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 March 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

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)**	**86-0824673** **(I.R.S. Employer Identification No.)**
9645 Scranton Road, San Diego, CA **(Address of principal executive offices)**	**92121** **(zip code)**

Registrant's telephone number, including area code: (858) 320-8800

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-Accelerated filer ☐

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

The number of shares of the Registrant's common stock outstanding as of May 1, 2007 was 30,422,945.

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 based on our current expectations, assumptions, estimates and projections about Novatel Wireless and our industry. These forward-looking statements include, but are not limited to, statements regarding: future demand for access to wireless data and factors affecting that demand; the future growth of wireless wide area networking and factors affecting that growth; changes in commercially adopted wireless transmission standards and technologies; growth in 3G infrastructure spending; the sufficiency of our capital resources; the effect of changes in accounting standards and in aspects of our critical accounting policies; the utilization of our net operating loss carryforwards; and our general business and strategy, including plans and expectations relating to technology, product development, strategic relationships, customers, manufacturing, service activities and international expansion. The words “may,” “estimate,” “anticipate,” “believe,” “expect,” “intend,” “plan,” “project,” “will” and similar words and phrases indicating future results are also intended to identify forward-looking statements.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements as of the date of this report. You should carefully review and consider the various disclosures in this report regarding factors that could cause actual results to differ materially from anticipated results, including those factors under the caption “Risks Related to Our Business” of this Form 10-Q. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future, except as otherwise required pursuant to our on-going reporting obligations under the Securities Exchange Act of 1934, as amended.

Trademarks

“Novatel Wireless,” the Novatel Wireless logo, “Merlin,” “MobiLink,” “Freedom Box,” “Expedite,” “Ovation” and “Conversa” are trademarks of Novatel Wireless, Inc. Other trademarks, trade names or service marks used in this report are the property of their owners.

PART I – FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NOVATEL WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,631	$ 34,612
Marketable securities	50,019	48,071
Accounts receivable, net of allowance for doubtful accounts of $625 in 2007 and $631 in 2006	60,892	47,774
Inventories	27,183	25,662
Deferred tax assets, net	5,931	5,931
Prepaid expenses and other	4,332	3,344
Total current assets	187,988	165,394
Property and equipment, net	18,982	15,501
Marketable securities	1,493	1,479
Intangible assets, net	2,094	2,411
Deferred tax assets, net	8,663	6,630
Other assets	213	230
	$ 219,433	$ 191,645
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 43,403	$ 39,346
Accrued expenses	16,920	16,158
Accrued income taxes	9,184	1,905
Total current liabilities	69,507	57,409
Commitments and contingencies		
Stockholders' equity:		
Series A and B Preferred stock; par value $0.001; 2,000 shares authorized and none outstanding	—	—
Common stock; par value $0.001; 50,000 shares authorized; 30,211 and 29,743 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	30	30
Additional paid-in capital	361,696	356,138
Accumulated other comprehensive loss	(5)	(31)
Accumulated deficit	(211,795)	(221,901)
Total stockholders' equity	149,926	134,236
	$ 219,433	$ 191,645

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenue	$109,848	$40,159
Cost of revenue	75,854	31,279
Gross margin	33,994	8,880
Operating costs and expenses:		
Research and development	8,983	6,727
Sales and marketing	5,359	2,729
General and administrative	4,387	3,741
Total operating costs and expenses	18,729	13,197
Operating income (loss)	15,265	(4,317)
Other income (expense):		
Interest income and expense, net	1,029	619
Other income (expense), net	201	567
Income (loss) before income taxes	16,495	(3,131)
Provision (benefit) for income taxes	6,389	(1,785)
Net income (loss)	$ 10,106	$ (1,346)
Per share data:		
Net income (loss) per share:		
Basic	$ 0.34	$ (0.05)
Diluted	$ 0.34	$ (0.05)
Weighted average shares used in computation of basic and diluted net income (loss) per share:		
Basic	29,918	29,375
Diluted	30,094	29,375

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income (loss)	$ 10,106	$ (1,346)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,287	1,731
Inventory provision	977	697
Share-based compensation expense	2,466	2,210
Tax benefits from stock options exercised	(993)	—
Deferred tax benefit	—	(1,785)
Changes in assets and liabilities:		
Accounts receivable, net	(13,118)	(10,123)
Inventories	(2,498)	3,087
Prepaid expenses and other assets	(971)	271
Accounts payable	4,057	(15,130)
Accrued expenses and accrued income taxes	6,008	(317)
Net cash provided by (used in) operating activities	8,321	(20,705)
Cash flows from investing activities:		
Purchases of property and equipment	(5,451)	(1,392)
Purchases of securities	(8,936)	(9,582)
Securities maturities/sales	7,000	12,571
Net cash (used in) provided by investing activities	(7,387)	1,597
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	3,092	582
Tax benefits from stock options exercised	993	—
Principal payments under capital lease obligations	—	(2,223)
Net cash provided by (used in) financing activities	4,085	(1,641)
Net increase (decrease) in cash and cash equivalents	5,019	(20,749)
Cash and cash equivalents, beginning of period	34,612	36,653
Cash and cash equivalents, end of period	$ 39,631	$ 15,904
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 13	$ 23
Income taxes	$ 204	$ 383

See accompanying notes to unaudited consolidated financial statements.

1. Basis of Presentation

The information contained herein has been prepared by Novatel Wireless, Inc. (the "Company") in accordance with the rules of the Securities and Exchange Commission. The information at March 31, 2007 and for the three months ended March 31, 2007 and 2006 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 and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2006. 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.

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 U.S. generally accepted accounting principles 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, useful lives of long-lived assets, valuation of intangible and long-lived assets, provision for warranty costs, estimated royalty costs, deferred tax asset valuation allowance, foreign exchange forward contracts, and share-based compensation expense.

2. Balance Sheet Details

Marketable Securities

As of March 31, 2007, unrealized losses of $23,000 are included in accumulated other comprehensive loss. The Company's portfolio of available-for-sale securities by contractual maturity consists of the following as of March 31, 2007 (in thousands):

	Maturity in Years	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
U.S. Agency securities	1 or less	$ 6,227	$ (2)	$ 6,225
Certificates of Deposit	1 or less	5,997	(1)	5,996
Commercial paper	1 or less	1,492	—	1,492
Corporate debentures/bonds	1 or less	36,329	(23)	36,306
Total short-term marketable securities		50,045	(26)	50,019
Corporate debentures/bonds – long-term marketable securities	1 to 2	1,490	3	1,493
		$51,535	$ (23)	$51,512

At March 31, 2007, the Company did not have any investments in individual securities that have been in a continuous unrealized loss position deemed to be other than temporary for more than 12 months. Because the Company's general intent is to hold its investment securities to maturity, and considering the high quality of the investment securities, the Company believes that the unrealized losses at March 31, 2007 represent a temporary condition and will not result in realized losses on sale or maturity of the securities.

Inventories

Inventories consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Finished goods	$26,738	$ 25,059
Raw materials and components	445	603
	$27,183	$ 25,662

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Royalties	$ 8,282	$ 6,754
Payroll and related	3,334	4,947
Product warranty	1,882	1,464
Professional fees	953	683
Deferred rent	889	969
Other	1,580	1,341
	$16,920	$ 16,158

3. Share-Based Compensation

Restricted Stock

In May 2006, the Compensation Committee of the Board of Directors, pursuant to the 2000 Stock Incentive Plan, granted 222,000 shares of market-based restricted stock to executives at a fair value of $10.61 per share. The restricted stock awards vest in one-third increments based on closing per share stock price achievement of $13.26, $15.92 and $18.57 for 10 consecutive trading days, but no more than 50% of the shares are permitted to vest earlier than May 1, 2007. If the stock price levels are not achieved, the remaining shares will become fully vested on May 17, 2011 assuming continued employment or other qualifying service for the Company through such date. The Company has estimated the aggregate fair value of this award at approximately $2.4 million which is being amortized and recorded as compensation expense ratably over a period of eight months for the first $800,000 of the compensation expense, 17 months for the next $800,000 of the compensation expense and 28 months for the final $800,000 of the compensation expense. As of March 31, 2007 one-third of the restricted stock awards had vested.

In May 2006, the Company also awarded 7,500 shares of restricted stock to each of the existing 5 non-employee directors (for a total of 37,500 shares) at a fair value of $10.61 per share. 2,500 shares of each grant vests annually each May, commencing in 2007, so long as the director is serving on such date. The Company has estimated the aggregate fair value of these awards to the non-employee directors at approximately $400,000, which is being amortized to compensation expense ratably over a three year period. As of March 31, 2007, 7,500 shares of restricted stock had been forfeited upon termination of service by a non-employee director due to his death.

Restricted Stock Units

During the three months ended March 31, 2007, the Company granted approximately 194,000 restricted stock units to employees at a weighted-average fair value of $10.27. Restricted stock units are converted into shares of the Company’s common stock upon vesting on a one-for-one basis. Vesting of restricted stock units is subject to the employee’s continued service with the Company. Certain restricted stock units also have performance conditions that determine the number of restricted stock units that will ultimately vest. The compensation expense related to these awards was determined using the fair value of the Company’s common stock on the date of the grant, and compensation is recognized over the service period. Restricted stock units vest at the rate of 25% per year over three years on the anniversary of the grant date.

Share-Based Compensation under SFAS No. 123(R)

Statement of Financial Accounting Standard (“SFAS”) No. 123(R), Share-Based Payment, requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors.

The Company has included the following amounts for share-based compensation awards in the accompanying unaudited consolidated statements of operations for the three months ended March 31, 2007 and 2006 (in thousands):

	Three Months ended March 31, 2007	Three Months ended March 31, 2006
Cost of revenue	$ 156	$ 77
Research and development	610	503
Sales and marketing	492	472
General and administrative	1,208	1,158
Total	2,466	2,210
Tax effect on share-based compensation	(510)	(1,490)
Net effect on net income	$ 1,956	$ 720
Effect on earnings per share:		
Basic	$ 0.06	$ 0.03
Diluted	$ 0.06	$ 0.03

4. Credit Facility

On December 29, 2005, the Company entered into a two-year $25.0 million secured revolving credit facility ("the Credit Agreement"). The Credit Agreement was entered into with Bank of America, N.A., as Administrative Agent, who was granted a first priority blanket lien on substantially all the Company's assets in order to secure repayment of outstanding indebtedness under the Credit Agreement. At the Company's option, borrowings under the Credit Agreement will bear interest at either the London Interbank Offering Rate (LIBOR) plus 100-150 basis points depending on the level of borrowing under the Credit Agreement, or at the prime rate plus 50 basis points (8.75% at March 31, 2007). The Credit Agreement further contains certain customary restrictive financial and operating covenants which, among other things, require the Company to (i) maintain minimum financial performance requirements as measured by the Company's income or loss before taxes, (ii) limit the levels of certain indebtedness and capital expenditures, and (iii) maintain a minimum liquidity ratio. In the event that a default were to occur under the Credit Agreement which was not subsequently cured or waived, then repayment in full of all the borrowings then outstanding could become immediately due and payable. Such events of default include, without limitation, failing to pay borrowed amounts when due, failing to adhere to agreed upon financial covenants or failing to notify Bank of America of the occurrence of an event that could reasonably be expected to result in a material adverse effect upon the Company. Borrowings under the Credit Agreement can be used for general corporate purposes including capital expenditures, working capital, letters of credit and certain permitted acquisitions and investments. As of March 31, 2007, the Company had no outstanding balance under the Credit Agreement and was in compliance with all covenants of the Credit Agreement.

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 operating segment.

The Company has operations in the United States, Canada, and the United Kingdom. The amount of the Company's assets in the United States, Canada and United Kingdom as of March 31, 2007 were $202.7 million, $15.6 million, and $1.1 million, respectively, and as of December 31, 2006 were $172.8 million, $18.0 million, and $800,000, respectively.

For the three months ended March 31, 2007, approximately 21% of revenues were derived from international customers (Europe/Middle East/Africa 20%, Asia/Australia 1%) as compared to approximately 34% of revenues derived from international customers (Europe/Middle East/Africa 29%, Asia/Australia 5%), for the three months ended March 31, 2006.

Concentrations of Risk

Substantially all of the Company's revenues are derived from the 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 could impair the Company's ability to operate effectively.

A significant portion of the Company's revenue is derived from a small number of customers. Two customers accounted for 35.1% and 34.0% of revenues for the three months ended March 31, 2007. Two customers accounted for 46.3%, and 12.8% of revenues for the three months ended March 31, 2006.

The Company outsources its manufacturing to a relatively small number of third-party manufacturers. If a third-party manufacturer 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 order, which would negatively impact the Company's revenues.

6. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") excludes dilution and is computed by dividing net income or 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 (currently consisting of options, warrants and restricted stock using the treasury stock method) are excluded from the diluted EPS computation in loss periods and when their exercise price is greater than the market price 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 months ended March 31, 2007 and 2006 (in thousands):

	Three months ended March 31,	
	2007	2006
Basic weighted average common shares outstanding	29,918	29,375
Effect of dilutive securities:		
Warrants	52	—
Options	124	—
Diluted weighted average common and potential common shares outstanding	30,094	29,375

Weighted average options and warrants to purchase a total of 3,865,461, and 4,220,143 shares of common stock for the three months ended March 31, 2007 and 2006, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

7. Commitments and Contingencies

Royalties

The Company has license agreements which commit it to royalty payments generally based on a percentage of the sales price of its products using certain technologies. The Company recognizes royalty obligations in accordance with the terms of the respective royalty agreements. The Company has also accrued for royalty costs in cases where it does not have agreements by using its current best estimate of its obligation. These estimates are based on various market data information and other relevant information. If the Company enters into such agreements, or when additional market data becomes available, it will revise its estimates accordingly.

Legal Matters

The Company is, from time to time, party to various legal proceedings arising in the ordinary course of business. Based on evaluation of these matters and discussions with Company's counsel, the Company believes that liabilities arising from or sums paid in settlement of these existing matters would not have a material adverse effect on the consolidated results of operations or financial position.

In December 2006, the Company filed a complaint in U.S. District Court for the Southern District of California against a former supplier seeking damages for breach of contract. During the three months ended March 31, 2007, the supplier filed a counter claim against the Company.

8. Income Taxes

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total liability for unrecognized tax benefits as of the date of adoption was $3.7 million. As a result of the implementation of FIN 48, the Company recognized a $2.0 million increase in the liability for unrecognized tax benefits.

Included in the balance of unrecognized tax benefits at January 1, 2007, are $3.7 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are $1.8 million of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

The Company recognizes interest and penalties related to unrecognized tax benefits in provision for income taxes. Upon adoption of FIN 48 on January 1, 2007, the Company did not record any interest or penalties.

The Company is subject to taxation in the U.S., various state and foreign tax jurisdictions. The Company's tax years for 1996 and forward are subject to examination by the U.S. and California tax authorities due to the utilization of net operating loss carryforwards in recent years. The Company's tax years for 1997 and forward are subject to examination by the Canadian tax authorities due to the utilization of net operating loss carryforwards in recent years.

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 quarterly 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, 2006 contained in our 2006 annual report on Form 10-K.

Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products includes 3G wireless PC card modems, embedded modems, communications software and Fixed Mobile Convergence solutions for wireless network operators, infrastructure providers, distributors, OEMs and vertical markets worldwide. Through the integration of our hardware and software, our products are designed to operate on a majority of global wireless networks 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.

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 and this may place significant demands on our resources.

Revenue. We believe that our revenue growth will be influenced largely by the speed and breadth of the increase in 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; and our ability to meet customer demand. Factors that could potentially affect customer demand for our products include the following:

- demand for broadband access services and networks;
- use of the Internet;
- rate of change to new products;
- loss of significant customers;
- increase in competition;
- timing of deployment of 3G networks by carriers;
- drop in demand for EV-DO and HSDPA products; and
- changes in technologies.

We began shipping our first 3G products in December 2003. We have shipped 14 new 3G products since then and anticipate introducing additional 3G products during 2007. We continue to develop and maintain strategic relationships with wireless and computing industry leaders like Dell, QUALCOMM, Sprint PCS, Verizon Wireless and Vodafone and major software vendors. Through strategic relationships, we have been able to increase market penetration by leveraging the resources of our channel partners, including their access to distribution resources, increased sales opportunities and market opportunities.

Our strategic relationships include technology and marketing relationships with wireless operators, OEM customers that integrate our products into other devices, distributors and leading hardware and software technology providers.

Cost of Revenue. We currently outsource our manufacturing operations to LG Innotek Co., Ltd., or LG Innotek, and Inventec Appliances Corporation, or IAC. In addition, we currently outsource certain distribution and fulfillment services related to our business in EMEA to Mobiltron (Europe) Limited, or Mobiltron. All costs associated with these manufacturers and Mobiltron are included in our cost of revenue. Cost of revenue also includes warranty costs, amortization of intangible licenses, royalties based on a percentage of revenue, operations group expenses, costs related to development 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. We expect to continue to outsource our manufacturing operations, and as our business grows we expect our manufacturing activity to increase.

Operating Expenses. Many of our products target wireless operators and other customers in Europe, North America and Asia. If these markets continue to grow, 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 revenue from these contracts.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, useful lives of long-lived assets, valuation of intangible and long-lived assets, provision for warranty costs, estimated royalty costs, deferred tax asset valuation allowance, foreign exchange forward contracts, and share-based compensation expense.

Revenue Recognition. Our revenue is generated from the sale of wireless modems to wireless operators, OEM customers and distributors. Revenue from product sales is recognized upon the latest of transfer of title or shipment of the product to the customer. For product sales with acceptance provisions, revenue is recognized at such time that the acceptance provisions are satisfied. We grant price protection provisions to certain customers and track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. We establish allowances for estimated product returns and price protection in the period in which revenue is recognized. In estimating future product returns, we consider various relevant factors, including our stated return policies and practices, and historical trends. We recognize revenue in accordance with Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, which provides guidance on the application of U.S. generally accepted accounting principles to selected revenue recognition issues.

Allowance for Doubtful Accounts Receivable. We provide an allowance for our accounts receivable for estimated losses that may result from our customers' inability to pay. We determine the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, we review our customers' credit-worthiness periodically based on credit scores generated by independent credit reporting services, our experience with our customers and the economic condition of our customers' industries. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required. We have not experienced significant variances in the past between our estimated and actual allowance for doubtful accounts and anticipate that we will be able to continue to make reasonable estimates in the future.

Provision for Excess and Obsolete Inventory. Inventories are stated at the lower of cost (first-in, first-out method) or market. We review the components of our inventory and our inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value depend on various items, including factors related to customer demand as discussed under "Revenue" above, economic and competitive conditions, technological advances or new product introductions by us or our customers that vary from our current expectations. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if market conditions improve.

We believe that, when made, the estimates we use in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for our inventory is substantially less than our estimates, inventory write-downs may be required, which could have a material adverse effect on our consolidated financial statements.

Valuation of Intangible and Long-Lived Assets. We periodically assess the valuation of intangible and long-lived assets, which requires us to make assumptions and judgments regarding the carrying value of these assets. We consider assets to be impaired if the carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances: the asset's ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the asset; significant changes in our strategic business objectives and utilization of the asset; or significant negative industry or economic trends.

Our assessment includes comparing the carrying amounts of intangible and long-lived assets to their fair values, which are determined using a discounted cash flow model. This model requires estimates of our future revenues, profits, capital expenditures, working capital and other relevant factors. We estimate these amounts by evaluating our historical trends, current budgets, operating plans and other industry data. If the assets are considered to be impaired, the impairment charge recognized is the amount by which the asset's carrying value exceeds its estimated fair value.

The timing and frequency of our impairment test is based on an ongoing assessment of triggering events that could reduce the fair value of our long-lived assets below their carrying value. We monitor our intangible and long-lived asset balances and conduct formal tests on at least an annual basis or earlier when impairment indicators are present. We believe that the assumptions and estimates we used to value intangible and long-lived assets were appropriate based on the information available to management. The majority of our long-lived assets are being amortized or depreciated over relatively short periods, typically three to five years. This reduces the risk of large impairment charges in any given period. However, most of these assets are associated with technology that changes rapidly and such changes could have an immediate impact on our impairment analysis.

Warranty Costs. We accrue warranty costs based on estimates of future warranty related replacement, repairs or rework of products. Our warranty policy generally provides one to three years of coverage for products following the date of purchase. Our policy is to accrue the estimated cost of warranty coverage as a component of cost of revenue in the accompanying consolidated statements of operations at the time revenue is recognized. In estimating our future warranty obligations we consider various relevant factors, including the historical frequency and volume of claims, and the cost to replace or repair products under warranty. The warranty provision for our products is determined by using a financial model to estimate future warranty costs. Our financial model takes into consideration actual product failure rates; estimated replacement, repair or rework expenses; and potential risks associated with our different products. The risk levels, warranty cost information, and failure rates used within this model are reviewed throughout the year and updated, if and when, these inputs change.

We actively engage in product improvement programs and processes to limit our warranty costs, but our warranty obligation is affected by the complexity of our product, product failure rates and costs incurred to correct those product failures. The industry in which we operate is subject to rapid technological change, and as a result, we periodically introduce newer, more complex products. We have not experienced significant variances in the past between our estimated and actual warranty costs. Depending on the quality of our product design and manufacturing, actual product failure rates or actual warranty costs could be materially different than our estimates, which could harm our financial condition and results of operations.

Royalty Costs. We have intellectual property license agreements which generally require us to make royalty payments based on a percentage of the revenue generated by sales of products incorporating the licensed technology. We recognize royalty obligations in accordance with the terms of the respective royalty agreements. We have also accrued for estimated royalty costs in situations where we do not have agreements based upon our current best estimate of the royalty obligation. These estimates are based on various market data information and other relevant information. If we enter into such agreements, or when additional market data becomes available, we will revise our estimates if necessary.

Income Taxes. We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal, state and foreign deferred tax liabilities or assets based on our estimate of future tax effects attributable to temporary differences and carry forwards and record 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.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

For additional information regarding the adoption of FIN 48, see Note 8 of Notes to Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Foreign Exchange Forward Contracts. We use foreign exchange forward contracts to hedge the economic exposure associated with accounts receivable balances denominated in Euros. Our forward contracts do not qualify as accounting hedges. We mark-to-market the forward contracts and include unrealized gains and losses in the current period as a component of other income (expense). As of March 31, 2007, the total amount of outstanding forward contracts amounted to 12 million Euros.

Share-based Compensation. We grant stock options, restricted stock, and restricted stock units to our employees and non-employee directors under our current stock plan. The benefits provided under this plan are share-based payments subject to the provisions of SFAS No. 123(R). Effective January 1, 2006, we adopted the requirements of SFAS No. 123(R) which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. As a result of this accounting requirement, our consolidated financial statements include compensation expense as calculated per the provisions of SFAS No. 123(R). Share-based compensation was $2.5 million for the three months ended March 31, 2007, and $2.2 million for the same period in 2006.

We value our share-based payment option awards using the Black-Scholes option pricing model. The determination of fair value of share-based awards on the date of grant is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These significant assumptions include our expected stock price volatility over the term of the awards and the expected term of stock options.

We determined our expected volatility by using a combination of historical and implied volatility, or blended volatility, to derive our expected volatility assumption as allowed under SFAS No. 123(R) and SAB No. 107. Implied volatility was based on three-month traded options of our common stock. We determined that the volatility calculated using a blend of implied volatility and our historical volatility was more reflective of expected volatility than using only historical volatility. The expected term of stock options represents the weighted-average period the stock options are expected to remain outstanding. The expected term of options granted is estimated using the vesting term, contractual term and historical experience.

Other assumptions required for estimating fair value under the Black-Scholes option pricing model are the expected risk-free interest rate and expected dividend yield of our stock. Our risk-free interest rate assumption is based upon currently available rates on zero coupon U.S. Government issues for the expected term of our stock options. The expected dividend rate is not applicable to us as we have not historically declared or paid dividends nor do we currently anticipate paying cash dividends in the foreseeable future.

SFAS No. 123(R) also requires forfeitures to be estimated at the time of grant and we have estimated our forfeitures based on historical experience. We will revise this estimate, if necessary, in subsequent periods if actual forfeiture rates differ from our estimates.

If we change any of the critical assumptions that we use in the Black-Scholes option pricing model such as expected volatility or expected term or if we decide to use a different valuation model in the future, the compensation expense that we record under SFAS No. 123(R) may differ significantly in the future from what we have recorded in the current period.

Future Accounting Requirements

In February 2007, the FASB issued FASB No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("FASB 159"), which requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. FASB 159 also requires entities to display the fair value of those assets and liabilities for which they have chosen to use fair value on the face of the balance sheet. FASB 159 is effective for us beginning January 1, 2008. We do not expect FASB 159 to have a material impact on our future results of operations or financial position.

Results of Operations

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Revenue. Revenue for the three months ended March 31, 2007 increased $69.7 million, or 173.4%, to $109.9 million compared to $40.2 million for the same period in 2006. The overall increase in revenue was primarily attributable to an increase in demand for our EV-DO and HSDPA ExpressCards and Embedded Modules, and our EV-DO Fixed Mobile Convergence products that were introduced during 2006. The increase in EV-DO product sales for the three months ended March 31, 2007 compared to the same period in 2006 was approximately $58.7 million. The increase in our UMTS / HSDPA product sales for the three months ended March 31, 2007 compared to the same period in 2006 was approximately $10.7 million.

Cost of revenue. Cost of revenue for the three months ended March 31, 2007 increased $44.6 million, or 142.5%, to $75.9 million compared to $31.3 million for the same period in 2006. The increase in cost of revenue was primarily related to an increase in product cost of $39.0 million due to the increase in product sales and additional costs associated with new product introductions as discussed above. In addition, freight and distribution costs increased by approximately $1.4 million due to the additional volume of products shipped. The remaining increase in cost of revenue primarily consists of an increase of approximately $3.0 million in royalty costs for intellectual property licenses and an increase in manufacturing overhead costs of approximately $1.2 million during the three months ended March 31, 2007 compared for the same period in 2006.

Gross margin. Gross margin for the three months ended March 31, 2007 increased by $25.1 million, or 282.0% to $34.0 million compared to $8.9 million for the same period in 2006. The increase was primarily attributable to the changes in revenue and cost of revenue as discussed above. Gross margin as a percent of revenue increased to 30.9% for the three months ended March 31, 2007 compared to 22.1% for same period in 2006. The increase in gross margin as a percentage of revenue was primarily attributable to the additional revenue that exceeded our fixed cost structure, and sales of products with higher margins in 2007 as compared to 2006.

Research and development expenses. Research and development expenses for the three months ended March 31, 2007 increased $2.3 million, or 34.3% to $9.0 million compared to $6.7 million for the same period in 2006. The increase was primarily attributable to an increase in salary and related expenses of approximately $1.4 million. Other increases consist of approximately $400,000 in depreciation on capital equipment, $400,000 related to research and development overhead costs, and $100,000 in travel and related costs in 2007 as compared to the same period in 2006.

Sales and marketing expenses. Sales and marketing expenses for the three months ended March 31, 2007 increased approximately $2.7 million, or 100.0%, to $5.4 million compared to approximately $2.7 million for the same period in 2006. The increase was primarily a result of an increase in sales and marketing personnel resulting in increased salary and related expenses of approximately $1.4 million. Sales and marketing expenses also increased by approximately $1.1 million as a result of advertising and marketing programs entered with certain carriers to promote our products, and sales and marketing overhead costs increased by approximately $200,000 for the first quarter of 2007 as compared for the same period in 2006.

General and administrative expenses. General and administrative expenses for the three months ended March 31, 2007 increased approximately $700,000, or 18.9%, to $4.4 million compared to $3.7 million for the same period in 2006. The increase was attributable to an increase in salary and related expenses primarily due to increases in personnel to support the growth of the Company.

Interest income and expense. Interest income and expense increased by approximately $400,000 for the three months ended March 31, 2007 compared to the same period in 2006 primarily due to the increase in our average cash and marketable securities balances in 2007, as well as an increase in the average yields realized on our marketable securities and cash balances, which resulted in higher income yielded as compared to the same period in 2006.

Other income (expense). Other income (expense) decreased by approximately $400,000 for the three months ended March 31, 2007 compared to the same period in 2006 primarily due to the decrease in our foreign exchange gains on our Euro denominated receivable balances.

Provision (benefit) for income taxes. Provision (benefit) for income taxes of approximately $6.4 million for the three months ended March 31, 2007 consists of federal and state taxes at our estimated effective tax rate of approximately 39%. The difference between the federal and state statutory rate of 40% and our effective tax rate is due primarily to research and development credits generated in 2007 and a low effective state tax rate. This compares to an income tax benefit of $1.8 million recorded during the three months ended March 31, 2006. The income tax benefit and related deferred tax asset recorded during the first quarter of 2006 was based on the expected annualized effective tax rate. The effective tax rate for the three months ended March 31, 2006 was approximately 57%. The difference between the federal and state statutory combined rate of 40% and our effective tax rate for 2006 is primarily due to the result of the impact of accounting for share-based compensation, for which certain share-based awards are treated as permanent differences.

Net income. For the three months ended March 31, 2007, we reported net income of $10.1 million, as compared to a net loss of $1.3 million for the same period in 2006. The increase in net income is due to the growth in revenue and overall profitability of the Company as discussed above.

Liquidity and Capital Resources

As of March 31, 2007, we had working capital of $118.5 million and approximately $91.1 million in cash and cash equivalents and short-term and long-term marketable securities, which is an increase of approximately $6.9 million from $84.2 million at December 31, 2006.

Historical Cash Flows

Net cash provided by (used in) operating activities. Net cash provided by operating activities was approximately $8.3 million for the three months ended March 31, 2007 compared to net cash used in operating activities of $20.7 million for the same period in 2006. Net cash provided by operating activities in 2007 was primarily attributable to the net income of $10.1 million, a $6.0 million increase in our other accrued liabilities balance, a $4.1 million increase in our accounts payable balance, $2.5 million in share-based compensation expense, $2.2 million of non-cash depreciation and amortization expense, primarily offset by a $13.1 million increase in our accounts receivable balance, a $2.5 million increase in our inventory, and a $1.0 million increase in our prepaid and other assets balance. Net cash used in operating activities in 2006 was primarily attributable to the net loss of $1.3 million, a $10.1 million increase in our accounts receivable balance, a $15.1 million decrease in our accounts payable balance and $1.8 million in deferred tax benefit, primarily offset by a $3.1 million decrease in inventory, $1.7 million of non-cash depreciation and amortization expense, and $2.2 million in share-based compensation expense.

Net cash (used in) provided by investing activities. Net cash used in investing activities for the three months ended March 31, 2007 was approximately $7.4 million compared to net cash provided by investing activities of $1.6 million during the same period in 2006. Net cash used in investing activities in 2007 was primarily due to purchases of property and equipment of $5.5 million, and net purchases of securities of $1.9 million. Net cash provided by investing activities in 2006 was primarily due to net maturities/sales of securities of $3.0 million offset by purchases of property and equipment of $1.4 million.

Net cash provided by (used in) financing activities. Net cash provided by financing activities for the three months ended March 31, 2007 was approximately $4.1 million, compared to $1.6 million used in financing activities during the same period in 2006. Net cash provided by financing activities in 2007 was due to proceeds received from the exercise of stock options and warrants of approximately $3.1 million, and tax benefits from stock options exercised of approximately $1.0 million. Net cash used in financing activities in 2006 was due to payments under capital lease obligations of approximately $2.2 million, offset by $600,000 of proceeds received from the exercise of stock options and warrants.

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments at March 31, 2007, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Fiscal Year					
	2007	2008	2009	2010	2011	Total
Operating leases	$ 1,540	$1,751	$1,792	$1,873	$ 88	$ 7,044
Committed purchase orders	74,632	—	—	—	—	74,632
Total contractual obligations	$76,172	$1,751	$1,792	$1,873	$ 88	$81,676

As a result of our adoption of FIN 48, we increased our liability for uncertain tax benefits, including interest, as of January 1, 2007 by approximately $3.7 million. Our tax liability for uncertain tax benefits is not included in our table of contractual obligations and commercial commitments as we cannot reasonably estimate the amounts and timing of future payments with respect to this liability.

Other Liquidity Needs

During the next twelve months we plan to incur approximately $15.0 million to $18.0 million for the acquisition of additional licenses and for capital expenditures. In addition, certain of our operating leases related to consolidated facilities obligate us to pay an aggregate of approximately $307,000, net of sublease income, over the next 6 months. This obligation is included in the operating lease commitments in the above table.

We believe that our available cash and investments together with our operating cash flows and available borrowings under our line of credit facility, will be sufficient to fund operations, including the continued expansion of our sales and marketing team, the further development of our new products and the related increase in our general and administrative expenses, and to satisfy our working capital requirements and anticipated capital expenditures for the next twelve months. We expect that a significant source of funds in the future will be our operating cash flow. Our future revenue is 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 additional revenue from new or existing products.

Risks Related to Our Business

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Report and in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2006 and subsequent reports on Forms 8-K. The risk and uncertainties described below are those that we currently deem to be material, and do not represent all of the risks that we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may in the future become material and impair our business operations. If any of the following risks actually occur, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. As a result, the trading price of our securities could decline, and you might lose all or part of your investment. You should also refer to the other information contained in this Form 10-Q, including our financial statements and the related notes.

The market for wireless broadband data access products is highly competitive, and we may be unable to compete effectively.

The market for wireless broadband data access products is highly competitive, and we expect competition to continue to increase and intensify. Many of our competitors or potential competitors have significantly greater financial, technical, operational and marketing resources than we do. These competitors, for example, may be able to respond more rapidly or more effectively than we can to new or emerging technologies, changes in customer requirements, supplier related developments, or a shift in the business landscape. They also may devote greater resources than we do to the development, promotion, sale, and post- sale support of their respective products.

Many of our current or potential competitors have more extensive customer bases and broader customer, supplier and other industry relationships that they can leverage to establish competitive dealings with many of our current and potential customers. Some of these companies also have more established and larger customer support organizations than we do. In addition, these companies may adopt more aggressive pricing policies or offer more attractive terms to customers than they currently do or than we are able to, may bundle their competitive products with broader product offerings and may introduce new products and enhancements. Current and potential competitors might merge or otherwise establish cooperative relationships among themselves or with third parties to enhance their products or market position. As a result, it is possible that new competitors or new relationships among existing competitors may emerge and rapidly acquire significant market share to the detriment of our business.

Our wireless communications products currently compete with a variety of devices, including other wireless modems, wireless handsets, wireless handheld computing devices and other wireless devices. Our current and potential competitors include:

- wireless data modem providers, such as Huawei, Option, Sierra Wireless, Kyocera, and Sony-Ericsson; and
- wireless handset providers, such as Motorola, Nokia, Siemens and Sony-Ericsson.

We expect our competitors to continue to improve the features and performance of their current products and to introduce new products, services and technologies. Successful new product introductions or enhancements by our competitors could reduce our sales and the market acceptance of our products, cause intense price competition and make our products obsolete. To be competitive, we must continue to invest significant resources in, among other things, research and development, sales and marketing, and customer support. We cannot be sure that we will have sufficient resources to make these investments or that we will be able to make the technological advances necessary for our products to remain competitive. Increased competition could result in price reductions, fewer or smaller customer orders, reduced margins and loss of our market share. Our failure to compete successfully could seriously harm our business, financial condition and results of operations.

Our failure to predict and comply with evolving wireless industry standards, including 3G standards, could hurt our ability to introduce and sell new products.

In our industry, it is critical to our success that we accurately anticipate evolving wireless technology standards and that our products comply with such standards in relevant respects. We are currently focused on engineering and manufacturing products that comply with several different 3G wireless standards. Any failure of our products to comply with any one of these or future applicable standards could prevent or delay their introduction and require costly and time-consuming engineering changes. Additionally, if an insufficient number of wireless operators or subscribers adopt the standards to which we engineer our products, then sales of our new products designed to those standards could be materially harmed.

If we fail to develop and introduce new products successfully, we may lose key customers or product orders and our business could be harmed.

The development of new wireless data products requires technological innovation and can be difficult, lengthy and costly. In addition, wireless operators require that wireless data systems deployed on their networks comply with their own technical and product performance standards, which may differ from the standards our products are required to meet for other operators. This increases the complexity of the product development process. In addition, as we introduce new versions of our existing products or new products altogether, our current customers may not require or desire the technological innovations of these products and may not purchase them or might purchase them in smaller quantities than we had expected.

Further, as part of our strategy, we enter into contracts with some customers pursuant to which we develop products for later sale to the customer. Our ability to generate future revenue and operating income under any such contracts depends upon, among other factors, our ability to timely develop products that are suitable for manufacturing and in a cost effective manner and that meet defined product design, technical and performance specifications. Our ability to maximize the benefits of these contracts depends in part on the following:

- We have priced the products to be sold under these contracts based on our estimated development, production and post-production warranty costs. If these or other related development and production costs are actually higher than our estimated costs, our gross margins and operating margins on the corresponding contracts will be less than anticipated.
- If we are unable to commit the necessary engineering, program management and other resources or are otherwise unable to successfully develop products as required by the terms of these contracts, our customers may cancel the related contracts, we may not be entitled to recover any costs that we incurred for research and development, sales and marketing, production and otherwise, and we may be subject to additional costs such as contractual penalties.
- If we fail to deliver in a timely manner a product that is suitable for manufacture or if a customer determines that a prototype product we delivered does not meet the agreed-upon specifications, we may be unable to commercially launch the product, we may have to reduce the price we charge for such product if it launches, or we may be required to pay damages to the customer.

If we are unable to successfully manage these risks or meet required delivery specifications or deadlines in connection with one or more of our key contracts, we may lose key customers or orders and our business could be harmed.

If we fail to develop and maintain strategic relationships, we may not be able to penetrate new markets.

A key element of our business strategy is to penetrate new markets by developing new products through strategic relationships with industry leaders in wireless communications. We are currently investing, and plan to continue to invest, significant resources to develop these relationships. We believe that our success in penetrating new markets for our products will depend, in part, on our ability to develop and maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance, however, that we will be able to develop additional strategic relationships, that existing relationships will survive and successfully achieve their purposes or that the companies with whom we have strategic relationships will not form competing arrangements with others or determine to compete unilaterally with us.

Since we have historically depended, and continue to depend, upon only a small number of our customers for a substantial portion of our revenues, our business could be negatively affected by an adverse change in our dealings with only a few customers.

A significant portion of our revenue comes from a small number of customers. Two customers accounted for 35% and 34% of revenues for the three months ended March 31, 2007. Two customers accounted for 46%, and 13% of revenues for the three months ended March 31, 2006. Similarly, our revenue could be adversely affected if we are unable to retain the level of business of any of our significant customers or if we are unable to diversify our customer base. We expect that a small number of customers will combine to account for a substantial amount of our revenue for the foreseeable future.

In addition, a majority of our current customers purchase our products pursuant to contracts that do not require them to purchase any specific minimum quantity of units. Such customers have no contractual obligation to continue to purchase our products and if they do not continue to make purchases consistent with their historical purchase levels, our revenue and our share price may decline.

The sale of our products depends on the demand for broadband wireless access to enterprise networks and the Internet.

The markets for broadband wireless access solutions are relatively new and rapidly evolving, both technologically and competitively, and the successful sale of related products and services depends in part on the strength of the demand for wireless access to both enterprise networks and the Internet. At times in the past, market demand for both wireless products and wireless access services for the transmission of data developed at a slower rate than we had anticipated and as a result our product sales did not generate sufficient revenue to cover our corresponding operating costs. The failure of these markets to continue to grow at the rate that we currently anticipate may adversely impact the growth in the demand for our products and our concomitant rate of growth, and as a result, our business, financial condition and results of operations may be harmed.

The marketability of our products may suffer if wireless telecommunications operators do not deliver acceptable wireless services.

The success of our business depends, in part, on the capacity, affordability, reliability and prevalence of wireless data networks provided by wireless telecommunications operators and on which our products operate. Currently, various wireless telecommunications operators, either individually or jointly with us, sell our products in connection with the sale of their wireless data services to their customers. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services which customers consider valuable, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services or fail to market their services effectively. In addition, our future growth depends on the successful deployment of next generation wireless data networks provided by third parties, including those networks for which we are currently developing products. If these next generation networks are not deployed or widely accepted, or if deployment is delayed, there will be no market for the products we are developing to operate on these networks. If any of these events occur, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline and our business could be harmed.

If we do not properly manage the growth of our business, we may experience significant strains on our management and operations and disruptions in our business.

Various risks arise when companies and industries grow quickly. If our business or industry grows too quickly, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development or production delays as we seek to meet increased demand for our products. Our failure to properly manage the growth that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations, and our reputation with our current or potential customers.

We currently rely on third parties to manufacture our products, which exposes us to a number of risks and uncertainties outside our control.

We currently outsource our manufacturing to LG Innotek and IAC. If one of these third-party manufacturers were to experience delays, disruptions, capacity constraints or quality control problems in its manufacturing operations, product shipments to our customers could be delayed or our customers could consequently elect to cancel the underlying product purchase order, which would negatively impact our revenues and our competitive position and reputation. Further, if we are unable to manage successfully our relationship with a manufacturer, the quality and availability of our products may be harmed. None of our third-party manufacturers is obligated to supply us with a specific quantity of products, except as may be provided in a particular purchase order which we may submit to them from time to time. Therefore, such a third-party manufacturer could at any time and at its sole election decline to accept new purchase orders from us or otherwise reduce its respective business with us. If such a manufacturer stopped manufacturing our products for any reason or reduced manufacturing capacity, we may be unable to replace the lost manufacturing capacity on a timely basis, which would adversely impact our operations. In addition, if a third-party manufacturer were to negatively change the payment and other terms under which it agrees to manufacture for us and we are unable to locate a suitable alternative manufacturer, our manufacturing costs could significantly increase.

Because we outsource the manufacture of all of our products, the cost, quality and availability of third-party manufacturing operations are essential to the successful production and sale of our products. Our reliance on third-party manufacturers exposes us to a number of risks which are outside our control, including:

- unexpected increases in manufacturing costs;
- interruptions in shipments if a third-party manufacturer is unable to complete production in a timely manner;
- inability to control quality of finished products;
- inability to control delivery schedules;
- inability to control production levels and to meet minimum volume commitments to our customers;
- inability to control manufacturing yield;
- inability to maintain adequate manufacturing capacity; and
- inability to secure adequate volumes of acceptable components, at suitable prices or in a timely manner.

Although we promote ethical business practices and our operations personnel periodically visit and monitor the operations of our manufacturers, we do not control the manufacturers or their labor practices. If our current manufacturers, or any other third-party manufacturer which we use in the future, violate United States or foreign laws or regulations, we may be subjected to extra duties, significant monetary penalties, adverse publicity, the seizure and forfeiture of products that we are attempting to import or the loss of our import privileges. The effects of these factors could render the conduct of our business in a particular country undesirable or impractical and have a negative impact on our operating results.

We might forecast customer demand incorrectly and order the manufacture of excess or insufficient quantities of particular products.

We have historically placed purchase orders with our manufacturer at least three months prior to the scheduled delivery of the finished goods to our customer. In some instances, due to the length of component lead times, we might need to place manufacturing orders on the basis of our receipt of a good-faith but non-binding customer forecast of the quantity and timing of the customer's expected purchases from us. Accordingly, if we inaccurately anticipate customer demand for our products, we might be unable to obtain adequate quantities of components to meet our customers' delivery requirements or, alternatively, we might accumulate excess inventory. Our operating results and financial condition have been in the past and may in the future be materially adversely affected by our ability to manage our inventory levels and respond to short-term or unexpected shifts in customer demand as to quantities or the customer's product delivery schedule.

We depend on sole source suppliers for some components used in our products, and therefore the availability and sale of those finished products would be harmed if any of these suppliers is not able to meet our demand and in accordance with our production schedule and alternative suitable components are not available.

Our products contain a variety of components, many of which are procured from single suppliers. These components include both tooled parts and industry-standard parts, many of which are also used in cellular telephone handsets. From time to time, certain components used in our products have been in short supply worldwide or their anticipated commercial introduction has been delayed. If there is a shortage of any such components, and we cannot obtain a suitable substitute or make sufficient and timely design or other product modifications to permit the use of such a substitute, we may not be able to timely deliver sufficient quantities of our products to satisfy demand. Moreover, if we locate a substitute and its price is prohibitive, our ability to maintain cost-effective production of our products would be seriously harmed.

Others might claim that our products infringe on their respective intellectual property rights, which may result in substantial costs, diversion of resources and management attention, harm to our reputation or interference with our current or prospective customer relations.

It is possible that other parties may claim that we have violated their respective intellectual property rights. An infringement claim, regardless of the merits or success of the claim, could result in substantial costs, diversion of resources and management attention and harm to our reputation. Infringement claims can be difficult and costly to verify and assess. A successful infringement claim against us could cause us to be liable for damages and litigation costs. In addition, a successful infringement claim could have other negative consequences, including prohibiting us from further use of the intellectual property or causing us to have to license the intellectual property, thereby incurring licensing fees, some of which could be retroactive. Upon the occurrence of a successful infringement claim, we may also have to develop a non-infringing alternative, which if available could be costly, and delay or prevent sales of our products.

We may not be able to license necessary third-party technology or it may be expensive to do so.

We license technology from third parties for the development of our products. We have licensed from third parties, such as QUALCOMM, software and other intellectual property for use in our products and from time to time we may elect or be required to license additional intellectual property. The license from QUALCOMM, for example, does not have a specified term and may be terminated by us or by QUALCOMM for cause or upon the occurrence of other specified events. There can be no assurance that we will be able to maintain our third-party licenses or that additional third-party licenses will be available to us on commercially reasonable terms, if at all. The inability to maintain or obtain third-party licenses required for our products or to develop new products and product enhancements could require us to seek to obtain substitute technology of lower quality or performance standards, if such exists, or at greater cost which could seriously harm our competitive position, revenue and growth prospects.

We are subject to the risks of doing business abroad, which could negatively affect our international sales activities and our ability to obtain products from our foreign manufacturers.

In addition to our manufacturing activities in Asia, a significant portion of our sales activity takes place in Europe. In addition, a significant portion of our research and development staff is located in Canada. Our international sales accounted for approximately 21% of our revenue for the three months ended March 31, 2007 and 34% for the three months ended March 31, 2006. Although our experience in marketing, selling, distributing and manufacturing our products and services internationally is limited, we expect to further expand our international sales and marketing activities in the future. Consequently, we are subject to certain risks associated with doing business abroad, including:

- difficulty in managing widespread sales, research and development operations and post sales logistics and support;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets, and changes in diplomatic and trade relationships;
- less effective protection of intellectual property and general exposure to different legal standards;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- increased expenses associated with customizing products for different countries;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- longer collection cycles and difficulties in collecting accounts receivable;
- longer sales cycles;
- international terrorism;
- loss or damage to products in transit; and
- international dock strikes or other transportation delays.

Any disruption in our ability to obtain products from our foreign manufacturers or in our ability to conduct international operations and sales could have a material adverse effect on our business, financial condition and results of operations.

To the extent we enter into contracts that are denominated in foreign currencies and do not adequately hedge that exposure, fluctuations in exchange rates between the United States dollar and foreign currencies may affect our operating results.

A significant amount of our revenues are generated from sales agreements denominated in foreign currencies, particularly the Euro, and we expect to enter into additional such agreements as we expand our international customer base. As a result, we transact some of our business in foreign currencies, which exposes us to changes in foreign currency exchange rates and we currently expect the absolute value of this exposure may increase in the future. We attempt to manage this risk, in part, by minimizing the effects of volatility on cash flows by identifying forecasted transactions exposed to these risks and using foreign exchange forward contracts. There can be no assurance that we will not incur foreign currency losses or that foreign exchange forward contracts we may enter into to reduce the risk of such losses will be successful.

Our products may contain errors or defects, which could prevent or decrease their market acceptance and lead to unanticipated costs or other adverse business consequences.

Our products are technologically complex and must meet stringent user requirements. We must develop our software and hardware products quickly to keep pace with the rapidly changing and technologically advanced wireless communications market. Products as sophisticated as ours may contain undetected errors or defects, especially when first introduced or when new models or versions are released. Our products may not be free from errors or defects after commercial shipments have begun, which could result in the rejection of our products, the loss of a customer or the failure to obtain one, damage to our reputation, lost revenue, diverted development resources, increased customer service and support costs, unanticipated warranty claims, and the payment of monetary damages to our customers.

Our quarterly operating results may vary significantly from quarter to quarter and may cause our stock price to fluctuate.

Our future quarterly operating results may fluctuate significantly and may fall short of or exceed the expectations of securities analysts, investors or management. If this occurs, the market price of our stock could fluctuate, in some cases materially. The following factors may cause fluctuations in our operating results:

- *Decreases in revenue or increases in operating expenses*. We budget our operating expenses based on anticipated sales, and a significant portion of our sales and marketing, research and development and general and administrative costs are fixed, at least in the short term. If revenue decreases or does not grow as planned and we are unable to reduce our operating costs quickly and sufficiently, our operating results could be materially adversely affected.
- *Product mix.* The product mix of our sales affects profit margins in any given quarter. As our business evolves and the revenue from the product mix of our sales varies from quarter to quarter, our operating results will likely fluctuate.
- *New product introductions.* As we introduce new products, the timing of these introductions within any given quarter will affect our quarterly operating results. We may have difficulty predicting the timing of new product introductions and the market acceptance of these new products. If products and services are introduced earlier or later than anticipated, or if market acceptance is unexpectedly high or low, our quarterly operating results may fluctuate unexpectedly.
- *Lengthy sales cycle.* The length of time between the date of initial contact with a potential customer and the execution of and product delivery under a contract may take several months, or longer, and is subject to delays or permanent interruptions over which we have little or no control. The sale of our products is subject to delays from, among other things, our customers' budgeting, product testing and vendor approval mechanics, and competitive evaluation processes that typically accompany significant information technology purchasing decisions. As a result, our ability to anticipate the timing and volume of sales to specific customers is limited, and the delay or failure to complete one or more large transactions could cause our operating results to vary significantly from quarter to quarter.
- *Foreign currency*. We are exposed to market risk from changes in foreign currency exchange rates. As a significant amount of our revenues are generated in the Euro currency, we use foreign exchange forward contracts to minimize exposure to the risk of loss on changes in foreign currency exchange rates upon the eventual net cash inflows from foreign currency denominated sales with our customers. Since there is a high correlation between the hedging instruments and the underlying exposures, the gains and losses on these underlying exposures are generally offset by reciprocal changes in the value of the hedging instruments. We use derivative financial instruments as risk management tools and not for trading or speculative purposes. Fluctuations in the Euro currency may have a material impact on our future operating results and gross margins.

Due to these and other factors, our results of operations may fluctuate substantially in the future and quarter-to-quarter comparisons may not be reliable indicators of future operating or share price performance.

We may not be able to maintain and expand our business if we are not able to hire, retain and manage additional qualified personnel.

Our success in the future depends in part on the continued contribution of our executive, technical, engineering, sales, marketing, operations and administrative personnel. Recruiting and retaining skilled personnel in the wireless communications industry, including software and hardware engineers, is highly competitive.

Although we may enter into employment agreements with members of our senior management in the future, currently none of our senior management or other key personnel is bound by an employment agreement. If we are not able to attract or retain qualified personnel in the future, or if we experience delays in hiring required personnel, particularly qualified engineers, we will not be able to maintain and expand our business.

Any acquisitions we make could disrupt our business and harm our financial condition and results of operations.

As part of our business strategy, we review and intend to continue to review, on an ongoing basis, acquisition opportunities that we believe would be advantageous or complementary to the development of our business. While we have no current agreements or plans with respect to any acquisitions, we may acquire businesses, assets, or technologies in the future. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations or share price:

- issue equity or equity-based securities that would dilute existing stockholders' percentage ownership;
- use a substantial portion of our available cash;
- incur substantial debt, which may not be available to us on favorable terms and may adversely affect our liquidity;
- assume contingent liabilities; and
- take substantial charges in connection with acquired assets.

Acquisitions also entail numerous other risks, including: difficulties in assimilating acquired operations, products, technologies and personnel; unanticipated costs; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which we have limited or no prior experience; and potential loss of key employees from either our preexisting business or the acquired organization. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, and our failure to do so could harm our business and operating results.

Any changes to existing accounting pronouncements or taxation rules or practices may cause adverse fluctuations in our reported results of operations or affect how we conduct our business.

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. Other new accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practices have occurred and may occur in the future. The change to existing rules, future changes, if any, or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

We may not be able to develop products that comply with applicable government regulations.

Our products must comply with government regulations. For example, in the United States, the Federal Communications Commission, or FCC, regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to telephone networks. In addition to the federal government, some states have adopted regulations applicable to our products. Radio frequency devices, which include our modems, must be approved under the above regulations by obtaining equipment authorization from the FCC prior to being offered for sale. Regulatory requirements in Canada, Europe, Asia and other jurisdictions must also be met. Additionally, we cannot anticipate the effect that changes in domestic or foreign government regulations may have on our ability to develop and sell products in the future. Failure to comply with existing or evolving government regulations or to obtain timely regulatory approvals or certificates for our products could materially adversely affect our business, financial condition and results of operations or cash flows.

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

Interest Rate Risk

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits our credit exposure to any single issuer. The fair value of our cash equivalents and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. At March 31, 2007, we had $91.1 million in cash, cash equivalents and marketable securities, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of $39.6 million of our cash and cash equivalents at March 31, 2007, as these consisted of securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, the remaining $51.5 million of our investments by approximately $500,000. While changes in interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our consolidated statements of operations until the investment is sold or if the reduction in fair value was determined to be other than temporary.

Foreign Currency Exchange Rate Risk

During the three months ended March 31, 2007, approximately $16.0 million of our sales transactions were denominated in Euros. In order to hedge against the short-term impact of foreign currency fluctuations on our accounts receivable balances we have entered into forward foreign exchange contracts. The effect of exchange rate changes on forward foreign exchange contracts is expected to offset the effect of exchange rate changes on the underlying hedged items. We believe these financial instruments do not subject us to speculative risk that would otherwise result from changes in currency exchange rates. If foreign currency rates were to fluctuate by 10% from rates at March 31, 2007, our financial position, results of operations and cash flows would not be materially affected. We do not use foreign currency forward exchange contracts for speculative or trading purposes.

All of our outstanding foreign currency contracts are marked-to-market, with unrealized gains and losses included as a component of other income and expense. As of March 31, 2007 the total amount of outstanding forward contracts amounted to 12 million Euros. During the three months ended March 31, 2007 we recorded an unrealized gain of approximately $150,000 on our forward contracts. In addition, we recorded approximately $50,000 of foreign currency gains related to our foreign currency receivable balances denominated in Euros recorded in other income and expense during the three months ended March 31, 2007.

Revenues generated outside the United States, as a percentage of total revenues were approximately 21% for the first quarter March 31, 2007 and 34% for the same period in 2006. Significant fluctuations in foreign exchange rates could impact future operating results.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures: We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, including internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. For example, a company's operations may change over time, such as the result of new or discontinued lines of business and management must periodically modify a company's internal controls and procedures to timely match these changes in its business. And, in the end, all controls and procedures are necessarily subject to the judgment of management in evaluating the design and cost benefit relationship of possible controls and procedures, and the judgment of company personnel in their application.

As of March 31, 2007, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2007.

Changes in Internal Control Over Financial Reporting. An evaluation was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal controls over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. That evaluation did not identify any change in our internal controls over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable

Item 1A. Risk Factors.

See Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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.*

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 27, 2001).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 14, 2002).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.4	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 27, 2001).
3.5	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.6	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
4.1	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
4.2	Amended and Restated Investors' Rights Agreement, dated as of June 30, 2000, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
4.3	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
4.4	Form of Preferred Stock and Warrant Purchase Agreement entered into in connection with the Company's 2001 Series A Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed January 18, 2002.
4.5	Registration Rights Agreement dated as of September 12, 2002 by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed October 21, 2002).
4.6	Form of Securities Purchase Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.7	Registration Rights Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.8	Securities Purchase Agreement entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).

Exhibit Number	Description
4.9	Registration Rights Agreement entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.10	Form of Common Stock Purchase Warrant issued in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
10.1	Amended and Restated 1997 Employee Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
10.2	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan (incorporated by reference to the Company's annual repot on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.3	Form of Executive Officer Stock Option Agreement under the Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan (incorporated by reference to the Company's annual repot on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.4	Form of Director Stock Option Agreement under the Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan (incorporated by reference to the Company's annual repot on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.5	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to the Company's annual repot on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.6	Form of Indemnification Agreement by and between the Company and each of its executive officers and directors (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
10.7	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.8	Form of 2007 Executive Officer Bonus Plan.
10.9	Credit Agreement, dated December 29, 2005, by and between Bank of America, N.A. and the Company (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
31.1	Certification of our Chief Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Chief Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 10, 2007

Novatel Wireless, Inc.

By: /s/ DAN L. HALVORSON

Dan L. Halvorson
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 10.8

NOVATEL WIRELESS, INC.

SENIOR MANAGEMENT BONUS TARGETS

Fiscal Year 2007

I. INTRODUCTION

A. **The Objective of the Bonus Targets** is to provide eligible senior management of Novatel Wireless, Inc. and its subsidiaries (the "Company") with the target metrics in connection with their respective bonus opportunity related to their contributions to the success and strategic growth of the Company. Participation in the Plan and the payment of any sums hereunder shall be at the sole and absolute discretion of the Company.

B. **Participants:** This Plan, as determined by the Company on a fully discretionary basis, applies solely to regular employees of the Company who are senior executive officers ("Plan Participants"), whom the Company determines meet the eligibility requirements set forth in Section III. For purposes of this Plan and unless otherwise prohibited by applicable law, the term "regular employee" means an individual who is deemed by the Company to be both an employee of the Company and employed for an unspecified or indefinite period of time.

C. **Effective Date:** Fiscal Year 2007 (January 1, 2007 – December 31, 2007).

D. **Changes in Targets:** The Company reserves the right to modify the targets in whole or in part, at any time. Any such modification or termination must be approved in writing by either (i) the CEO, except with respect to his own targets or bonus payments, or (ii) resolution of the Compensation Committee.

E. **Authority:** The Company reserves the right to interpret this document on a fully discretionary basis. Nothing in this Plan is intended to create an entitlement to any employee for any incentive payment hereunder except as the Company may determine in its discretion.

II. BONUS TARGET FACTOR

A. **Bonus Target Factor** will be determined by reference to Corporate Targets and Individual Targets. Corporate Targets will be determined by assigning a weight of between 0 and 0.60 based on achievement of Corporate Targets. Individual Targets will be determined by assigning a weight of between 0 and 0.40 based on achievement of Individual Targets. The Bonus Target Factor will be the sum of the Corporate Target Factor and the Individual Target Factor.

B. **Corporate Targets** are based on an evaluation of a Plan Participant's performance and contribution for the Fiscal Year of the following criteria.

The Company's financial performance, including achievement of the Company's 2007 Operating Plan, achievement of sequential growth, operating leverage, positive operating income and EPS

Achievement of and contribution to the Company's success, strategic objectives and direction

Achievement of the Company's 2007 execution plan and 2007 strategic plan

Ability to work as a team player and collaborate with others across the Company, suppliers, partners and/or customers.

Interaction with other teams (e.g., to achieve other team goals)

C. **INDIVIDUAL TARGETS** are based on an evaluation of a Plan Participant's performance and contribution for the Fiscal Year of the respective criteria for his respective group as set forth in Annex A hereto.

III. ELIGIBILITY

A. **Eligibility:** A Plan Participant must satisfy each of the following eligibility requirements to be considered for the Incentive Payment hereunder.

1. The Plan Participant must be deemed by the Company to be employed by the Company as a regular employee in an incentive-eligible position on or before the first working day of the last fiscal quarter of the Fiscal Year, and must be employed as a regular employee in an incentive-eligible position on the last working day of the Fiscal Year;
2. The Plan Participant must not be providing services to the Company as a temporary employee, intern or as an independent contractor, consultant, or agent under a written or oral contract, and must not be classified by the Company as a temporary employee, independent contractor, consultant, or agent (whether or not such classification is upheld upon review by a governmental, judicial or other agency);
3. Unless otherwise required by law, in no event will an employee be eligible to receive an incentive hereunder unless he/she is employed on the last working day of the Fiscal Year in the capacity, or comparable capacity, such Plan Participant is employed on the date hereof.
4. Plan Participants meeting all eligibility requirements hereunder who have less than one year of service will be eligible to receive a discretionary incentive that is prorated from the effective date of participation in the plan up to and including the last working day of the Fiscal Year. Unless otherwise required by law, in no event will an employee be eligible to receive an incentive hereunder unless he/she is employed on the last working day of the Fiscal Year in the capacity, or comparable capacity, such Plan Participant is employed on the date hereof.

IV. PARTICIPANTS AND INCENTIVE TARGET PERCENTAGE

A. **Participants and Incentive Target Percentage.** The sole Plan Participants in the Plan are those set forth below. The Incentive Target Percentage for each such Participant is a percentage of each Participant's base salary as follows and may be changed at the discretion of the Company at any time during the Fiscal Year.

Participant	Incentive Target Percentage
CEO	50%
COO	50%
CFO	50%
VP Business Affairs	50%
VP Research and Development	50%
VP Sales and Marketing	50%
VP Operations	50%

B. **Elements of Calculation:**

Incentives under this Plan are calculated on a fully discretionary basis, in accordance with the following formula:

Base Salary	X	Incentive Target Percentage	X	Bonus Target Factor	X	Pro-ration Factor	=	Total Annual Incentive

1. **Base Salary** shall mean the annual base salary for each Plan Participant set forth above in effect at the end of Q4 2007.
2. **Proration Factor** accounts for the number of calendar days during the Fiscal Year that such Plan Participant was in an incentive-eligible position. For example, the Proration Factor for a Plan Participant who has been in the Plan the entire year will be 1.00. For a Plan Participant who has been in the Plan for 6 months, this factor will be 0.50.

C. **Incentive Formula and Calculation Example:** Assuming a base salary of $250,000, Incentive Target Percentage of 50%, Corporate Target Factor of 0.50 and Individual Target Factor of 0.40, and a Proration Factor of 1.00, the Total Annual Incentive for such a Plan Participant meeting all eligibility requirements, would be calculated as follows:

Sample Calculation

Base Salary		Incentive Target Percentage		Bonus Target Factor		Pro-ration Factor		Total Annual Incentive
$250,000	**X**	**0.50**	**X**	**0.90**	**X**	**1.0**	**=**	**$112,500***

* less any appropriate withholdings.

In this example, the total incentive equals 45% of base salary.

D. At Will Employment. The Company is an at-will employer, which means that an employee’s employment can be terminated by an employee or the Company at any time with or without cause. The Company reserves the right to modify an employee’s duties, title or other terms and conditions of employment with or without cause. This Plan cannot and should not be interpreted to alter the at-will nature of the employment relationship between the Company and any Plan Participant. The at-will nature of the employment relationship cannot be modified except in a written document signed by the Company’s CEO.

Section 302 Certifications

CERTIFICATIONS

Each of the undersigned, in his capacity as the Chief Executive Officer and Chief Financial Officer of Novatel Wireless Inc., as the case may be, provides the following certifications required by 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002, and 17 C.F.R. § 240.13a-14.

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

I, Brad Weinert, 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 first fiscal quarter in the case of this 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/ BRAD WEINERT

Brad Weinert
Acting Chief Executive Officer and Chief Operating Officer
(Principal Executive Officer)

Dated: May 10, 2007

Exhibit 31.2

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

I, Dan L. Halvorson, 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 first fiscal quarter in the case of this 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/ DAN L. HALVORSON

Dan L. Halvorson
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Dated: May 10, 2007

Exhibit 32.1

CERTIFICATIONS

Each of the undersigned, in his capacity as the Acting Chief Executive Officer and Chief Operating Officer, and Chief Financial Officer and Treasurer of Novatel Wireless, Inc., as the case may be, provides the following certifications required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

1. This Report on Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 10th day of May, 2007.

/s/ Brad Weinert

Brad Weinert
Acting Chief Executive Officer and Chief Operating Officer
(Principal Executive Officer)

/s/ Dan L. Halvorson

Dan L. Halvorson
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)