. Revenue from software licensing is deferred and recognized over the life of the license agreement.

**INVENTORY VALUATION.** Inventory is valued at the lower of cost or market determined on the first-in, first-out (FIFO) basis. Market value, with respect to direct materials, is replacement cost and is net realizable value for work-in-process and finished goods. The value of the inventory is adjusted for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Further, while we are still in late stage development, fixed manufacturing costs may produce negative gross margins. As such, inventories are reviewed for lower of cost or market valuation.

STOCK-BASED COMPENSATION. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") Statement No. 123(R) "Share Based Payment" ("SFAS 123(R)) utilizing the "modified prospective" method as described in SFAS 123(R). In the "modified prospective" method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. In accordance with SFAS (R), prior period amounts were not restated. SFAS 123(R) also requires the tax benefits associated with these share-based payments to be classified as financing activities in the Statement of Cash Flows, rather than operating cash flows as required under previous regulations. There was no effect to the Company's financial position or results of operations as a result of the adoption of this Standard.

There have been no significant changes in critical accounting policies or management estimates since the year ended December 31, 2005 other than the adoption of SFAS No. 123(R) as described above.

#### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2006, Financial Accounting Standards Board issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006. SFAS No. 155 is not expected to have a material effect on our financial position or results of operations of the Company.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 and cannot yet determine the impact of its adoption until the first quarter of fiscal 2008.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurement. The implementation of this guidance is not expected to have any impact on our consolidated financial statements.

#### RESULTS OF OPERATIONS

##### COMPARISON OF THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2006 TO THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2005

###### REVENUE.

Revenues for the nine and three months ended September 30, 2006 were \$903,399 and \$166,199 respectively. Revenues for the corresponding periods in 2005 were \$220,595 and \$208,082, respectively. Revenues recorded during the nine and three months ended September 30, 2006 attributable to the sales of equipment totaled \$557,997 and \$157,999, respectively, and the sales of software and related network design and installation services from new pilots totaled \$345,402 and \$8,200, respectively. Revenues from the sale of software and related network design and installation services for the nine month period included the \$325,000 advance from Consolidated Edison Company of New York, Inc. ("Con Edison"), an affiliate of Consolidated Edison, Inc., a principal stockholder of the Company in connection with the initial feasibility trial of BPL technology. We first recorded revenues during a third quarter of 2005. Revenues recorded during the nine and three months ended September 30, 2005 attributable to the sales of equipment totaled \$144,171 and \$131,658, respectively, and the sales of software and related network design and installation services from new pilots totaled \$76,424 and \$76,424, respectively.

###### COST OF GOODS SOLD.

Cost of sales for the nine and three months ended September 30, 2006 were \$664,277 and \$233,569, respectively. Cost of sales for the corresponding periods in 2005 were \$352,390 and \$339,877, respectively. Cost of sales included all costs related to manufacturing and selling products and services and consisted primarily of direct material costs and salaries and related expenses for personnel. For the nine and three months ended September 30, 2006, cost of sales includes a \$84,382 increase in inventory reserve for excess, obsolete and surplus inventory resulting from the transition from first generation to second generation technology. For the nine and three months ended September 30, 2005, cost of sales includes an inventory write down of \$151,278 related to lower of cost or market adjustments.

#### GROSS MARGIN.

Gross margin (loss) for the nine and three months ended September 30, 2006 was \$239,122 and \$(67,370), respectively. Gross margin for the nine month period included the \$325,000 from Con Edison. As part of an amended agreement between Con Edison and the Company, it was agreed that any repayment of \$325,000 advance owing from the Company to Con Edison would not be required and the amount was included in revenue. Gross margin (loss) for the nine and three months ended September 30, 2005 was \$(131,795) and \$(131,795), respectively.

The gross margin (loss) on hardware sales amounted to \$(99,508), \$(74,976), \$(171,610) and \$(171,610) for the nine and three months ended September 30, 2006 and 2005, respectively. Gross margins are negative reflecting early stage low volume pricing as well as inventory markdowns during the respective periods.

#### RESEARCH AND DEVELOPMENT EXPENSES.

Research and development expenses consisted primarily of expenses incurred in designing, developing and field testing our BPL Solutions. These expenses consisted primarily of salaries and related expenses for personnel, contract design and testing services, supplies used and consulting, and license fees paid to third parties. Research and development expenses for the nine and three months ended September 30, 2006 were \$2,427,528 and \$912,217, respectively. Research and development expenses for the corresponding periods in 2005 were \$1,956,861 and \$651,475, respectively. The increase in research and development expenses during the 2006 periods was primarily attributable to our increased product design and development efforts.

#### GENERAL AND ADMINISTRATIVE EXPENSES.

General and administrative expenses primarily consisted of salaries and other related costs for personnel in executive and other administrative functions. Other significant costs included professional fees for legal, accounting and other services. General and administrative expenses for the nine and three months ended September 30, 2006 were \$2,556,834 and \$969,902, respectively. General and administrative expenses for the corresponding periods in 2005 were \$2,637,642 and \$728,275, respectively.

#### OTHER OPERATING EXPENSES.

A portion of our operating expenses were attributable to non-cash charges associated with the compensation of consultants through the issuance of stock options and stock grants. Stock-based compensation is non-cash and will therefore have no impact on our cash flows or liquidity. For the nine and three months ended September 30, 2006, we incurred non-cash stock-based compensation expense of \$47,059 and \$21,283, respectively. Other operating expenses for the corresponding periods in 2005 were \$42,253 and \$17,427, respectively.

#### NONCASH EXPENSES.

For the nine and three months ended September 30, 2006, we incurred non-cash expenses of \$4,293,086 and \$2,194,832, respectively. Non-cash expenses for the corresponding periods in 2005 were \$4,613,330 and \$325,591. These non-cash expenses related to the amortization of the beneficial conversion feature and deferred financing costs incurred in connection with the placement of our Senior Secured 8% Convertible Debentures which were issued in May 2006 and our 6% Convertible Debentures which were issued in December 2004 as well as deferred financing costs on certain bridge loan financing. That was completed during the first quarter of 2006. As result of conversions during the 2005 periods of our convertible debentures that were issued in December 2004 a significant portion of these expenses was charged off at that time.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled \$4,052,297 at September 30, 2006 and \$393,513 at December 31, 2005.

Net cash used in operating activities during the nine months ended September 30, 2006 was \$4,792,170 and was used primarily to pay ongoing research and development and general and administrative expenses. We maintain an inventory of our products to facilitate the expansion of our ongoing pilots and to further prepare for the commercialization phase of our BPL Solutions. Our inventory was valued at \$486,882 as of September 30, 2006.

From inception through September 30, 2006, we have funded our operations primarily through the issuance of our securities. Our recent financings are discussed below.

In January and April 2006, we entered into secured bridge loan agreements with an institutional investor pursuant to which we borrowed \$2,000,000 from such investor. After payment of due diligence fees and transaction related fees and expenses, we received net proceeds of approximately \$1,780,000. An amount equal to 108% of the principal amount of the loans was due and payable on the earlier of June 24, 2006 or the date we effected a financing transaction or series of transactions resulting in gross proceeds to us of at least \$2,000,000. The bridge lender participated in the May convertible debenture transaction and, accordingly, \$1,500,000 in principal amount of such bridge loans (out of a total of \$2 million) was offset against the bridge lender's purchase price of the convertible debentures. In May 2006, the remainder of the loan was repaid in its entirety from the proceeds of the 2006 Convertible Debentures.

In May 2006, we raised \$10 million from the private placement to certain accredited institutional and individual investors of our 8% Senior Secured Convertible Debentures ("2006 Convertible Debentures"). Investors in the private placement also received Class A warrants, exercisable through June 30, 2009, to purchase up to 33,333,333 shares of our Common Stock at a per share exercise price

of \$0.20 and Class B warrants, exercisable through June 30, 2011, to purchase up to 33,333,333 shares of our Common Stock at a per share exercise price of \$0.25, in each case the exercise prices subject to adjustment upon certain specified conditions. We received net proceeds of approximately \$6.85 million after payment of offering related fees and expenses and outstanding short-term loans. Commencing on the first business day in September 2006 and on the first business day on each month thereafter, we are required to prepay 4.77% of the principal amount of the 2006 Convertible Debentures originally issued, but not more than the then outstanding principal amount, together with all accrued interest due and payable up to such repayment date. At our option the amount may be paid either (i) in shares of Common Stock at a rate equal to 75% of the value weighted average price (VWAP) of the Common Stock for the ten trading days ending on the trading day immediately preceding the scheduled payment date, but only if at the time of payment a registration statement (the "Registration Statement") covering the resale of the Common Stock underlying the 2006 Convertible Debentures and the warrants is then effective or (ii) in cash, at 110% of the principal amount due and 100% of all other amounts due. The Registration Statement was declared effective on June 20, 2006.

Management believes funds on hand will enable us to meet our cash flow need for the balance of fiscal 2006. We will need to raise additional funds to fulfill our long-term business plan. The initial commercial build out of our BPL Solutions on Duke's electrical distribution grid, as well as any potential upgrading of such build-out or any additional build-out, will require additional capital resources. Management intends to seek to raise the necessary capital through debt or equity issuances to both strategic and institutional investors. At the present time we have no commitments for any additional funding and no assurance can be provided that we will be able to raise the needed capital on commercially reasonable terms. Our auditors have included a "going concern" qualification in their auditors' report for the year ended December 31, 2005. Such a "going concern" qualification may make it more difficult for us to raise funds when needed. In addition, any financing can be expected to result in significant dilution. However, if certain outstanding warrants issued to the purchasers of our 2006 Convertible Debentures and to the purchasers of our 2004 Debentures, which have a per share exercise prices ranging between \$0.15 and \$0.50, are exercised by these holders for cash in a net amount sufficient for our needs, we may be able to satisfy part or all of our anticipated working capital requirements. No assurance can be provided, though, that these warrants will in fact be exercised in amounts sufficient for our needs.

### **ITEM 3. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, Report, our management, with the participation of our Chief Executive Officer (principal executive officer) who also serves as our Chief Financial Officer (principal financial officer), evaluated the effectiveness of our "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Exchange Act. Based on the evaluation, the officer concluded that as of September 30, 2006 our disclosure controls and procedures were effective.

During the quarter ended September 30, 2006, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

None.

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

There were no issuances of unregistered shares during the three months ended September 30, 2006.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

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

None

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS**

31	Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002	*
32	Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002	*

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed by the undersigned thereunto duly authorized.

Dated: November 13, 2006

**AMBIENT CORPORATION**

By: \_\_\_\_\_ */s/ John J. Joyce*  
JOHN J. JOYCE  
CHIEF EXECUTIVE OFFICER(PRINCIPAL  
EXECUTIVE OFFICER AND PRINCIPAL  
FINANCIAL AND ACCOUNTING OFFICER