

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number: 000-31659

NOVATEL WIRELESS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

9645 Scranton Road, San Diego, CA
(Address of Principal Executive Offices)

86-0824673
(I.R.S. Employer
Identification No.)

92121
(Zip Code)

Registrant's Telephone Number, Including Area Code: (858) 812-3400

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

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

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

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

The number of shares of the registrant's common stock outstanding as of October 30, 2009 was 30,846,703.

As used in this report on Form 10-Q, unless the context otherwise requires, the terms “we,” “us,” “our,” the “Company” and “Novatel Wireless” refer to Novatel Wireless, Inc., a Delaware corporation, and its wholly-owned subsidiaries.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the views of our senior management with respect to our current expectations, assumptions, estimates and projections about Novatel Wireless and our industry. Statements that include the words “may,” “could,” “should,” “would,” “estimate,” “anticipate,” “believe,” “expect,” “preliminary,” “intend,” “plan,” “project,” “outlook,” “will” and similar words and phrases identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties that could cause actual results to differ materially from those anticipated in these forward-looking statements as of the date of this report. We believe that these factors include the following:

- the impact of uncertain global economic conditions on the demand for our products;
- our ability to compete in the market for wireless broadband data access products;
- our ability to introduce and sell new products that comply with evolving industry standards, including 3G standards;
- our ability to develop and maintain strategic relationships to expand into new markets;
- our dependence on a small number of customers for a substantial portion of our revenues;
- demand for broadband wireless access to enterprise networks and the Internet;
- the outcome of pending or future litigation, including the current class action securities litigation and intellectual property litigation;
- the impact of the current global credit crisis on the value and liquidity of the securities in our investment portfolio;
- our ability to properly manage growth in our business to avoid significant strains on our management and operations and disruptions to our business;
- our reliance on third parties to manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development of our products;
- risks associated with doing business abroad, including foreign currency risks;
- our ability to hire, retain and manage additional qualified personnel to maintain and expand our business; and
- our ability to timely comply with public reporting obligations and maintain the listing of our common stock on The Nasdaq Global Select Market.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission, including the information in “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

Trademarks

“Novatel Wireless”, the Novatel Wireless logo, “MiFi”, “MiFi Intelligent Mobile Hotspot”, “Freedom. My Way”, “Merlin”, “MobiLink”, “Expedite”, “Ovation”, “Conversa”, “TotalMobileInternet”, and “NovaSpeed” are trademarks of Novatel Wireless, Inc. Other trademarks, trade names or service marks used in this report are the property of their respective owners.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

NOVATEL WIRELESS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 105,896	\$ 77,733
Marketable securities	26,282	58,536
Accounts receivable, net of allowance for doubtful accounts of \$665 at September 30, 2009 and \$1,010 at December 31, 2008	48,619	40,072
Inventories	26,327	23,229
Deferred tax assets, net	7,584	7,513
Prepaid expenses and other	3,859	9,923
Total current assets	<u>218,567</u>	<u>217,006</u>
Property and equipment, net of accumulated depreciation of \$40,887 at September 30, 2009 and \$33,417 at December 31, 2008	16,792	20,225
Marketable securities	42,708	6,962
Intangible assets, net of accumulated amortization of \$2,226 at September 30, 2009 and \$8,568 at December 31, 2008	1,186	1,860
Deferred tax assets, net	14,407	14,402
Other assets	314	276
Total assets	<u>\$ 293,974</u>	<u>\$ 260,731</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 44,641	\$ 23,225
Accrued expenses	22,547	20,628
Accrued income taxes	2,032	—
Total current liabilities	69,220	43,853
Capital lease obligations, long-term	203	269
Other long-term liabilities	17,067	18,647
Total liabilities	<u>86,490</u>	<u>62,769</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding	—	—
Common stock, par value \$0.001; 50,000 shares authorized, 30,847 and 30,327 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	31	30
Additional paid-in capital	413,794	407,252
Accumulated other comprehensive income	81	62
Accumulated deficit	<u>(181,422)</u>	<u>(184,382)</u>
	232,484	222,962
Treasury stock at cost; 2,436 common shares at September 30, 2009 and December 31, 2008	<u>(25,000)</u>	<u>(25,000)</u>
Total stockholders' equity	207,484	197,962
Total liabilities and stockholders' equity	<u>\$ 293,974</u>	<u>\$ 260,731</u>

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net revenues	\$94,293	\$78,398	\$248,786	\$255,858
Cost of revenues	64,488	61,735	184,369	194,806
Gross margin	29,805	16,663	64,417	61,052
Operating costs and expenses:				
Research and development	11,707	9,132	33,419	27,569
Sales and marketing	5,462	4,260	14,817	14,726
General and administrative	5,386	5,711	14,237	18,204
Total operating costs and expenses	22,555	19,103	62,473	60,499
Operating income (loss)	7,250	(2,440)	1,944	553
Other income (expense):				
Interest income, net	271	956	1,122	3,513
Other income (expense), net	174	(608)	171	(138)
Income (loss) before taxes	7,695	(2,092)	3,237	3,928
Income tax expense (benefit)	1,472	(1,046)	277	2,189
Net income (loss)	<u>\$ 6,223</u>	<u>\$ (1,046)</u>	<u>\$ 2,960</u>	<u>\$ 1,739</u>
Per share data:				
Net income (loss) per share:				
Basic	\$ 0.20	\$ (0.03)	\$ 0.10	\$ 0.06
Diluted	\$ 0.20	\$ (0.03)	\$ 0.10	\$ 0.06
Weighted average shares used in computation of basic and diluted net income (loss) per share:				
Basic	30,694	30,397	30,539	31,440
Diluted	31,508	30,397	31,078	31,613

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 2,960	\$ 1,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,236	8,196
Provision for bad debts	107	1,020
Inventory provision	1,910	4,472
Share-based compensation expense	5,035	4,811
Excess tax benefits from equity-based awards	(282)	(61)
Non-cash income tax benefit	(76)	(627)
Changes in assets and liabilities:		
Accounts receivable	(8,654)	26,784
Inventories	(3,443)	(8,959)
Prepaid expenses and other assets	5,707	(1,099)
Accounts payable	20,757	(10,420)
Accrued expenses, income taxes, and other	(57)	(3,090)
Net cash provided by operating activities	<u>34,200</u>	<u>22,766</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,226)	(6,727)
Purchases of intangible assets	(524)	(408)
Purchases of securities	(59,191)	(67,033)
Securities maturities/sales	55,718	70,805
Net cash used in investing activities	<u>(8,223)</u>	<u>(3,363)</u>
Cash flows from financing activities:		
Principal payments under capital lease obligations	(178)	(79)
Repurchase of common stock	—	(25,000)
Proceeds from exercise of stock options and employee stock purchase plan	1,799	435
Excess tax benefits from stock options exercised	282	61
Net cash provided by (used in) financing activities	<u>1,903</u>	<u>(24,583)</u>
Effect of exchange rates on cash and cash equivalents	283	(299)
Net increase (decrease) in cash and cash equivalents	<u>28,163</u>	<u>(5,479)</u>
Cash and cash equivalents, beginning of period	<u>77,733</u>	<u>84,600</u>
Cash and cash equivalents, end of period	<u>\$ 105,896</u>	<u>\$ 79,121</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 10	\$ 14
Income taxes	\$ 294	\$ 5,032

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The information contained herein has been prepared by Novatel Wireless, Inc. (the "Company", "we", "our", "us") in accordance with the rules of the Securities and Exchange Commission. The information at September 30, 2009 and the results of its operations for the three and nine months ended September 30, 2009 and September 30, 2008 is unaudited. The consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented. These consolidated financial statements and notes hereto should be read in conjunction with the audited financial statements from which they were derived and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The accounting policies used in preparing these consolidated financial statements are the same as those described in the Company's Form 10-K with the exception of new accounting pronouncements adopted in 2009. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

The Company evaluated subsequent events through November 2, 2009, the date on which this Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, provision for warranty costs, estimated royalty costs, income taxes, and share-based compensation expense.

Future Accounting Requirements

In September 2006, the FASB issued authoritative guidance for fair value measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for assets and liabilities measured at fair value in the financial statements. In February 2008, the FASB issued authoritative guidance, which delays for one year the effective date of the authoritative guidance for fair value measurements for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of this accounting guidance did not have a material impact on the Company's financial condition or operating results.

On January 1, 2009, the Company adopted the FASB's authoritative accounting guidance regarding disclosure requirements for derivative instruments and hedging activities. This new guidance requires enhanced disclosures for derivative instruments, including those used in hedging activities. The adoption of this accounting guidance did not have an impact on the Company's statements of operations or balance sheet.

In April 2009, the FASB issued authoritative guidance for determining fair value when there is no active market or where price inputs represent distressed sales and for determining other-than-temporary impairments for debt securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The application of this accounting guidance did not have a material impact on the Company's financial condition or operating results.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-13, which amends ASC Topic 605, *Revenue Recognition*, to require companies to allocate revenue in multiple-element arrangements based on an element’s estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-13 is effective beginning January 1, 2011. Earlier application is permitted. We are currently evaluating both the timing and the impact of the pending adoption of the ASU on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-14, which amends ASC Topic 985-605, *Software-Revenue Recognition*, to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality. ASU 2009-14 is effective beginning January 1, 2011. Earlier application is permitted. We are currently evaluating both the timing and the impact of the pending adoption of the ASU on our consolidated financial statements.

2. Balance Sheet Details

Marketable Securities

The Company’s portfolio of available-for-sale securities by contractual maturity consists of the following as of September 30, 2009 (in thousands):

September 30, 2009	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US government agency securities	1 or less	\$ 9,511	\$ 38	\$ —	\$ 9,549
Certificates of deposit	1 or less	14,395	11	—	14,406
Corporate debentures / bonds	1 or less	2,306	21	—	2,327
Total short-term marketable securities		<u>26,212</u>	<u>70</u>	<u>—</u>	<u>26,282</u>
US government agency securities	1 to 2	22,584	17	—	22,601
Certificates of deposit	1 to 2	7,948	—	(6)	7,942
Corporate debentures / bonds	1 to 2	12,119	46	—	12,165
Total long-term marketable securities		<u>42,651</u>	<u>63</u>	<u>(6)</u>	<u>42,708</u>
		<u>\$ 68,863</u>	<u>\$ 133</u>	<u>\$ (6)</u>	<u>\$ 68,990</u>

As of September 30, 2009, net unrealized gains of \$127,000, or \$81,000 net of taxes, are included in accumulated other comprehensive income on the consolidated balance sheet.

At September 30, 2009, the Company did not have any investments in individual securities that have been in a continuous unrealized loss position for more than 12 months. The Company believes the unrealized losses at September 30, 2009 represent a temporary condition due to the investment grade rating of the investment securities.

Inventories

Inventories consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Finished goods	\$ 26,327	\$ 22,515
Raw materials and components	—	714
	<u>\$ 26,327</u>	<u>\$ 23,229</u>

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Royalties	\$ 4,940	\$ 3,657
Payroll and related expenses	7,313	3,479
Product warranty	3,308	3,471
Market development fund and price protection	1,122	2,963
Deferred rent	485	740
Professional fees	1,121	1,003
Other	4,258	5,315
	<u>\$ 22,547</u>	<u>\$ 20,628</u>

Accrued Warranty Obligations

Accrued warranty obligations consist of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Warranty liability at beginning of period	\$ 3,585	\$ 2,884	\$ 3,471	\$ 3,077
Additions charged to operations	635	578	2,261	1,009
Deductions from reserves	(912)	(382)	(2,424)	(1,006)
Warranty liability at end of period	<u>\$ 3,308</u>	<u>\$ 3,080</u>	<u>\$ 3,308</u>	<u>\$ 3,080</u>

3. Fair Value Measurement of Assets and Liabilities

Pursuant to the authoritative guidance for fair value measurements, the Company's cash equivalents and investments are currently classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. We maintain an investment portfolio of various security holdings, types and maturities. We place our cash equivalents and investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. Our foreign exchange forward contracts are valued using pricing models that take into account the currency rates as of the balance sheet date.

Our investment in financial instruments valued based on quoted market prices in active markets are our investments in money market securities. Such instruments are classified within level 1 of the fair value hierarchy.

The types of financial instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade corporate bonds, commercial paper, time deposits, government and agency securities, asset backed securities, and foreign exchange forward contracts. Such instruments are classified within level 2 of the fair value hierarchy.

As of September 30, 2009, we did not have any assets or liabilities without observable market values that would require a high level of judgment to determine fair value (level 3 assets).

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis in accordance with the authoritative accounting guidance for fair value measurements as of September 30, 2009 (in thousands):

Description	September 30, 2009	Level 1	Level 2
Assets:			
Cash equivalents:			
Money market funds	\$ 100,118	\$100,118	\$ —
Total cash equivalents	100,118	100,118	—
Short-term marketable securities:			
US government agency securities	9,549	—	9,549
Certificates of deposit	14,406	—	14,406
Corporate debentures / bonds	2,327	—	2,327
Total short-term marketable securities	26,282	—	26,282
Long-term marketable securities:			
US government agency securities	22,601	—	22,601
Certificates of deposit	7,942	—	7,942
Corporate debentures / bonds	12,165	—	12,165
Total long-term marketable securities	42,708	—	42,708
Total financial assets	\$ 169,108	\$100,118	\$68,990
Liabilities:			
Foreign exchange forward contracts	\$ 7	\$ —	\$ 7

As of September 30, 2009, the total amount of outstanding foreign exchange forward contracts amounted to €1.6 million (\$2.3 million using the exchange rate as of September 30, 2009). These contracts are used to hedge the Company's Euro-denominated cash and accounts receivable balances. For the three and nine months ended September 30, 2009, the Company recorded losses of \$470,000 and \$558,000, respectively, on its foreign exchange forward contracts. For the three and nine months ended September 30, 2008, the Company recorded a gain of \$1.7 million and a loss of \$1,000, respectively, on its foreign exchange forward contracts.

4. Share-Based Compensation

The Company included the following amounts for share-based compensation awards in the accompanying unaudited consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of revenues	\$ 179	\$ 154	\$ 581	\$ 433
Research and development	661	541	1,976	1,558
Sales and marketing	281	251	853	733
General and administrative	605	674	1,625	2,087
Totals	1,726	1,620	5,035	4,811
Tax effect on share-based compensation	(261)	(267)	(787)	(927)
Net effect on net income	<u>\$ 1,465</u>	<u>\$ 1,353</u>	<u>\$ 4,248</u>	<u>\$ 3,884</u>
Effect on net income per share:				
Basic	\$ 0.05	\$ 0.04	\$ 0.14	\$ 0.12
Diluted	\$ 0.05	\$ 0.04	\$ 0.14	\$ 0.12

5. Segment Information and Concentrations of Risk

Segment Information

The Company operates in the wireless data modem technology industry and all sales of the Company's products and services are made in this segment. Management makes decisions about allocating resources based on this one reportable segment.

The Company has operations in the United States, Canada, Europe and Asia. The amount of the Company's assets in the United States, Canada, Europe and Asia as of September 30, 2009 was \$289.0 million, \$3.9 million, \$1.0 million and \$52,000, respectively, and as of December 31, 2008 was \$253.5 million, \$6.3 million, \$892,000 and \$59,000, respectively.

For the three months ended September 30, 2009, approximately 5% of net revenues were derived from international customers (Europe/Middle East/Africa 5% and Asia / Australia 0%) as compared to approximately 38% of net revenues derived from international customers (Europe/Middle East/Africa 37% and Asia / Australia 1%) for the three months ended September 30, 2008. For the nine months ended September 30, 2009, approximately 6% of net revenues were derived from international customers (Europe/Middle East/Africa 6% and Asia / Australia 0%) as compared to approximately 37% of net revenues derived from international customers (Europe/Middle East/Africa 37% and Asia / Australia 0%) for the nine months ended September 30, 2008.

Concentrations of Risk

Substantially all of the Company's net revenues are derived from sales of wireless access products. Any significant decline in market acceptance of the Company's products or in the financial condition of the Company's existing customers would have an adverse effect on the Company's results of operations and financial condition.

A significant portion of the Company's net revenues are derived from a small number of customers. For the three months ended September 30, 2009, sales to three customers accounted for 43%, 15% and 13%, respectively, of net revenues. In the same period in 2008, sales to three customers accounted for 38%, 14% and 14%, respectively, of net revenues. In the nine months ended September 30, 2009, sales to three customers accounted for 32%, 28% and 11%, respectively, of net revenues. In the same period in 2008, sales to four customers accounted for 25%, 18%, 15% and 14%, respectively, of net revenues.

The Company outsources its manufacturing to two third-party contract manufacturers. If one or both of them were to experience delays, disruptions, capacity constraints or quality control problems in its manufacturing operations, product shipments to the Company's customers could be delayed or its customers could consequently elect to cancel the underlying product purchase order, which would negatively impact the Company's revenues and results of operations.

6. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Potentially dilutive securities (consisting of options, warrants, restricted stock units ("RSUs") and employee stock purchase plan withholdings using the treasury stock method) are excluded from the diluted EPS computation in loss periods and when the applicable exercise price is greater than the market price on the period end date as their effect would be anti-dilutive.

The following table sets forth the computation of diluted weighted-average common and potential common shares outstanding for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	2008	September 30, 2009	2008
Basic weighted-average common shares outstanding	30,694	30,397	30,539	31,440
Effect of dilutive securities:				
Warrants	—	—	—	25
Restricted Stock Units	258	—	154	45
Employee Stock Purchase Plan	322	—	243	2
Options	234	—	142	101
Diluted weighted-average common and potential common shares outstanding	<u>31,508</u>	<u>30,397</u>	<u>31,078</u>	<u>31,613</u>

Weighted-average options, RSUs, and ESPP shares to acquire a total of 3,019,620 and 3,784,725 shares of common stock for the three and nine months ended September 30, 2009, respectively, and options, warrants, RSUs and ESPP shares to acquire a total of 3,377,984 and 3,233,602 shares of common stock for the three and nine months ended September 30, 2008, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

7. Commitments and Contingencies

Losses on Firm Purchase Commitments

In the ordinary course of business, the Company enters into agreements to purchase finished goods at specified prices from contract manufacturers for future delivery to customers. If a customer cancels an order after the Company has agreed to purchase the finished goods from a contract manufacturer, the Company may incur cancellation costs payable to the manufacturer. The Company may not be able to recover these costs from the customer.

In the quarter ended June 30, 2009, a customer cancelled several purchase orders. As a result, the Company recorded \$2.1 million in cancellation costs, consisting of cancellation fees and the cost of components that the Company was obligated to purchase from its contract manufacturer, and recognized that amount in cost of revenues in the three months ended June 30, 2009. During the three months ended September 30, 2009, the cancellation liability was reduced by \$547,000 through negotiations with the manufacturer. The \$547,000 was recorded as a reduction to the Company's cost of revenues for the three months ended September 30, 2009. At September 30, 2009, the Company's expected liability as a result of the cancellation of these orders was \$1.6 million.

In the fourth quarter of 2009, the customer agreed to purchase from the Company approximately \$969,000 in non-cancellable components related to this matter. As of the date of this report, the customer's purchase of the components has not been completed. Accordingly, the Company has not recorded a receivable related to this matter.

Legal Matters

On September 15, 2008, and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California on behalf of persons who allegedly purchased our stock between February 5, 2007 and August 19, 2008. On December 11, 2008, these lawsuits were consolidated into a single action entitled *Backe v. Novatel Wireless, Inc., et al.*, Case No. 08-CV-01689-H (RBB) (Consolidated with Case No. 08-CV-01714-H (RBB)) (U.S.D.C., S.D. Cal.). The plaintiffs filed the consolidated complaint on behalf of persons who allegedly purchased our stock between February 27, 2007 and November 10, 2008. The consolidated complaint names the Company and certain of our current and former officers as defendants. The consolidated complaint alleges generally that we issued materially false and misleading statements during the

relevant time period regarding the strength of our products and market share, our financial results and our internal controls. The plaintiffs are seeking an unspecified amount of damages and costs. The court has denied defendants' motions to dismiss. Discovery in this case is ongoing. The Company intends to defend this litigation vigorously. Due to the preliminary nature of this litigation, the Company is unable to estimate a range of exposure associated with this litigation.

On October 8, 2008, a purported shareholder, Jerry Rosenbaum, filed a derivative action in the Superior Court for the State of California, County of San Diego, against the Company, as nominal defendant, and certain of our current and former officers and directors, as defendants. Two other purported shareholders, Mark Campos and Chris Arnsdorf, separately filed substantially similar lawsuits in the same court on October 20, 2008 and November 5, 2008, respectively. On October 16, 2009, the plaintiffs filed a consolidated complaint. The consolidated complaint, Case No. 37-2008-00093576-CU-NP-CTL, alleges claims for breaches of fiduciary duties, violations of certain provisions of the California Corporations Code, unjust enrichment, and gross mismanagement. The plaintiffs are seeking equitable and/or injunctive relief, restitution from the defendants, attorneys' fees and costs, and other relief. Due to the preliminary nature of this action, the Company is unable to estimate a range of exposure associated with this litigation.

On July 6, 2009, SPH America, LLC filed suit in the United States District Court for the Eastern District of Virginia against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents to which plaintiff purportedly has exclusive licensing rights. On October 9, 2009, the court granted defendants' motion to transfer the lawsuit to the U.S. District Court for the Southern District of California. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this litigation.

On July 8, 2009, WIAV Networks, LLC filed suit in the United States District Court for the Eastern District of Texas against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents which plaintiff purportedly owns. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this litigation.

Indemnification

In the normal course of business, the Company periodically enters into agreements that require the Company to indemnify and or defend its customers for, among other things, claims alleging that the Company's products infringe third-party patents or other intellectual property rights. The Company's maximum exposure under these indemnification provisions cannot be estimated.

In addition to being named as a defendant in the litigation commenced by each of SPH America, LLC and the WIAV Networks, LLC discussed above, the Company may have applicable indemnification and / or defense obligations with respect to several of its current and former customers that were also named as defendants in the SPH America, LLC and the WIAV Networks, LLC litigation. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this matter.

On January 9, 2009, DNT, LLC filed a putative patent infringement lawsuit in the United States District Court for the Eastern District of Virginia against several wireless carriers, including two of the Company's customers, Sprint Nextel Corporation and Verizon Wireless, Inc., as defendants. The complaint alleges, among other things, that the defendants' use, sale and importation of specified wireless modem cards for computers designed to be used in conjunction with the defendants' cellular networks constitutes direct infringement of U.S. Patent No. RE 37,660, which the plaintiff allegedly owns. The complaint also alleges that customer use of the products sold by the defendants constitutes indirect infringement of the patent allegedly owned by the plaintiff. The plaintiff is seeking an amount of damages equal to no less than a reasonable royalty for the sale of each infringing product, an injunction, costs and other relief as appropriate. The Company has agreed to defend its customers in this lawsuit pursuant to its contractual arrangements with the customers. On March 23, 2009, the Company filed a motion to intervene, and on April 20, 2009, the plaintiff filed a counterclaim against the Company. The court has set a trial date in December 2009. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this matter.

On January 16, 2009, Datascape, Inc. filed a putative patent infringement lawsuit in the United States District Court for the Northern District of Georgia against Company customer, Sprint Spectrum, L.P. and affiliates ("Sprint") as defendants. The complaint alleges generally that the defendants have engaged in the manufacture, sale, import and/or use of products and/or processes that constitutes infringement of U.S. Patent Nos. 5,742,845, 5,905,908, 6,366,967, 6,684,269 and 6,745,259, which the plaintiff allegedly owns. The plaintiff is seeking an amount of damages no less than a reasonable royalty, treble damages, an injunction, attorney's fees and costs and additional relief as appropriate. The Company has agreed to defend and indemnify Sprint in this lawsuit pursuant to its contractual obligations. Due to the preliminary nature of this matter, the Company is unable to estimate the range of exposure associated with this matter.

On June 18, 2009, MSTG, Inc. filed a putative patent infringement lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division, against several wireless carriers and wireless device providers, including one of the Company's customers, Sprint Spectrum, L.P., as defendants. The complaint alleges generally that the defendants have engaged in the manufacture, use, importation, sale and/or offer for sale of products, services and technology employing inventions that constitute infringement of U.S. Patent Nos. 5,920,551, 6,198,936 and 6,438,113, which the plaintiff allegedly owns. The plaintiff is seeking an award of damages adequate to compensate MSTG for any infringement (together with pre-judgment interest); an award of all remedies available under 35 U.S.C. Sections 284 and 285; and a permanent injunction prohibiting further infringement and additional relief as may be awarded. The Company is currently evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend this customer in this lawsuit. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this matter.

On July 8, 2009, Celltrace, LLC. filed a putative patent infringement lawsuit in the United States District Court for the Eastern District of Texas, Tyler Division, against several wireless carriers, including the Company customers, Sprint, Sprint Spectrum L.P. and Cellco Partnership d/b/a Verizon Wireless, as defendants. The complaint alleges generally that the defendants have engaged in making, using, selling, offering for sale and/or leasing certain products, services and systems in Texas that constitute infringement of U.S. Patent Nos. 6,011,976 and 7,551,933, which the plaintiff allegedly owns. The complaint also alleges that each defendant sells and/or offers for sale cellular telephone services which communicate with the defendants' cellular network that constitute infringement of the patents allegedly owned by the plaintiff. The plaintiff is seeking no less than a reasonable royalty for the acts of infringement, adjudication of infringement, damages and costs related thereto, attorneys' fees and costs and additional relief as may be awarded. The Company is currently evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend its customers in this lawsuit. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this matter.

8. Comprehensive Income (loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 6,223	\$ (1,046)	\$ 2,960	\$ 1,739
Unrealized gains (losses) on cash equivalents and marketable securities, net of tax	4	(219)	19	(304)
Comprehensive income (loss)	<u>\$ 6,227</u>	<u>\$ (1,265)</u>	<u>\$ 2,979</u>	<u>\$ 1,435</u>

9. Income Taxes

The Company recognizes federal, state and foreign current tax liabilities or assets based on its estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carry forwards. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

The Company currently estimates its annual effective income tax rate, not including discrete items, to be approximately 30.9%, compared to 42.5% in 2008. The estimated annual effective income tax rate for 2009 is lower than for 2008 predominantly due to the effect of utilization of 2009 research and development credits.

In January 2007, the Company adopted the authoritative accounting guidance regarding accounting for uncertainty in income taxes. Under this authoritative accounting guidance, the Company's liability for unrecognized tax benefits as of September 30, 2009 was \$17.1 million. Included in the balance of unrecognized tax benefits as of September 30, 2009 are \$11.8 million of tax benefits that, if recognized, would affect the Company's effective tax rate. At September 30, 2009, the Company had recorded approximately \$1.2 million of accrued interest related to uncertain tax positions in its consolidated balance sheet. For the three and nine months ended September 30, 2009, the Company included \$245,000 and \$805,000, respectively, of interest expense related to uncertain tax positions in its consolidated statements of operations. These amounts were partially offset by the derecognition of accrued interest expense related to the release of the liability for unrecognized tax benefits discussed below.

In the third quarter of 2009, the Company reduced its uncertain tax liability by approximately \$3.1 million, including a related interest accrual of approximately \$240,000, due to the expiration of the statute of limitations applicable to the 2005 taxable year and the completion of the examination of the Company's 2006 federal tax return. Approximately \$1.4 million of this amount benefited the three and nine months ended September 30, 2009 tax provision as a discrete item.

On September 23, 2008, the State of California passed tax legislation that, among other things, places a moratorium on the use of net operating loss carryforwards and limited the use of certain tax credits to reduce state income tax liability in 2009. This legislation will impact our state income tax liability in 2009.

The Company and its subsidiaries file federal, state and foreign income tax returns in jurisdictions with various statutes of limitations. The Internal Revenue Service's examination of the Company's federal income tax return for the year ended December 31, 2006 has been completed and resulted in no adjustments. The Company is subject to various income tax examinations for 1996 through 2008 due to the availability of net operating loss carryforwards. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years. However, due to the risk that audit outcomes and the timing of audit settlements are subject to significant uncertainty, our current estimate of the total amounts of unrecognized tax benefits could increase or decrease for all open years. Currently, the Company does not anticipate that there will be any material change in the recognized tax benefits within the next twelve months.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following information should be read in conjunction with the consolidated financial statements and the accompanying notes included in Item 1 of this report, as well as the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2008 contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile cellular communications market. Our broad range of products includes third generation, or 3G, wireless PC card and ExpressCard modems, embedded modems, USB modems and other fixed-mobile convergence, or FMC, solutions and communications software for wireless network operators, infrastructure providers, distributors, original equipment manufacturers, or OEMs, and vertical markets worldwide. Through the integration of our hardware and software, our products are designed to operate on a majority of wireless networks in the world and provide mobile subscribers with secure and convenient high speed access to corporate, public and personal information through the Internet and enterprise networks. We also offer software engineering, integration and design services to our customers to facilitate the use of our products.

Our strong customer relationships provide us with the opportunity to expand our market reach and sales. Most of our sales to wireless operators and OEMs are sold directly through our sales force. To a lesser degree, we also use an indirect sales distribution model through the use of select distributors. We are continuing to drive widespread adoption of our products through increased global marketing activities, expansion of our sales team and distribution networks and continued leverage of our strategic relationships with wireless industry leaders.

We intend to continue to identify and respond to our customers' needs by introducing new product designs with an emphasis on supporting cutting edge Wide Area Network, or WAN, technology, ease-of-use, performance, size, weight, cost and power consumption. We manage our products through a structured life cycle process, from identifying initial customer requirements through development and commercial introduction to eventual phase-out. During product development, emphasis is placed on time-to-market, meeting industry standards and customer product specifications, ease of integration, cost reduction, manufacturability, quality and reliability.

We have agreements with LG Innotek and Inventec Appliances Corporation, or IAC, for the outsourced manufacturing of our products. Under our manufacturing agreements, LG Innotek and IAC provide us with services including component procurement, product manufacturing, final assembly, testing, quality control, fulfillment and delivery. In addition, we have an agreement with Mobiltron for certain distribution, fulfillment and repair services related to our business in Europe, the Middle East and Africa, or EMEA.

Factors Which May Influence Future Results of Operations

We have entered into and expect to continue to enter into new customer contracts for the development and supply of our products. This may place significant demands on our resources.

The continuing global financial crisis and the resulting slowdown in the worldwide economy is causing, and we expect may continue to cause, contraction in demand for our products. In addition, the financial crisis may continue to have an impact on the value of our investment portfolio, foreign currency exchange gain (loss), and net investment interest income (loss).

Net Revenues. We believe that our future net revenues will be influenced largely by the speed and breadth of the demand for wireless access to data through the use of next generation networks including demand for 3G products and 3G data access services, particularly in Europe, North America and Asia; customer acceptance for our new products that address these markets, including our MiFi™ line of Intelligent Mobile Hotspots; and our ability to meet customer demand. Factors that could potentially affect customer demand for our products include the following:

- economic environment and related market conditions;
- increased competition from other wireless data modem suppliers as well as suppliers of emerging devices that contain a wireless data access feature;
- demand for broadband access services and networks;
- use of the Internet;
- rate of change to new products;
- loss of significant customers, including current laptop customers who transition to alternative embedded module platforms such as QUALCOMM's Gobi platform;
- timing of deployment of 3G networks by carriers;
- decreased demand for EV-DO, HSDPA and HSUPA products; and
- changes in technologies.

We anticipate introducing additional 3G products during the next twelve months. We continue to develop and maintain strategic relationships with wireless and computing industry leaders like Alcatel-Lucent, Dell, QUALCOMM, Sony, Sprint PCS, Verizon Wireless, Telefonica, Virgin Mobile, Bell Distribution and Vodafone and software vendors. Our strategic relationships also include technology and marketing relationships with wireless operators, OEM partners that integrate our products into other devices, distributors and leading hardware and software technology providers. Through these strategic relationships, we have been able to enhance our market penetration activities by leveraging the resources of our channel partners, including their access to distribution resources, increased sales opportunities and market opportunities.

Cost of Revenues. We currently outsource our manufacturing operations to LG Innotek and IAC. In addition, we currently outsource certain distribution, fulfillment and repair services related to our business in EMEA to Mobiltron. All costs associated with these manufacturers and Mobiltron are included in our cost of revenues. Cost of revenues also includes warranty costs, amortization of intangible licenses, royalties based on a percentage of revenues, operations group expenses, costs associated with the cancellation of purchase orders, costs related to outside services and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above.

Operating Costs and Expenses. Many of our products target wireless operators and other customers in North America, Europe, and Asia. We will likely develop new products to serve these markets, resulting in increased research and development expenses associated with such new product development. We have in the past and expect to continue to incur these expenses in future periods prior to recognizing net revenues from sales of these products.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported

amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ from these estimates. Critical accounting policies and significant estimates include revenue recognition, allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, provision for warranty costs, royalty costs, income taxes, foreign exchange forward contracts, and share-based compensation expense. The significant accounting policies used in preparation of these consolidated financial statements for the three and nine months ended September 30, 2009 are consistent with those discussed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 in all material respects and in Note 1 to the consolidated financial statements included in this report. The critical accounting policies and the significant judgments and estimates used in the preparation of our consolidated financial statements for the three and nine months ended September 30, 2009 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2008 in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates."

Future Accounting Requirements

In September 2006, the FASB issued authoritative guidance for fair value measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for assets and liabilities measured at fair value in the financial statements. In February 2008, the FASB issued authoritative guidance, which delays for one year the effective date of the authoritative guidance for fair value measurements for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of this accounting guidance did not have a material impact on the Company's financial condition or operating results.

On January 1, 2009, the Company adopted the FASB's authoritative accounting guidance regarding disclosure requirements for derivative instruments and hedging activities. This new guidance requires enhanced disclosures for derivative instruments, including those used in hedging activities. The adoption of this accounting guidance did not have an impact on the Company's statements of operations or balance sheet.

In April 2009, the FASB issued authoritative guidance for determining fair value when there is no active market or where price inputs represent distressed sales and for determining other-than-temporary impairments for debt securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The application of this accounting guidance did not have a material impact on the Company's financial condition or operating results.

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-13, which amends ASC Topic 605, *Revenue Recognition*, to require companies to allocate revenue in multiple-element arrangements based on an element's estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-13 is effective beginning January 1, 2011. Earlier application is permitted. We are currently evaluating both the timing and the impact of the pending adoption of the ASU on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-14, which amends ASC Topic 985-605, *Software-Revenue Recognition*, to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 is effective beginning January 1, 2011. Earlier application is permitted. We are currently evaluating both the timing and the impact of the pending adoption of the ASU on our consolidated financial statements.

Results of Operations

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Net revenues. Net revenues for the three months ended September 30, 2009 were \$94.3 million compared to \$78.4 million for the same period in 2008. The overall increase in net revenues was primarily attributable to an increase in sales for our EV-DO products, partially offset by a decrease in our sales of High Speed Packet Access, or HSPA, products. The increase in EV-DO product sales for the three months ended September 30, 2009 compared to the same period in 2008 was approximately \$35.2 million. The increase was primarily due to demand for the MiFi Intelligent Mobile Hotspot product, which was introduced in the second quarter of this year. EV-DO products are primarily sold in the North American market and represented approximately 88% of net revenues in the three months ended September 30, 2009 compared to 61% in the same period in 2008. The decrease in our HSPA product sales for the three months ended September 30, 2009 compared to the same period in 2008 was approximately \$18.5 million. HSPA net revenues, primarily derived from the European market, represented approximately 12% of our net revenues in the three months ended September 30, 2009 compared to 38% for the same period in 2008. The decrease in HSPA net revenues for the three months ended September 30, 2009 compared to the same period in 2008 is primarily due to the continuous erosion of our market share in Europe due to the persistent competitive pressures we are currently experiencing in that market. We expect competitive pressure in Europe to continue at least through the remainder of 2009.

The currently unfavorable macroeconomic conditions make it more difficult to forecast trends in net revenues in the near term and we expect these conditions to continue throughout 2009.

Cost of revenues. Cost of revenues for the three months ended September 30, 2009 was \$64.5 million, or 68.4% of net revenues, as compared to \$61.7 million, or 78.7% of net revenues, for the same period in 2008.

Cost of revenues as a percentage of net revenues for the three months ended of September 30, 2009 were positively impacted by the net effects of a favorable product mix.

In addition, cost of revenues as a percentage of net revenues for the three months ended of September 30, 2009 was favorably impacted by a reduction to the estimated purchase cancellation costs recorded in the second quarter of 2009. In the quarter ended June 30, 2009, a customer cancelled several purchase orders. As a result, the Company recorded \$2.1 million in cancellation costs, consisting of cancellation fees and the cost of components that the Company was obligated to purchase from its contract manufacturer, and recognized that amount in cost of revenues in the three months ended June 30, 2009. During the three months ended September 30, 2009, the cancellation liability was reduced by \$547,000 through negotiations with the manufacturer. The \$547,000 was recorded as a reduction to the Company's cost of revenues for the three months ended September 30, 2009. At September 30, 2009, the Company's expected liability as a result of the cancellation of this significant order is \$1.6 million.

Cost of revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on the mix of products sold, competitive pricing, new product introduction costs and other factors.

The current global economic conditions and related increased competitive pressures may continue to negatively impact the average sales prices of our products. This may require us in future periods to record inventory write downs to reflect lower of cost or market adjustments and revalue certain assets that may become impaired.

Gross margin. Gross margin for the three months ended September 30, 2009 was \$29.8 million, or 31.6% of net revenues, compared to \$16.7 million, or 21.3% of net revenues, for the same period in 2008. The increase was primarily attributable to the changes in net revenues and cost of revenues as discussed above.

Research and development expenses. Research and development expenses for the three months ended September 30, 2009 were \$11.7 million, or 12.4% of net revenues, compared to \$9.1 million, or 11.6% of net revenues, for the same period in 2008. The increase was due primarily to higher compensation expense, an increase in test and certification fees, and an increase in equipment and product development costs in the three months ended September 30, 2009 compared to the same period in 2008 to support expanded research and development and product introduction activities. The Company continues to believe that focused investments in research and development are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy. As such, the Company expects to make further investments in research and development to remain competitive.

In addition, research and development expenses as a percentage of net revenues are expected to fluctuate in future quarters depending on the amount of net revenues recognized, and potential variation in the costs associated with the development of the Company's products, including the number and complexity of the products under development and the progress of the development activities with respect to those products. However, we expect to maintain or increase our investment in research and development to continue to provide innovative products and services.

Sales and marketing expenses. Sales and marketing expenses for the three months ended September 30, 2009 were \$5.5 million, or 5.8% of net revenues, compared to approximately \$4.3 million, or 5.4% of net revenues, for the same period in 2008. The increase for the three months ended September 30, 2009 compared to the same period in 2008 was due primarily to the increase in cooperative marketing and advertising funds with a customer to support the launch of the MiFi Intelligent Mobile Hotspot product.

While managing sales and marketing expenses relative to revenues, we expect to continue to make selected investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on key customers around the world.

General and administrative expenses. General and administrative expenses for the three months ended September 30, 2009 were \$5.4 million, or 5.7% of net revenues, compared to \$5.7 million, or 7.3% of net revenues, for the same period in 2008. Although expenses remained consistent for the three months ended September 30, 2009 as compared to the same period in 2008, expenses for the three months ended September 30, 2009 included approximately \$1.5 million in professional fees primarily related to the Company's securities class action and intellectual property litigation discussed in Note 7 to the consolidated financial statements included in this report. The corresponding period for the prior year included professional fees and related expenses of approximately \$1.3 million primarily related to the Company's internal review of revenue cut-off procedures, internal controls and accounting related to certain customer contracts. The Company concluded its internal review in September 2008.

Interest income, net. Interest income, net, for the three months ended September 30, 2009 was \$271,000 as compared to \$956,000 for the same period in 2008. Although the Company's average cash and marketable securities balance has increased period over period, average yields have decreased.

Other income (expense), net. Other income (expense), net, for the three months ended September 30, 2009 was an income of \$174,000 as compared to an expense of \$608,000 for the same period in 2008. The overall increase in other income and expense is attributable to the strengthening of the Euro during the three months ended September 30, 2009 and the resulting impact on our Euro-denominated foreign exchange forward contracts and Euro-denominated receivables.

Income tax expense (benefit). Income tax expense, including discrete items, was \$1.5 million, or 19.1% of income before taxes, for the three months ended September 30, 2009 compared to income tax benefit of \$1.0 million, or 50.0% of income before taxes, for the same period in 2008. The estimated effective tax rate is lower for the three months ended September 30, 2009 compared to the same period last year due to the recognition of an approximately \$1.4 million benefit in the three months ended September 30, 2009 related to a derecognition of the Company's uncertain tax liability. In the third quarter of 2009, the Company reduced its uncertain tax liability by approximately \$3.1 million, including a related interest accrual of approximately \$240,000, due to the expiration of the statute of limitations applicable to the 2005 taxable year and the completion of the examination of the Company's 2006 federal tax return. Approximately \$1.4 million of this amount benefited the three months ended September 30, 2009 tax provision as a discrete item.

For the three months ended September 30, 2009, the Company recognized approximately \$245,000 of interest expense related to unrecognized tax positions in the consolidated statement of operations compared to \$114,000 for the same period last year. This amount was offset by the derecognition of approximately \$240,000 of accrued interest expense related to the aforementioned reduction of the liability for unrecognized tax benefits in the three months ended September 2009.

The Company currently estimates its annual effective income tax rate, not including discrete items, to be approximately 30.9% for 2009, compared to 42.5% in 2008. The estimated annual effective income tax rate for 2009 is lower than for 2008 primarily due the effect of utilization of 2009 research and development credits.

On September 23, 2008, the State of California passed tax legislation that, among other things, places a moratorium on the use of net operating loss carryforwards and limited the use of certain tax credits to reduce state income tax liability in 2009. This legislation will impact our state income tax liability in 2009.

Net income (loss). For the three months ended September 30, 2009, we reported a net income of \$6.2 million, as compared to a net loss of \$1.0 million for the same period in 2008. Although operating expenses increased during the third quarter of 2009 compared to the same period last year, net income was favorably impacted by the increases in net revenues and gross margin percentage as discussed above.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Net revenues. Net revenues for the nine months ended September 30, 2009 were \$248.8 million compared to \$255.9 million for the same period in 2008. The overall decline in net revenues was primarily attributable to a decrease in sales for our High Speed Packet Access, or HSPA, products, partially offset by an increase in sales of our EV-DO products. The decrease in HSPA product sales for the nine months ended September 30, 2009 compared to the same period in 2008 was approximately \$85.1 million. HSPA net revenues, primarily derived from the European market, represented approximately 10% of net revenues in the nine months ended September 30, 2009 compared to 43% for the same period in 2008. The decrease in HSPA net revenues for the nine months ended September 30, 2009 compared to the same period in 2008 is primarily due to the erosion of our market share in Europe due to the persistent competitive pressures we are currently experiencing in that market. We expect competitive pressure in Europe to continue at least through the remainder of 2009. The increase in our EV-DO product sales for the nine months ended September 30, 2009 compared to the same period in 2008 was approximately \$78.0 million. This increase in EV-DO product sales was driven by an embedded module product for an E-reader and demand for the MiFi Intelligent Mobile Hotspot product, which was introduced during the second quarter of 2009. EV-DO products are primarily sold in the North American market and represented approximately 90% of net revenues in the nine months ended September 30, 2009 compared to 57% in the same period in 2008.

The currently unfavorable macroeconomic conditions make it more difficult to forecast trends in net revenues in the near term and we expect these conditions to continue through the remainder of the year.

Cost of revenues. Cost of revenues for the nine months ended September 30, 2009 was \$184.4 million, or 74.1% of net revenues, as compared to \$194.8 million, or 76.1% of net revenues, for the same period in 2008.

Cost of revenues as a percentage of net revenues for the nine months ended of September 30, 2009 was positively impacted by the net effects of a favorable product mix. Cost of revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on the mix of products sold, competitive pricing, new product introduction costs and other factors.

The current global economic conditions and related increased competitive pressures may continue to negatively impact the average sales prices of our products. This may require us in future periods to record inventory write downs to reflect lower of cost or market adjustments and revalue certain assets that may become impaired.

Gross margin. Gross margin for the nine months ended September 30, 2009 was \$64.4 million, or 25.9% of net revenues, compared to \$61.1 million, or 23.9% of net revenues, for the same period in 2008. The increase was primarily attributable to the changes in net revenues and cost of revenues as discussed above.

Research and development expenses. Research and development expenses for the nine months ended September 30, 2009 were \$33.4 million, or 13.4% of net revenues, compared to \$27.6 million, or 10.8% of net revenues, for the same period in 2008. The increase during the year was primarily due to higher compensation expense, an increase in equipment and product development costs and an increase in test and certification fees in the nine months ended September 30, 2009 as compared to the same period in 2008. These expenditures were primarily made to support expanded research and development and product introduction activities. The Company continues to believe that focused investments in research and development are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy. As such, the Company expects to make further investments in research and development to remain competitive.

In addition, research and development expenses as a percentage of net revenues are expected to fluctuate in future quarters depending on the amount of net revenues recognized, and potential variation in the costs associated with the development of the Company's products, including the number and complexity of the products under development and the progress of the development activities with respect to those products. However, we expect to maintain or increase our investment in research and development to continue to provide innovative products and services.

Sales and marketing expenses. Sales and marketing expenses for the nine months ended September 30, 2009 were \$14.8 million, or 6.0% of net revenues, compared to approximately \$14.7 million, or 5.8% of net revenues, for the same period in 2008. Sales and marketing expenses were relatively consistent during the nine months ended September 30, 2009 as compared to the same period in 2008. While managing sales and marketing expenses relative to revenues, we expect to continue to make selected investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on key customers around the world.

General and administrative expenses. General and administrative expenses for the nine months ended September 30, 2009 were \$14.2 million, or 5.7% of net revenues, compared to \$18.2 million, or 7.1% of net revenues, for the same period in 2008. The overall decline in general and administrative expenses was primarily attributable to a decline in professional fees and decreases in our provision for bad debt for the same period in 2008. The expenses for the nine months ended September 30, 2009 included approximately \$1.5 million in professional fees primarily related to the Company's on going securities class action and intellectual property litigation discussed in Note 7 to the consolidated financial statements included in this report. The corresponding period for the prior year included professional fees and related expenses of approximately \$3.9 million primarily related to the Company's internal review of revenue cut-off procedures, internal controls and accounting related to certain customer contracts. The Company concluded its internal review in September 2008.

Interest income, net. Interest income, net, for the nine months ended September 30, 2009 was \$1.1 million as compared to \$3.5 million for the same period in 2008. Although the Company's average cash and marketable securities balance has increased period over period, average yields have decreased.

Other income (expense), net. Other income (expense), net, for the nine months ended September 30, 2009 was income of \$171,000 as compared to expense of \$138,000 for the same period in 2008.

Income tax expense (benefit). Income tax expense, including discrete items, was \$277,000, or 8.6% of income before taxes, for the nine months ended September 30, 2009 as compared to income tax expense of approximately \$2.2 million, or 55.7% of income before taxes, for the same period in 2008. The estimated effective tax rate is lower for the nine months ended September 30, 2009 compared to the same period last year due to the recognition of an approximately \$1.4 million benefit in the nine months ended September 30, 2009 related to a derecognition of the Company's uncertain tax liability. In the third quarter of 2009, the Company reduced its uncertain tax liability by approximately \$3.1 million, including a related interest accrual of approximately \$240,000, due to the expiration of the statute of limitations applicable to the 2005 taxable year and the completion of the examination of the Company's 2006 federal tax return. Approximately \$1.4 million of this amount benefited the nine months ended September 30, 2009 tax provision as a discrete item.

For the nine months ended September 30, 2009, the Company recognized approximately \$805,000 of interest expense related to unrecognized tax positions in the consolidated statement of operations compared to \$395,000 for the same period last year. This amount was partially offset by the derecognition of accrued interest expense related to the aforementioned reduction of the liability for unrecognized tax benefits in the nine months ended September 2009.

The Company currently estimates its annual effective income tax rate, not including discrete items, to be approximately 30.9% for 2009, compared to 42.5% in 2008. The estimated annual effective income tax rate for 2009 is lower than 2008 primarily due to the effect of utilization of 2009 research and development credits.

On September 23, 2008, the State of California passed tax legislation that, among other things, places a moratorium on the use of net operating loss carryforwards and limited the use of certain tax credits to reduce state income tax liability in 2009. This legislation will impact our state income tax liability in 2009.

Net income (loss). For the nine months ended September 30, 2009, we reported net income of \$3.0 million, as compared to net income of \$1.7 million for the same period in 2008. Although net revenues decreased and operating expenses increased during the nine months ended September 30, 2009 compared to the same period last year, net income was positively impacted by the increase in the gross margin percentage as discussed above.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities and cash generated from operations. We do not currently have a revolving credit facility or similar loan agreement. As of September 30, 2009, we had working capital of \$149.3 million and \$174.9 million in cash, cash equivalents and short and long-term marketable securities, which is an increase of \$31.7 million from \$143.2 million at December 31, 2008. The net increase is primarily attributable to cash provided by operating activities, offset by purchases of property and equipment and net purchases of marketable securities.

Historical Cash Flows

Operating Activities. Net cash provided by operating activities was \$34.2 million for the nine months ended September 30, 2009, compared to \$22.8 million for the same period in 2008. During the nine months ended September 30, 2009, the \$34.2 million in cash provided by operating activities was primarily attributable to non-cash charges including depreciation, amortization and share-based compensation, decreases in working capital and our year to date net income of \$3.0 million. During the nine months ended September 30, 2008, the \$22.8 million in cash provided by operating activities was primarily attributable to non-cash charges including depreciation and amortization, charges for inventory losses and share-based compensation, decreases in our working capital and our year-to-date net income of \$1.7 million.

Investing activities. Net cash used in investing activities for the nine months ended September 30, 2009 was \$8.2 million, compared to \$3.4 million during the same period in 2008. Net cash used in investing activities in the nine months ended September 30, 2009 was primarily related to the purchase of investment securities and property and equipment, offset by the sale and maturity of investment securities. The net cash used in investing activities in the nine months ended September 30, 2008 was primarily due to purchases of investment securities and property and equipment to establish production capacity at a second contract manufacturer of the Company's products, offset by the sale and maturity of investment securities.

Financing activities. Net cash provided by financing activities for the nine months ended September 30, 2009 was \$1.9 million compared to \$24.6 million used in financing activities during the same period in 2008. Net cash provided by financing activities during the nine months ended September 30, 2009 was primarily related to proceeds from stock option exercises and stock purchases through our employee stock purchase plan. Net cash used in financing activities in the nine months ended September 30, 2008 was primarily due to the Company's repurchase of \$25 million of its outstanding common stock on the open market pursuant to a repurchase program.

Other Liquidity Needs

The Company expects to continue to incur professional fees and expenses to defend litigation filed against the Company or related to its products, which litigation is discussed in Note 7 to our consolidated financial statements included in this report. These costs cannot be estimated at this time.

During the next 12 months we plan to incur \$10 million to \$13 million for the acquisition of property and equipment and additional licenses.

We have filed a shelf registration statement with the Securities and Exchange Commission that will allow us to sell up to \$125 million of equity, debt or other securities described in the registration statement in one or more offerings. The shelf registration statement gives us greater flexibility to raise funds from the sale of our securities, subject to market conditions and our capital needs.

We believe that our available cash and investments, together with our operating cash flows, will be sufficient to fund operations, including the potential expansion of our sales and marketing team, the further development of our new products and the related potential increase in our general and administrative expenses, and to satisfy our working capital requirements and anticipated capital expenditures for the next 12 months. Our future net revenues are dependent on us fulfilling our commitments under agreements with a small number of major customers. Our liquidity could be impaired if there is any interruption in our business operations, a material failure to satisfy these contractual commitments or a failure to generate revenues from new or existing products.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are interest rate risk, global credit risk and foreign currency exchange rate risk.

Since December 31, 2008, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2009, the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the three months ended September 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On October 8, 2008, a purported shareholder, Jerry Rosenbaum, filed a derivative action in the Superior Court for the State of California, County of San Diego, against the Company, as nominal defendant, and certain of our current and former officers and directors, as defendants. Two other purported shareholders, Mark Campos and Chris Arnsdorf, separately filed substantially similar lawsuits in the same court on October 20, 2008 and November 5, 2008, respectively. On October 16, 2009, the plaintiffs filed a consolidated complaint. The consolidated complaint, Case No. 37-2008-00093576-CU-NP-CTL, alleges claims for breaches of fiduciary duties, violations of certain provisions of the California Corporations Code, unjust enrichment, and gross mismanagement. The plaintiffs are seeking equitable and/or injunctive relief, restitution from the defendants, attorneys' fees and costs, and other relief.

On July 6, 2009, SPH America, LLC filed suit in the United States District Court for the Eastern District of Virginia against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents to which plaintiff purportedly has exclusive licensing rights. On October 9, 2009, the court granted defendants' motion to transfer the lawsuit to the U.S. District Court for the Southern District of California.

On July 8, 2009, WIAV Networks, LLC filed suit in the United States District Court for the Eastern District of Texas against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents which plaintiff purportedly owns.

On June 18, 2009, MSTG, Inc. filed a putative patent infringement lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division, against several wireless carriers and wireless device providers, including one of the Company's customers, Sprint Spectrum, L.P., as defendants. The complaint alleges generally that the defendants have engaged in the manufacture, use, importation, sale and/or offer for sale of products, services and technology employing inventions that constitute infringement of U.S. Patent Nos. 5,920,551, 6,198,936 and 6,438,113, which the plaintiff allegedly owns. The plaintiff is seeking an award of damages adequate to compensate MSTG for any infringement (together with pre-judgment interest); an award of all remedies available under 35 U.S.C. Sections 284 and 285; and a permanent injunction prohibiting further infringement and additional relief as may be awarded. The Company is currently evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend this customer in this lawsuit.

On July 8, 2009, Celltrace, LLC. filed a putative patent infringement lawsuit in the United States District Court for the Eastern District of Texas, Tyler Division, against several wireless carriers, including the Company customers, Sprint, Sprint Spectrum L.P. and Cellco Partnership d/b/a Verizon Wireless, as defendants. The complaint alleges generally that the defendants have engaged in making, using, selling, offering for sale and/or leasing certain products, services and systems in Texas, that constitute infringement of U.S. Patent Nos. 6,011,976 and 7,551,933, which the plaintiff allegedly owns. The complaint also alleges that each defendant sells and/or offers for sale cellular telephone services which communicate with the defendants' cellular network that constitute infringement of the patents allegedly owned by the plaintiff. The plaintiff is seeking no less than a reasonable royalty for the acts of infringement, adjudication of infringement, damages and costs related thereto, attorneys' fees and costs and additional relief as may be awarded. The Company is currently evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend its customers in this lawsuit.

There have been no material developments in our legal proceedings since December 31, 2008 except as described above and in our Quarterly Reports on Form 10-Q for the periods ended March 31 and June 30, 2009. For additional information regarding the Company's legal proceedings, see Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2008, and Part II – Item 1, "Legal Proceedings" in our Quarterly Reports on Form 10-Q for the periods ended March 31 and June 30, 2009.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
10.1	Form of Indemnification Agreement by and between Novatel Wireless, Inc. and each of its Directors and Executive Officers.
31.1	Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of our Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

FORM OF INDEMNIFICATION AGREEMENT

This Indemnification Agreement, dated as of _____, ____ (this "**Agreement**"), is made by and between Novatel Wireless, Inc., a Delaware corporation (the "**Company**"), and _____ ("**Indemnitee**").

RECITALS:

A. Section 141 of the Delaware General Corporation Law provides that the business and affairs of a corporation shall be managed by or under the direction of its board of directors.

B. Pursuant to Sections 141 and 142 of the Delaware General Corporation Law, significant authority with respect to the management of the Company has been delegated to the officers of the Company.

C. By virtue of the managerial prerogatives vested in the directors and officers of a Delaware corporation, directors and officers act as fiduciaries of the corporation and its stockholders.

D. Thus, it is critically important to the Company and its stockholders that the Company be able to attract and retain the most capable persons reasonably available to serve as directors and officers of the Company.

E. In recognition of the need for corporations to be able to induce capable and responsible persons to accept positions in corporate management, Delaware law authorizes (and in some instances requires) corporations to indemnify their directors and officers, and further authorizes corporations to purchase and maintain insurance for the benefit of their directors and officers.

F. The Delaware courts have recognized that indemnification by a corporation serves the dual policies of (1) allowing corporate officials to resist unjustified lawsuits, secure in the knowledge that, if vindicated, the corporation will bear the expense of litigation and (2) encouraging capable women and men to serve as corporate directors and officers, secure in the knowledge that the corporation will absorb the costs of defending their honesty and integrity.

G. The number of lawsuits challenging the judgment and actions of directors and officers of Delaware corporations, the costs of defending those lawsuits, and the threat to directors' and officers' personal assets have all materially increased over the past several years, chilling the willingness of capable women and men to undertake the responsibilities imposed on corporate directors and officers.

H. Recent federal legislation and rules adopted by the Securities and Exchange Commission and the national securities exchanges have imposed additional disclosure and corporate governance obligations on directors and officers of public companies and have exposed such directors and officers to new and substantially broadened civil liabilities.

I. These legislative and regulatory initiatives have also exposed directors and officers of public companies to a significantly greater risk of criminal proceedings, with attendant defense costs and potential criminal fines and penalties.

J. Under Delaware law, a director's or officer's right to the advancement of the costs of defense of claims asserted against him or her, whether such claims are civil, criminal or other claims and whether they are asserted under state, federal or other law, does not depend upon the merits of the claims asserted and is separate and distinct from any right to indemnification the director or officer may be able to establish, and indemnification of the director or officer against civil, criminal or other fines and penalties is permitted if the director or officer satisfies the applicable standard of conduct.

K. Indemnitee is a director and/or officer of the Company and his or her willingness to serve in such capacity or capacities is predicated, in substantial part, upon the Company's willingness to indemnify him or her in accordance with the principles reflected above, to the fullest extent permitted by the laws of the State of Delaware and upon the other undertakings set forth in this Agreement.

L. In recognition of the need to provide Indemnitee with substantial protection against personal liability, in order to procure Indemnitee's continued service as a director and/or officer of the Company and to enhance Indemnitee's ability to serve the Company in an effective manner, and in order to provide such protection pursuant to express contract rights (intended to be enforceable irrespective of, among other things, any amendment to the Company's certificate of incorporation or bylaws (collectively, the "**Constituent Documents**"), any change in the composition of the Company's Board of Directors (the "**Board**") or any change-in-control or business combination relating to the Company, the Company wishes to provide in this Agreement for the indemnification of and the advancement of Expenses (as defined in Section 1(e)) to Indemnitee as set forth in this Agreement and for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

M. In light of the considerations referred to in the preceding recitals, it is the Company's intention and desire that the provisions of this Agreement be construed liberally, subject to their express terms, to maximize the protections to be provided to Indemnitee hereunder.

AGREEMENT:

NOW, THEREFORE, the parties hereby agree as follows:

1. Certain Definitions. In addition to terms defined elsewhere herein, the following terms shall have the respective meanings indicated below when used in this Agreement with initial capital letters:

(a) "**Claim**" means (i) any threatened, asserted, pending or completed claim, demand, action, suit or proceeding, whether civil, criminal, administrative, arbitral, investigative or other (including any cross-claim or counterclaim in any action, suit or proceeding), and whether made pursuant to federal, state or other law; and (ii) any threatened, pending or completed inquiry or investigation (including discovery), whether made, instituted or conducted by the Company or any other person, including any federal, state or other governmental entity, that Indemnitee determines might lead to the institution of any such claim, demand, action, suit or proceeding.

(b) “**Controlled Affiliate**” means any corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, that is directly or indirectly controlled by the Company. For purposes of this definition, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of an entity or enterprise, whether through the ownership of voting securities, through other voting rights, by contract or otherwise; provided, however, that direct or indirect beneficial ownership of capital stock or other interests in an entity or enterprise entitling the holder to cast 20% or more of the total number of votes generally entitled to be cast in the election of directors (or persons performing comparable functions) of such entity or enterprise shall be deemed to constitute control for purposes of this definition.

(c) “**Disinterested Director**” means a director of the Company who is not and was not a party to the Claim in respect of which indemnification is sought by Indemnitee.

(d) “**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended.

(e) “**Expenses**” means attorneys’ and experts’ fees and expenses and all other costs and expenses paid or payable in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to investigate, defend, be a witness in or participate in (including on appeal), any Claim.

(f) “**Incumbent Directors**” means the individuals who, as of the date of this Agreement, are directors of the Company and any individual becoming a director subsequent to the date hereof whose election, nomination for election by the Company’s stockholders, or appointment, was approved by a vote of at least two-thirds of the then Incumbent Directors (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination); *provided, however*, that an individual shall not be an Incumbent Director if such individual’s election or appointment to the Board occurs as a result of an actual or threatened election contest (as described in Rule 14a-12(c) of the Exchange Act) with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

(g) “**Indemnifiable Claim**” means any Claim based upon, arising out of or resulting from (i) any actual, alleged or suspected act or failure to act by Indemnitee in his or her capacity as a director, officer, employee or agent of the Company or as a director, officer, employee, member, manager, trustee, fiduciary or agent of any other corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, as to which Indemnitee is or was serving at the request of the Company as a director, officer, employee, member, manager, trustee or agent, (ii) any actual, alleged or suspected act or failure to act by Indemnitee in respect of any business, transaction, communication, filing, disclosure or other activity of the Company or any other entity or enterprise referred to in clause (i) of this sentence, or (iii) Indemnitee’s status as a current or former director, officer, employee or agent of the Company or as a current or former director, officer, employee, member, manager, trustee, fiduciary or agent of the Company or any other entity or enterprise referred to in clause (i) of this sentence or any actual, alleged or

suspected act or failure to act by Indemnitee in connection with any obligation or restriction imposed upon Indemnitee by reason of such status. In addition to any service at the actual request of the Company, for purposes of this Agreement, Indemnitee shall be deemed to be serving or to have served at the request of the Company as a director, officer, employee, member, manager, trustee or agent of another entity or enterprise if Indemnitee is or was serving as a director, officer, employee, member, manager, trustee, fiduciary or agent of such entity or enterprise and (A) such entity or enterprise is or at the time of such service was a Controlled Affiliate, (B) such entity or enterprise is or at the time of such service was an employee benefit plan (or related trust) sponsored or maintained by the Company or a Controlled Affiliate, or (C) the Company or a Controlled Affiliate directly or indirectly caused or authorized Indemnitee to be nominated, elected, appointed, designated, employed, engaged or selected to serve in such capacity.

(h) “**Indemnifiable Losses**” means any and all Losses relating to, arising out of or resulting from any Indemnifiable Claim.

(i) “**Independent Counsel**” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and, as of the time of selection with respect to any Indemnifiable Claim, is not, nor in the past five years has been, retained to represent: (i) the Company (or any Subsidiary) or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or other indemnitees under similar indemnification agreements), or (ii) any other named (or, as to a threatened matter, reasonably likely to be named) party to the Indemnifiable Claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(j) “**Losses**” means any and all Expenses, payments, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other), awards and amounts paid in settlement, including all interest, assessments and other charges paid or payable in connection with or in respect of any of the foregoing.

(k) “**Subsidiary**” means an entity in which the Company directly or indirectly beneficially owns 50% or more of the outstanding voting stock.

2. Indemnification Obligation. Subject to Section 7, the Company shall indemnify, defend and hold harmless Indemnitee, to the fullest extent permitted or required by the laws of the State of Delaware in effect on the date hereof or as such laws may from time to time hereafter be amended to increase the scope of such permitted indemnification, against any and all Indemnifiable Claims and Indemnifiable Losses; *provided, however*, that, except as provided in Sections 5 and 21, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Claim.

3. Advancement of Expenses. Indemnitee shall have the right to advancement by the Company prior to the final disposition of any Indemnifiable Claim of any and all Expenses relating to, arising out of or resulting from any Indemnifiable Claim paid or incurred by Indemnitee or which Indemnitee determines are reasonably likely to be paid or incurred by Indemnitee. Indemnitee’s

right to such advancement is not subject to the satisfaction of any standard of conduct. Without limiting the generality or effect of the foregoing, within five business days after any request by Indemnitee, the Company shall, in accordance with such request (but without duplication), (a) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimburse Indemnitee for such Expenses; *provided, however*, that Indemnitee shall repay, without interest, any amounts actually advanced to Indemnitee that, at the final disposition of the Indemnifiable Claim to which the advance related, were in excess of amounts paid or payable by Indemnitee in respect of Expenses relating to, arising out of or resulting from such Indemnifiable Claim. In connection with any such payment, advancement or reimbursement, Indemnitee shall execute and deliver to the Company an undertaking in the form attached hereto as Exhibit A (subject to Indemnitee filling in the blanks therein and selecting from among the bracketed alternatives therein), which need not be secured and shall be accepted without reference to Indemnitee's ability to repay the Expenses. In no event shall Indemnitee's right to the payment, advancement or reimbursement of Expenses pursuant to this Section 3 be conditioned upon any undertaking in addition to, or less favorable to Indemnitee than, the undertaking required by the immediately prior sentence.

4. Indemnification for Additional Expenses. Without limiting the generality or effect of the foregoing, the Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request, any and all Expenses paid or incurred by Indemnitee or which Indemnitee determines are reasonably likely to be paid or incurred by Indemnitee in connection with any Claim made, instituted or conducted by Indemnitee for (a) indemnification or payment, advancement or reimbursement of Expenses by the Company under any provision of this Agreement, or under any other agreement or provision of the Constituent Documents now or hereafter in effect relating to Indemnifiable Claims, or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless in each case of whether Indemnitee ultimately is determined to be entitled to such indemnification, reimbursement, advance or insurance recovery, as the case may be; *provided, however*, that Indemnitee shall return, without interest, any such advance of Expenses (or portion thereof) that remains unspent at the final disposition of the Claim to which the advance related.

5. Partial Indemnity. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Indemnifiable Loss, but not for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

6. Procedure for Notification. To obtain indemnification under this Agreement in respect of an Indemnifiable Claim or Indemnifiable Loss, Indemnitee shall submit to the Company a written request therefor, including a brief description (based upon information then available to Indemnitee) of such Indemnifiable Claim or Indemnifiable Loss. If, at the time of the receipt of such request, the Company has directors' and officers' liability insurance in effect under which coverage for such Indemnifiable Claim or Indemnifiable Loss is potentially available, the Company shall give prompt written notice of such Indemnifiable Claim or Indemnifiable Loss to the applicable insurers in accordance with the procedures set forth in the applicable policies. The Company shall provide to Indemnitee a copy of such notice delivered to the applicable insurers, and copies of all subsequent correspondence between the Company and such insurers regarding the Indemnifiable Claim or Indemnifiable Loss, in each case substantially

concurrently with the delivery or receipt thereof by the Company. The failure by Indemnitee to timely notify the Company of any Indemnifiable Claim or Indemnifiable Loss shall not relieve the Company from any liability hereunder unless, and only to the extent that, the Company did not otherwise learn of such Indemnifiable Claim or Indemnifiable Loss and such failure results in forfeiture by the Company of substantial defenses, rights or insurance coverage.

7. Determination of Right to Indemnification.

(a) To the extent that Indemnitee shall have been successful on the merits or otherwise in defense of any Indemnifiable Claim or any portion thereof or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Indemnifiable Losses relating to, arising out of or resulting from such Indemnifiable Claim in accordance with Section 2 and no Standard of Conduct Determination (as defined in Section 7(b)) shall be required.

(b) To the extent that the provisions of Section 7(a) are inapplicable to an Indemnifiable Claim that shall have been finally disposed of, any determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law that is a legally required condition precedent to indemnification of Indemnitee hereunder against Indemnifiable Losses relating to, arising out of or resulting from such Indemnifiable Claim (a “**Standard of Conduct Determination**”) shall be made as follows:

(i) by a majority vote of the Disinterested Directors, even if less than a quorum of the Board,

(ii) if such Disinterested Directors so direct, by a majority vote of a committee of Disinterested Directors designated by a majority vote of all Disinterested Directors, or

(iii) if there are no such Disinterested Directors or if requested by Indemnitee, by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee.

Indemnitee will cooperate with the person or persons making such Standard of Conduct Determination, including providing to such person or persons, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. The Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request, any and all costs and expenses (including attorneys’ and experts’ fees and expenses) incurred by Indemnitee in so cooperating with the person or persons making such Standard of Conduct Determination.

(c) The Company shall use its reasonable best efforts to cause any Standard of Conduct Determination required under Section 7(b) to be made as promptly as practicable. If (i) the person or persons empowered or selected under Section 7 to make the Standard of Conduct Determination shall not have made a determination within 30 days after the later of (A) receipt by the Company of written notice from Indemnitee advising the Company of the final disposition of the applicable Indemnifiable Claim (the date of

such receipt being the “**Notification Date**”) and (B) the selection of an Independent Counsel, if such determination is to be made by Independent Counsel, that is permitted under the provisions of Section 7(e) to make such determination and (ii) Indemnitee shall have fulfilled his or her obligations set forth in the second sentence of Section 7(b), then Indemnitee shall be deemed to have satisfied the applicable standard of conduct; *provided, however*, that such 30-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person or persons making such determination in good faith requires such additional time to obtain or evaluate documentation or information relating thereto.

(d) If (i) Indemnitee shall be entitled to indemnification hereunder against any Indemnifiable Losses pursuant to Section 7(a), (ii) no determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law is a legally required condition precedent to indemnification of Indemnitee hereunder against any Indemnifiable Losses, or (iii) Indemnitee has been determined or deemed pursuant to Section 7(b) or (c) to have satisfied any applicable standard of conduct under Delaware law that is a legally required condition precedent to indemnification of Indemnitee hereunder against any Indemnifiable Losses, then the Company shall pay to Indemnitee, within five business days after the later of (x) the Notification Date in respect of the Indemnifiable Claim or portion thereof to which such Indemnifiable Losses are related, out of which such Indemnifiable Losses arose or from which such Indemnifiable Losses resulted and (y) the earliest date on which the applicable criterion specified in clause (i), (ii) or (iii) above shall have been satisfied, an amount equal to the amount of such Indemnifiable Losses.

(e) If a Standard of Conduct Determination is to be made by Independent Counsel pursuant to Section 7(b)(iii), the Independent Counsel shall be selected by the Board and the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. Indemnitee may, within five business days after receiving written notice of selection from the Company, deliver to the Company a written objection to such selection; *provided, however*, that such objection may be asserted only on the ground that the Independent Counsel so selected does not satisfy the criteria set forth in the definition of “Independent Counsel” in Section 1(i), and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person or firm so selected shall act as Independent Counsel. If such written objection is properly and timely made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If no Independent Counsel that is permitted under the foregoing provisions of this Section 7(e) to make the Standard of Conduct Determination shall have been selected within 30 days after the Company gives its initial notice pursuant to the first sentence of this Section 7(e), either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware for resolution of any objection that shall have been made by Indemnitee to the Company’s selection of Independent Counsel and/or for the appointment as Independent Counsel of a person or firm selected by the Court or by such other person as the Court shall designate, and the person or firm with respect to whom all objections are so resolved or the person or firm so appointed will act as Independent Counsel. In all events, the Company shall pay all of the reasonable fees and expenses of the Independent Counsel incurred in connection with the Independent Counsel’s determination pursuant to Section 7(b).

8. Presumption of Entitlement. In making any Standard of Conduct Determination, the person or persons making such determination shall presume that Indemnitee has satisfied the applicable standard of conduct, and the Company may overcome such presumption only by its adducing clear and convincing evidence to the contrary. Any Standard of Conduct Determination that is adverse to Indemnitee may be challenged by Indemnitee in the Court of Chancery of the State of Delaware. No determination by the Company (including by its directors or any Independent Counsel) that Indemnitee has not satisfied any applicable standard of conduct shall be a defense to any Claim by Indemnitee for indemnification or reimbursement or advance payment of Expenses by the Company hereunder or create a presumption that Indemnitee has not met any applicable standard of conduct.

9. No Other Presumption. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of *nolo contendere* or its equivalent, will not create a presumption that Indemnitee did not meet any applicable standard of conduct or that indemnification hereunder is otherwise not permitted.

10. Non-Exclusivity. The rights of Indemnitee hereunder will be in addition to any other rights Indemnitee may have under the Constituent Documents, or the substantive laws of the Company's jurisdiction of incorporation, any other contract or otherwise (collectively, "**Other Indemnity Provisions**"); *provided, however,* that (a) to the extent that Indemnitee otherwise would have any greater right to indemnification under any Other Indemnity Provision, Indemnitee will be deemed to have such greater right hereunder and (b) to the extent that any change is made to any Other Indemnity Provision which permits any greater right to indemnification than that provided under this Agreement as of the date hereof, Indemnitee will be deemed to have such greater right hereunder. The Company will not adopt any amendment to any of the Constituent Documents the effect of which would be to deny, diminish or encumber Indemnitee's right to indemnification under this Agreement or any Other Indemnity Provision.

11. Liability Insurance and Funding. For the duration of Indemnitee's service as a director and/or officer of the Company, and thereafter for so long as Indemnitee shall be subject to any pending or possible Indemnifiable Claim, the Company shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to cause to be maintained in effect policies of directors' and officers' liability insurance providing coverage for Indemnitee that is at least substantially comparable in scope and amount to that provided by the Company's policies of directors' and officers' liability insurance as of the date of this Agreement. Upon request, the Company shall provide Indemnitee with a copy of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials, and shall provide Indemnitee with a reasonable opportunity to review and comment on the same. Without limiting the generality or effect of the two immediately preceding sentences, the Company shall not discontinue or significantly reduce the scope or amount of coverage from one policy period to the next policy period (i) without the prior approval thereof by a majority vote of the Incumbent Directors, even if less than a quorum, or (ii) if at the time that any such discontinuation or significant reduction in the scope or amount of coverage is proposed there are no Incumbent Directors, without the prior written consent of Indemnitee (which consent shall not be unreasonably withheld or delayed). In all policies of directors' and officers' liability insurance obtained by the Company, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits, subject to the same limitations, as are

accorded to the Company's directors and officers most favorably insured by such policy. The Company may, but shall not be required to, create a trust fund, grant a security interest or use other means, including a letter of credit, to ensure the payment of such amounts as may be necessary to satisfy its obligations to indemnify and advance expenses pursuant to this Agreement.

12. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the related rights of recovery of Indemnatee against other persons or entities (other than Indemnatee's successors), including any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(g). Indemnatee shall take, at the request of the Company, all actions reasonably necessary to secure such rights, including the execution of all papers reasonably required to evidence such rights (all of Indemnatee's reasonable Expenses, including attorneys' fees and charges, related thereto to be reimbursed by or, at the option of Indemnatee, advanced by the Company).

13. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment to Indemnatee in respect of any Indemnifiable Losses to the extent Indemnatee has otherwise actually received payment (net of Expenses incurred in connection therewith) under any insurance policy, the Constituent Documents and Other Indemnity Provisions or otherwise (including from any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(g)) in respect of such Indemnifiable Losses otherwise indemnifiable hereunder.

14. Defense of Claims. The Company shall be entitled to participate in the defense of any Indemnifiable Claim or to assume the defense thereof, with counsel reasonably satisfactory to Indemnatee; *provided, however*, that if Indemnatee believes, after consultation with counsel selected by Indemnatee, that (a) the use of counsel chosen by the Company to represent Indemnatee would present such counsel with an actual or potential conflict, (b) the named parties in any such Indemnifiable Claim (including any impleaded parties) include both the Company and Indemnatee and Indemnatee shall conclude that there may be one or more legal defenses available to him or her that are different from or in addition to those available to the Company, or (c) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, then Indemnatee shall be entitled to retain separate counsel (but not more than one law firm plus, if applicable, local counsel in respect of any particular Indemnifiable Claim) at the Company's expense. The Company shall not be liable to Indemnatee under this Agreement for any amounts paid in settlement of any threatened or pending Indemnifiable Claim effected without the Company's prior written consent. The Company shall not, without the prior written consent of Indemnatee, effect any settlement of any threatened or pending Indemnifiable Claim to which Indemnatee is, or could have been, a party unless such settlement solely involves the payment of money and includes a complete and unconditional release of Indemnatee from all liability on any claims that are the subject matter of such Indemnifiable Claim. Neither the Company nor Indemnatee shall unreasonably withhold its consent to any proposed settlement; *provided, however*, that Indemnatee may withhold consent to any settlement that does not provide a complete and unconditional release of Indemnatee.

15. Successors and Binding Agreement. (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Indemnatee and his or her counsel, expressly to assume and agree to perform this Agreement in

the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including any person acquiring directly or indirectly all or substantially all of the business or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor will thereafter be deemed the “**Company**” for purposes of this Agreement), but shall not otherwise be assignable or delegatable by the Company.

(b) This Agreement shall inure to the benefit of and be enforceable by Indemnitee’s personal or legal representatives, executors, administrators, heirs, distributees, legatees and other successors.

(c) This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 15(a) and 15(b). Without limiting the generality or effect of the foregoing, Indemnitee’s right to receive payments hereunder shall not be assignable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by Indemnitee’s will or by the laws of descent and distribution, and, in the event of any attempted assignment or transfer contrary to this Section 15(c), the Company shall have no liability to pay any amount so attempted to be assigned or transferred.

16. Notices. For all purposes of this Agreement, all communications, including notices, consents, requests or approvals, required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid or one business day after having been sent for next-day delivery by a nationally recognized overnight courier service, addressed to the Company (to the attention of the Secretary of the Company) and to Indemnitee at the applicable address shown on the signature page hereto, or to such other address as either party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of Delaware, without giving effect to the principles of conflict of laws of such State. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the Chancery Court of the State of Delaware for all purposes in connection with any claim, demand, action, suit or proceeding that arises out of or relates to this Agreement and agree that any action, suit or proceeding instituted under this Agreement shall be brought only in the Chancery Court of the State of Delaware.

18. Validity. If any provision of this Agreement or the application of any provision hereof to any person or circumstance is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstance shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent, and only to the extent, necessary to make it enforceable, valid or legal. In the event that any court or other adjudicative body shall decline to reform any provision of this Agreement held to be invalid, unenforceable or otherwise illegal as contemplated

by the immediately preceding sentence, the parties thereto shall take all such action as may be necessary or appropriate to replace the provision so held to be invalid, unenforceable or otherwise illegal with one or more alternative provisions that effectuate the purpose and intent of the original provisions of this Agreement as fully as possible without being invalid, unenforceable or otherwise illegal.

19. Amendments, Waivers. No provision of this Agreement may be waived, modified, amended, terminated or discharged unless such waiver, modification, amendment, termination or discharge is agreed to in writing signed by Indemnitee and the Company. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

20. Complete Agreement. No agreements or representations, oral or otherwise, expressed or implied with respect to the subject matter hereof have been made by either party that are not set forth expressly in this Agreement.

21. Legal Fees and Expenses. It is the intent of the Company that Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to Indemnitee hereunder. Accordingly, without limiting the generality or effect of any other provision hereof, if it should appear to Indemnitee that the Company has failed to comply with any of its obligations under this Agreement (including its obligations under Section 3) or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, the Company irrevocably authorizes Indemnitee from time to time to retain counsel of Indemnitee's choice, at the expense of the Company as hereafter provided, to advise and represent Indemnitee in connection with any such interpretation, enforcement or defense, including the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to Indemnitee's entering into an attorney-client relationship with such counsel, and in that connection the Company and Indemnitee agree that a confidential relationship shall exist between Indemnitee and such counsel. Without respect to whether Indemnitee prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by Indemnitee in connection with any of the foregoing.

22. Certain Interpretive Matters. Unless the context of this Agreement otherwise requires, (a) all references in this Agreement to Sections, paragraphs, clauses and other subdivisions refer to the corresponding Sections, paragraphs, clauses and other subdivisions of this Agreement unless expressly provided otherwise, (b) titles appearing at the beginning of any Sections, subsections or other subdivisions of this Agreement are for convenience only, do not constitute any part of such Sections, subsections or other subdivisions and shall be disregarded in construing the language contained in such subdivisions, (c) "it" or "its" or words of any

gender include each other gender, (d) words using the singular or plural number also include the plural or singular number, respectively, (e) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement, (f) the terms “Section” or “Exhibit” refer to the specified Section or Exhibit of or to this Agreement, (g) the terms “include,” “includes” and “including” will be deemed to be followed by the words “without limitation,” and (h) the word “or” is disjunctive but not exclusive. Whenever this Agreement refers to a number of days, such number will refer to calendar days unless business days are specified and whenever action must be taken (including the giving of notice or the delivery of documents) under this Agreement during a certain period of time or by a particular date that ends or occurs on a non-business day, then such period or date will be extended until the immediately following business day. As used herein, “business day” means any day other than Saturday, Sunday or a United States federal holiday.

23. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together shall constitute one and the same agreement.

[Signatures Appear On Following Page]

IN WITNESS WHEREOF, Indemnitee has executed, and the Company has caused its duly authorized representative to execute, this Agreement as of the date first above written.

NOVATEL WIRELESS, INC.
9645 Scranton Road, San Diego, CA 92121

By: _____
Name: _____
Title: _____

[INDEMNITEE]
[Address]

[Indemnitee]

EXHIBIT A

UNDERTAKING

This Undertaking is submitted pursuant to the Indemnification Agreement, dated as of _____, ____ (the "**Indemnification Agreement**"), between _____, a Delaware corporation (the "**Company**"), and the undersigned. Capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Indemnification Agreement.

The undersigned hereby requests **[payment], [advancement], [reimbursement]** by the Company of Expenses which the undersigned **[has incurred] [reasonably expects to incur]** in connection with _____ (the "**Indemnifiable Claim**").

The undersigned hereby undertakes to repay the **[payment], [advancement], [reimbursement]** of Expenses made by the Company to or on behalf of the undersigned in response to the foregoing request if it is determined, following the final disposition of the Indemnifiable Claim and in accordance with Section 7 of the Indemnification Agreement, that the undersigned is not entitled to indemnification by the Company under the Indemnification Agreement with respect to the Indemnifiable Claim.

IN WITNESS WHEREOF, the undersigned has executed this Undertaking as of this __ day of _____, __.

[Indemnitee]

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter Leparulo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novatel Wireless, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PETER LEPARULO

Peter Leparulo
Chairman and Chief Executive Officer
(principal executive officer)

Date: November 2, 2009

CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kenneth Leddon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novatel Wireless, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KENNETH LEDDON

Kenneth Leddon
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

Date: November 2, 2009

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350
AS ADOPTED PURSUANT TO § 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q for the period ended September 30, 2009 (the "Report"), as filed by Novatel Wireless, Inc. (the "Company") with the Securities and Exchange Commission, each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: November 2, 2009

/s/ PETER LEPARULO

Peter Leparulo
Chairman and Chief Executive Officer
(principal executive officer)

/s/ KENNETH LEDDON

Kenneth Leddon
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.