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 June 30, 2004

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: 0-31659

NOVATEL WIRELESS, INC.
(exact name of registrant as specified in its charter)

Delaware	**86-0824673**
(State or other jurisdiction or incorporation or organization)	**(I.R.S. Employer Identification No.)**
9255 Towne Centre Drive, Suite 225, San Diego, CA	**92121**
(Address of principal executive offices)	**(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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒.

The number of shares of the Registrant’s common stock outstanding as of July 31, 2004 was 27,959,677.

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: increasing 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 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; 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 “anticipate,” “believe,” “expect,” “intend,” “plan,” “project,” “will” and similar words and phrases are also intended to identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, as more fully described elsewhere in this report. For a detailed discussion of these risks and uncertainties, see the “Business — Risks Related to Our Business” section 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

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

PART I – FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NOVATEL WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,162,000	$ 3,942,000
Marketable securities	41,074,000	—
Restricted cash	175,000	635,000
Accounts receivable, net of allowance for doubtful accounts of $152,000 and $311,000 in 2004 and 2003, respectively	13,943,000	8,986,000
Accounts receivable — related parties (Note 10)	—	399,000
Inventories	4,708,000	2,349,000
Prepaid expenses and other	1,127,000	1,378,000
Total current assets	92,189,000	17,689,000
Property and equipment, net	2,827,000	1,915,000
Marketable securities	6,050,000	—
Intangible assets, net	5,185,000	4,629,000
Other assets	42,000	188,000
	$ 106,293,000	$ 24,421,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,333,000	$ 6,730,000
Accrued expenses	4,951,000	1,179,000
Restructuring accrual	988,000	1,222,000
Deferred revenues	3,846,000	6,218,000
Capital lease obligations	720,000	82,000
Total current liabilities	20,838,000	15,431,000
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $.001, 2,000,000 shares authorized:		
Convertible Series A preferred stock amended in 2003, 0 and 1,025 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively (Note 6)	—	—
Convertible Series B preferred stock, 0 and 4,703 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively (Note 6)	—	—
Common stock, par value $.001, 50,000,000 shares authorized, 27,910,494 and 12,737,640 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	28,000	13,000
Additional paid-in capital	329,013,000	256,253,000
Accumulated other comprehensive income	(18,000)	—
Deferred stock compensation	(14,000)	(142,000)
Accumulated deficit	(243,554,000)	(247,134,000)
Total stockholders' equity	85,455,000	8,990,000
	$ 106,293,000	$ 24,421,000

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		As restated (see Note 2)		As restated (see Note 2)
Revenue	$ 24,116,000	$ 7,659,000	$ 39,260,000	$ 15,148,000
Cost of revenue	16,401,000	7,972,000	27,199,000	14,238,000
Gross margin	7,715,000	(313,000)	12,061,000	910,000
Operating costs and expenses:				
Research and development	2,373,000	1,446,000	4,333,000	3,181,000
Sales and marketing	969,000	612,000	1,797,000	1,289,000
General and administrative	1,274,000	1,040,000	2,199,000	2,019,000
Restructuring charges	—	(175,000)	—	238,000
Amortization of deferred stock compensation (*)	60,000	130,000	127,000	581,000
Total operating costs and expenses	4,676,000	3,053,000	8,456,000	7,308,000
Operating income (loss)	3,039,000	(3,366,000)	3,605,000	(6,398,000)
Other income (expense):				
Interest income	143,000	—	158,000	1,000
Interest expense	—	(1,654,000)	(1,000)	(1,724,000)
Other income (expense), net	20,000	—	(37,000)	85,000
Net income (loss)	$ 3,202,000	$ (5,020,000)	$ 3,725,000	$ (8,036,000)
Accretion of dividends and beneficial conversion features pertaining to preferred stock	(34,000)	(4,652,000)	(145,000)	(4,845,000)
Net income (loss) applicable to common stockholders	$ 3,168,000	$ (9,672,000)	$ 3,580,000	$ (12,881,000)
Per share data:				
Net income (loss) per common share:				
Basic	$ 0.13	$ (1.35)	$ 0.18	$ (1.82)
Diluted	$ 0.11	$ (1.35)	$ 0.14	$ (1.82)
Weighted average shares used in computation of basic and diluted net income (loss) per common share:				
Basic	23,675,852	7,144,176	19,475,837	7,065,211
Diluted	28,613,854	7,144,176	26,896,205	7,065,211
(*) Amortization of deferred stock compensation:				
Cost of revenue	$ 8,000	$ 13,000	$ 16,000	$ 32,000
Research and development	20,000	35,000	40,000	86,000
Sales and marketing	21,000	34,000	42,000	84,000
General and administrative	11,000	48,000	29,000	379,000
	$ 60,000	$ 130,000	$ 127,000	$ 581,000

See accompanying notes to unaudited consolidated financial statements.

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2004	2003
		As restated (see Note 2)
Cash flows from operating activities:		
Net income (loss)	$ 3,725,000	$ (8,036,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,672,000	1,982,000
Inventory write down	—	1,853,000
Accretion of interest expense on convertible notes	—	1,539,000
Compensation for stock options issued below fair value	127,000	581,000
Provision for bad debt	—	92,000
Compensation for warrants issued in connection with convertible debt	—	79,000
Gain on sale of property and equipment	(3,000)	(85,000)
Changes in assets and liabilities:		
Restricted cash	460,000	(10,000)
Accounts receivable	(4,558,000)	1,616,000
Inventories	(2,359,000)	740,000
Prepaid expenses and other	397,000	554,000
Accounts payable	3,603,000	57,000
Accrued expenses	3,772,000	(116,000)
Inventory purchase commitments	—	(432,000)
Restructuring accrual	(234,000)	(476,000)
Deferred revenues	(2,372,000)	(727,000)
Net cash provided by (used in) operating activities	4,230,000	(789,000)
Cash flows from investing activities:		
Purchases of property and equipment	(847,000)	(25,000)
Proceeds from sale of property and equipment	44,000	105,000
Purchases of marketable securities	(47,142,000)	—
Purchase of intangible assets	(1,525,000)	—
Net cash provided by (used in) investing activities	(49,470,000)	80,000
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	4,158,000	972,000
Proceeds from issuance of common stock, net	68,473,000	—
Net proceeds from issuance of Series B convertible preferred stock	—	1,617,000
Net proceeds from issuance of convertible notes	—	1,095,000
Payments on line of credit borrowings	—	(2,056,000)
Proceeds from payments under capital lease obligations	(171,000)	(82,000)
Net cash provided by financing activities	72,460,000	1,546,000
Net increase in cash and cash equivalents	27,220,000	837,000
Cash and cash equivalents, beginning of period	3,942,000	1,571,000
Cash and cash equivalents, end of period	$ 31,162,000	$ 2,408,000

See accompanying notes to unaudited consolidated financial statements.

	Six Months Ended June 30,	
	2004	2003
		As restated (see Note 2)
Supplemental disclosures of non-cash investing and financing activities:		
Accretion of dividends on convertible and redeemable Series A preferred stock	—	$ 91,000
Accretion of dividends on Series A convertible preferred stock	$ 18,000	34,000
Capital lease obligations	809,000	—
Accretion of dividends on Series B preferred stock	127,000	—
Conversion of Series B preferred stock into shares of common stock	7,000	—
Amortization of offering costs for Series A convertible and redeemable preferred stock	—	177,000
Reclassification of convertible and redeemable Series A preferred stock to convertible and redeemable Series A preferred stock	—	3,900,000
Deferred compensation adjustment for stock options cancelled	—	849,000
Issuance of convertible notes payable to settle the inventory purchase commitments liability	—	3,505,000
Deemed dividend for the imputed value assigned to the beneficial conversion feature on conversion of the Convertible Notes to Series B preferred stock and related common warrants	—	1,581,000
Accretion of imputed value assigned to the beneficial conversion feature on Series A convertible and redeemable preferred stock and related common stock warrants	—	2,962,000
Conversion of Series A preferred stock into shares of common stock	—	1,654,000
Conversion of convertible notes payable into Series B preferred stock	—	1,217,000
Imputed value assigned to beneficial conversion feature on convertible notes payable	—	3,594,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,000	$ 62,000

See accompanying notes to unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 June 30, 2004 and for the three and six month periods ended June 30, 2004 and 2003 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 thereto should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K/A for the year ended December 31, 2003. The results of operations for the interim periods are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation. Certain reclassifications have been made to amounts included in the prior period's financial statements to conform to the presentation for the quarter ended June 30, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates include inventory valuation, the use of option pricing models to establish values of equity instruments, the valuation of long–lived assets and restructuring accruals.

Recent Accounting Pronouncements

Effective as of the beginning of the first quarter of fiscal 2004, the Company adopted the revised interpretation of Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46(R)), "Consolidation of Variable Interest Entities," (FIN 46(R)). FIN 46(R) requires that certain variable interest entities be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company does not have any investments in or arrangements with entities it believes are variable interest entities. The adoption of FIN 46(R) did not have any impact on the Company's consolidated financial statements.

Stock Based Compensation

The Company accounts for stock options in accordance with the provisions of Accounting Principles Board ("APB") *Opinion No. 25, "Accounting for Stock Issued to Employees,"* and related interpretations which recognizes compensation expense on the grant date if the then current market price of the stock exceeds the exercise price.

In December 2002, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 148, "*Accounting for Stock-Based Compensation-Transition and Disclosure,"* an amendment of FASB Statement No. 123, "*Accounting for Stock-Based Compensation*." This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, the Statement amends the disclosure requirements of SFAS No. 123, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In accordance with SFAS No. 123, the Company accounts for costs of stock-based employee compensation using the intrinsic value method prescribed in APB Opinion No. 25. Additionally, the Company discloses the pro forma effect on net loss and related per share amounts as if the fair-value method prescribed by SFAS No. 123 had been used to account for its stock-based employee compensation. The Company accounts for equity instruments

issued to non-employees in accordance with the provisions of SFAS No. 123 and related interpretations. During the first six months of 2004, the Company issued options to purchase an aggregate of 1,542,000 shares of the Company's common stock to its employees and a non-employee director. The vesting schedule for 1,052,500 of these options is 20% at 6 months from the grant date and 1/30th of the remaining balance of the grant each month thereafter. The remaining option grants vest 25% at 1 year from the grant date and monthly thereafter for a total of 4 years. The weighted average exercise price of the options granted during the six months ended June 30, 2004 was $15.67 per share. The weighted average fair value of the options granted during the six months ended June 30, 2004 was estimated as $12.99 per share on the date of grant using the Black-Scholes option-pricing model. The following assumptions for the three and six months ended June 30, 2004 and June 30, 2003 option grants have been made: risk-free interest rates between 2.51% and 3%, dividend yields of 0%, expected volatility of 160.4%, 160.4%, 122.6%, and 122.6%, respectively, and an expected life of the option of four years.

Had compensation expense been determined based on the fair value method at the dates of grant for the quarterly periods ended June 30, 2004 and 2003 consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net income (loss) per share would have been reported as the pro forma amounts indicated below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		As restated (see Note 2)		As restated (see Note 2)
Net income (loss) applicable to common stockholders, as reported	$ 3,168,000	$ (9,672,000)	$ 3,580,000	$ (12,881,000)
Net income (loss) applicable to common stockholders, pro forma	$ 522,000	$ (10,809,000)	$ (379,000)	$ (13,503,000)
Net income (loss) per share, as reported – Basic	$ 0.13	$ (1.35)	$ 0.18	$ (1.82)
Net income (loss) per share, pro forma – Basic	$ 0.02	$ (1.51)	$ (0.02)	$ (1.91)
Net income (loss) per share, as reported – Diluted	$ 0.11	$ (1.35)	$ 0.14	$ (1.82)
Net income (loss) per share, pro forma – Diluted	$ 0.02	$ (1.51)	$ (0.02)	$ (1.91)

2. Restatement of 2003 Results

In March 2004, subsequent to the original issuance of the Company's 2003 financial statements on Form 10-K, as filed with the SEC on March 15, 2004, the Company determined it had not accounted for the beneficial conversion feature on its Series A preferred stock in accordance with GAAP. Accordingly, the Company restated its consolidated financial statements for those periods on Form 10-K/A to amend and restate the fiscal year ended December 31, 2003 to correct this misstatement.

As a result of this restatement, net loss applicable to common stockholders in the accompanying statements of operations for three and six months ended June 30, 2003 has been increased by $1,706,000, from a loss of $8.0 million and $11.2 million as previously reported to a loss of $9.7 million and $12.9 million, as restated, respectively. This increase in net loss applicable to common stockholders represents the deemed dividend recognized during the period for the remaining value of the unaccreted beneficial conversion feature and offering costs. Accordingly, loss per common share in the accompanying statements of operations for the three and six months ended June 30, 2003 has been increased by $0.23 and $0.24, from a loss of $1.12 and $1.58 per share as previously reported to a loss of $1.35 and $1.82 per share as restated, respectively. Further discussion of the correction appears in Note 6 to the Company's audited consolidated financial statements for the year ended December 31, 2003 on Form 10-K/A.

3. Recent Operational Developments and Balance Sheet Details

Operational Overview

In May 2004, the Company completed an equity offering, raising approximately $61.0 million, net of offering costs (see note 6). At June 30, 2004, the Company had approximately $31.2 million in cash and cash equivalents and $47.1 million of marketable securities on hand.

During the first half of 2004, the Company reached profitability for the first time since its inception and recorded net income applicable to common stockholders of $3.6 million. The Company had previously incurred significant costs to develop its technologies and products, which exceeded total revenue. The Company had incurred losses in each year since inception through the end of 2003. As of June 30, 2004, the Company had an accumulated deficit of $243.6 million and working capital of $71.4 million. Management intends to continue executing a plan to improve the Company's operating results and financial condition. The plan includes strengthening sales initiatives and improving gross margins.

In January 2004, the Company raised $7.5 million, net of offering costs, from the issuance of 1,142,855 shares of common stock (see note 6).

Nasdaq National Market Listing

On April 29, 2004, the Company transferred the listing of its common shares back to the Nasdaq National Market. The Company's common shares had traded on the Nasdaq SmallCap Market since April 8, 2003, as it previously did not meet Nasdaq's $10 million minimum stockholders' equity requirement for continued listing on the National Market on which its common stock had been listed since the Company's initial public offering in November 2000.

Restructuring Charges

As a result of the adverse economic developments in the Company's industry sector, the Company had continuously reduced its operating costs, primarily through employee layoffs and facility consolidations, throughout 2001, 2002 and 2003. Consequently, restructuring charges have been recorded totaling $828,000 in 2003, $2.7 million in 2002 and $7.1 million in 2001. No charges were recorded during the three and six months ended June 30, 2004. During the six months ended June 30, 2003, the Company recorded a restructuring charge of $238,000, primarily as a result of eight employee separations. There were no employee separations in 2004 as a result of restructuring activities. The remaining accrual at December 31, 2003 and June 30, 2004 consists solely of facility closing costs.

The following table displays the activity and balances of the restructuring accrual from January 1, 2004 to June 30, 2004:

Balance – January 1, 2004	$1,222,000
Cash payments	(234,000)
Balance – June 30, 2004	$ 988,000

Cash payments for facility closings of $988,000 are expected to be paid ratably over the next 39 months.

Inventories

Inventories consist of the following:

	(Unaudited) June 30, 2004	December 31, 2003
Finished goods	$ 563,000	$ 1,576,000
Raw materials and components	4,145,000	773,000
	$ 4,708,000	$ 2,349,000

Accrued Expenses

Accrued expenses consist of the following:

	(Unaudited) June 30, 2004	December 31, 2003
Royalties	$ 2,514,000	$ 493,000
Payroll and related	1,130,000	442,000
Product warranty and sales returns reserve	193,000	25,000
Professional fees	680,000	75,000
Other	434,000	144,000
	$ 4,951,000	$ 1,179,000

4. Earnings (Loss) Per Share

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 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 (convertible subordinated notes, warrants to purchase common stock and common stock options using the treasury stock method) were exercised or converted into common stock. Potential dilutive securities are excluded from the diluted EPS computation in loss periods as their effect would be anti-dilutive.

The following table sets forth the computation of diluted weighted average common and potential common shares outstanding for the three and six months ended June 30, 2004 and 2003, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Basic weighted average common shares outstanding	23,675,852	7,144,176	19,475,837	7,065,211
Effect of dilutive securities:				
Warrants	267,417	—	485,412	—
Options	2,136,330	—	2,127,324	—
Series A Preferred Stock	—	—	45,783	—
Series B Preferred Stock	2,534,255	—	4,761,849	—
Diluted weighted average common and potential common shares outstanding	28,613,854	7,144,176	26,896,205	7,065,211

Weighted average options and warrants to purchase a total of 1,767,266 and 2,000,437 shares of common stock for the three and six months ended June 30, 2004, respectively, and 4,836,439 and 3,906,102 shares of common stock for the three and six months ended June 30, 2003, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

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 and Canada. The amount of the Company’s assets in the United States and Canada as of June 30, 2004 are $103.7 million and $2.6 million, respectively, and as of December 31, 2003 are $22.6 million and $1.8 million, respectively.

Concentrations of Risk

Substantially all of the Company's revenues come from the sale of wireless Internet products. Any material decline in market acceptance of the Company's products or a material decline 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 comes from a small number of customers. For the three months ended June 30, 2004 two customers accounted for 14.3% and 10.8% of revenues. Two customers accounted for 74.6%, and 16.3% of revenues for the three months ended June 30, 2003. Two customers accounted for 14.6% and 10.7% of revenues for the six months ended June 30, 2004. Two customers accounted for 68.4% and 15.0% of revenues for the six months ended June 30, 2003.

6. Stockholders' Equity

Recent Financings and Equity Activity

In May 2004, the Company completed an underwritten registered, public equity offering transaction, raising approximately $61.0 million, net of offering costs and underwriters' commissions of approximately $4.9 million, upon the issuance of 4,250,000 shares of the Company's common stock. Additionally, in conjunction with this offering, the remaining 4,516 shares of the Company's Series B preferred stock, including accrued dividends, were converted into 6,782,858 shares of common stock, of which 1,750,000 were sold by selling stockholders as part of the equity offering transaction. Net proceeds to the selling shareholders from the sale of these shares amounted to approximately $25.7 million.

In January 2004, the Company raised net proceeds of approximately $7.5 million, net of fees to the placement agent and offering costs, from the issuance of 1,142,855 shares of common stock in a private placement transaction. Warrants to acquire 228,565 common shares at a price of $8.833 per share, expiring on January 15, 2009 and exercisable at anytime prior to expiration, were also issued in conjunction with this offering. Resale of the shares issued in this offering and the shares issuable upon exercise of the accompanying common stock purchase warrants was registered on a registration statement on Form S-3, which the SEC declared effective on March 18, 2004.

Series B Preferred Stock

During 2003, in exchange for issuing $4.7 million of secured subordinated convertible promissory notes, the Company received cash of $1.1 million, net of $100,000 of transaction costs and satisfaction of $3.5 million of debt. Additionally, warrants to acquire 857,143 shares of common stock at an exercise price of $0.70 per share were granted. All the secured subordinated convertible promissory notes were subsequently converted into 4,721 shares of Series B preferred stock.

Additionally, during 2003, the Company issued and sold 2,050 additional shares of Series B preferred stock and warrants to purchase an aggregate of 732,198 shares of common stock at an exercise price of $0.70 per share in exchange for $2.05 million in cash, which was reduced by approximately $400,000 of transaction costs to $1.6 million net proceeds.

Each share of Series B preferred stock was entitled to receive cumulative dividends at a rate of 8% per annum, which the Company was entitled to pay by means of issuing additional shares of common stock to the holder thereof. The Series B preferred stock was convertible at any time into the number of common shares equal to the total amount outstanding plus accrued dividends to date divided by $0.70. As of June 30, 2004, all of the 6,771 shares of Series B preferred stock, including accrued dividends had been converted into 10,133,784 shares of common stock. As a result, there are no shares of Series B preferred stock outstanding at June 30, 2004.

During the six months ended June 30, 2004, 4,703 shares of Series B preferred stock, including accrued dividends, were converted into 7,059,127 shares of common stock. During the six months ended June 30, 2004, the Company accrued approximately $127,000 in dividends relating to the outstanding Series B preferred stock.

Series A Preferred Stock

During the first quarter of 2004, the remaining 1,025 shares of Series A preferred stock, including accrued dividends, were converted into 102,558 shares of common stock. As a result, there are no shares of Series A preferred stock outstanding. During the six months ended June 30, 2004, the Company accrued approximately $18,000 in dividends relating to the outstanding Series A preferred stock.

Stock Options and Warrants

During the six months ended June 30, 2004, options to purchase 876,742 shares of common stock were exercised at a weighted average price of $3.09 per share. As a result of these option exercises, the Company received proceeds of approximately $2.7 million.

During the six months ended June 30, 2004, warrants to purchase 1,741,572 shares of common stock were exercised at a weighted average price of $1.22 per share. As a result of these warrant exercises, the Company received proceeds of approximately $1.5 million.

On April 29, 2004, the Board of Directors of the Company authorized and approved the issuance to the Company's Executive Officers a total of 850,000 options to purchase shares of the Company's common stock at an exercise price of $16.27 per share, which was the fair market value of the Company's common stock on the date of this grant. The Options were issued pursuant to the Company's Amended and Restated 2000 Stock Incentive Plan (the "Plan").

Net income (loss) applicable to common stockholders

A reconciliation of the net income (loss) applicable to common stockholders is as follows:

	Three Months ended June 30,		Six Months ended June 30,	
	2004	2003	2004	2003
		As restated (see Note 2)		As restated (see Note 2)
Net income (loss)	$ 3,202,000	$ (5,020,000)	$ 3,725,000	$ (8,036,000)
Adjustments to net income (loss) used in computing basic and diluted net loss applicable to common stockholders:				
Deemed dividend for the imputed value assigned to the beneficial conversion feature on conversion of the Convertible Notes to Series B preferred stock and related common stock warrants	—	(1,581,000)	—	(1,581,000)
Accretion of dividends on Series A convertible and redeemable preferred stock	—	(28,000)	—	(91,000)
Accretion of dividends on Series A convertible preferred stock	—	(34,000)	(18,000)	(34,000)
Accretion of dividends on Series B convertible preferred stock	(34,000)	—	(127,000)	—
Amortization of offering costs for convertible and redeemable pre preferred stock	—	(170,000)	—	(177,000)
Accretion of imputed value assigned to the beneficial conversion feature on Series A convertible and redeemable preferred stock and related common stock warrants	—	(2,839,000)	—	(2,962,000)
Total	(34,000)	(4,652,000)	(145,000)	(4,845,000)
Net income (loss) applicable to common stockholders	$ 3,168,000	$ (9,672,000)	$ 3,580,000	$ (12,881,000)

7. Line of Credit

The Company had been party to an accounts receivable purchase facility with a bank, which had allowed it to borrow, at any given time, up to the lesser of $6.7 million or 75.0% of certain eligible accounts receivable balances. The interest rate charged on this facility was 1.5% per month when utilized. The facility was secured by substantially all of the Company’s assets. As of June 30, 2004, no borrowings were outstanding under this facility. The borrowing amount available under this facility at June 30, 2004 was approximately $700,000. The Company canceled this facility in July 2004.

In connection with initially entering into this facility, the Company issued warrants to purchase 58,762 shares of the Company’s common stock at an exercise price of $7.06 per share, as adjusted to date to reflect dilutive equity issuances made subsequent to November 2001, the initial date of the facility. The fair value of the warrants totaling $358,000 was amortized as interest expense over the initial 12-month term of the facility. In February 2004, all of these warrants were exercised using a cashless feature. A total of 33,996 common shares were issued as a result of this exercise.

8. Commitments and Contingencies

Management Retention Agreements

In August 2004, the Company entered into management retention agreements with the Company’s named executive officers. The agreements entitle those employees to enumerated severance benefits if, within the one year period immediately following a change of control (or at the direction of an acquirer in anticipation of such an event), the Company terminates the employee’s employment other than for cause or disability or the employee terminates his employment for good reason. These severance benefits would include a lump sum payment of three times the sum of the employee’s annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, full acceleration of vesting of the employee’s stock options, a tax equalization payment to eliminate the effects of any applicable excise tax, and financial planning and outplacement services.

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 will not have a material adverse effect on the consolidated results of operations or financial position.

9. Income Taxes

The Company has historically generated tax net operating losses. Accordingly, the Company has net operating loss carryovers that may be used to offset future income. Internal Revenue Code (IRC) Section 382 provides that a company’s net operating losses may be limited upon an ownership change. Assuming that there was an ownership change as defined in IRC Section 382 during this period of losses, a tax value computation would need to be made as of any ownership change dates to determine the applicable annual limitation applied to the utilization of the Company’s net operating loss carryovers. While the Company does not believe that the limitations, if any, would impair the Company’s ability to use its net operating losses to offset current forecasted taxable income for the year ending December 31, 2004, the extent of such limitations has not yet been determined. The Company is in the process of completing a formal IRC Section 382 study and analysis.

10. Related Parties

The Company sells products to AirLink Communications, Inc. (AirLink), a wireless software infrastructure business, which integrates the Company’s modems into their products. AirLink’s Chairman and principal stockholder was also a member of our Board of Directors until March 11, 2004 and is a stockholder of the Company. Sales to AirLink for the three and six months ended June 30, 2004 were $12,000 and $387,000 and were $0 and $7,000, for the three and six months ended June 30, 2003, respectively. Purchases from Airlink were $195,000 and $374,000 for the three and six months ended June 30, 2004, respectively. There were no purchases from AirLink for the three and six months ended June 30, 2003. Receivables due from AirLink amounted $6,000 as of June 30, 2004. Payables due to AirLink as of June 30, 2004 amounted to approximately $108,000.

The Company sells products to a subsidiary of Chinatron Group Holdings Limited (Chinatron). Mr. Horst J. Pudwill, one of the Company's directors and principal stockholders is also a director and stockholder of Chinatron. In addition, the chairman and chief executive officer of Chinatron participated in private placement transactions, which were completed in 2003 (the 2003 Private Placement). Sales to Chinatron for the three and six months ended June 30, 2004 were $26,000 and $39,000, respectively. Sales to Chinatron for three and six months ended June 30, 2003 were $147,000 and $417,000, respectively.

Cornerstone Equity Investors, LLC (Cornerstone), a private equity investment firm that is one of the Company's principal stockholders, participated as an investor in the 2003 Private Placement. Messrs. Mark Rossi and Robert Getz, two of the Company's directors since December 1999, are managing directors of Cornerstone. Mr. Peter V. Leparulo, the Company's chief executive officer since January 13, 2003 and member of the Company's board since May 7, 2003, also participated as an investor in the 2003 Private Placement.

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, 2003 contained in our 2003 annual report on Form 10-K/A.

Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products includes wireless data modems and software for laptop PCs, embedded wireless modules for original equipment manufacturers, or OEMs, and ruggedized wireless data modems for public safety and telemetry applications. 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 access to data including corporate, public and personal information through the Internet and enterprise networks. We also offer software engineering and design services to our customers to facilitate the use of our products.

During the first quarter of 2004, we reached profitability for the first time since our inception and recorded net income applicable to common stockholders of $413,000. During the second quarter of 2004, we continued to execute on our plan to improve our operating results and financial condition and recorded net income applicable to common stockholders of $3.2 million. Historically, we have incurred substantial costs to develop our technology and products, and to recruit and train personnel for our product development and sales and marketing departments. In the past, our operating expenses have exceeded the revenue generated by our products and services. As a result, we have incurred losses in each quarter since inception through the fourth quarter of 2003. As of June 30, 2004, we had an accumulated deficit of $243.6 million and working capital of $71.4 million.

Since our inception in 1996, we have been focused on the development and commercialization of technologies that allow for wireless access to data. We expanded our operations in advance of the launch of several new products in the late 1990s through 2001. Beginning in 2001, in response to the decline in the telecommunications industry, we implemented an operational and organizational restructuring to increase operating efficiency and conserve working capital. These restructuring activities included facility consolidations, reduction of employee staff, consultants and temporary labor and critical assessments of asset impairment and obsolete inventory. For 2003 and 2002, we incurred restructuring and impairment charges of approximately $800,000 and $2.7 million, respectively. No restructuring and impairment charges were recorded during 2004.

Beginning in early 2003, we also aggressively pursued the development of innovative 3G products, refocused our research and development efforts on sales driven customer needs and focused our sales, marketing and distribution efforts on large wireless operators and related companies.

These efforts have contributed to an increase in our gross margin from a negative $33.8 million for 2001 to a positive gross margin of $5.9 million in 2003 and $12.1 million for the six months ended June 30, 2004, and an improvement in our gross margin from negative 77.4% in 2001 to positive 17.5% in 2003 and 32.0% for the three months ended June 30, 2004 and 30.7% for the six months ended June 30, 2004. We also reduced our operating loss from $28.0 million for 2002 to an operating loss of $7.8 million for 2003 and became profitable in the first quarter of 2004. For the six months ended June 30, 2004 we recorded operating income of $3.6 million.

Factors Which May Influence Future Results of Operations

We intend to continue executing on a plan to improve our operating results and financial condition. The plan includes strengthening sales initiatives and improving gross margins. 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 to networks;
- use of the Internet;
- rate of change to new products;
- loss of significant customers;
- drop in demand for CDMA and UMTS/GPRS products; and
- change in technologies.

We began shipping our first 3G products in December 2003 and anticipate introducing additional 3G products in the second half of 2004. In the future, we also expect to enter into customer contracts for development services, but not at significant levels in relation to total revenue.

Cost of Revenue. We currently outsource all of our manufacturing operations to LG Innotek. All costs associated with LG Innotek are included in our cost of revenue. Cost of revenue also includes warranty costs, royalty payments based on a percentage of revenue, operations group expenses, costs related to development services and costs related to inventory adjustments, including for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above. During 2003 and 2002, we recorded inventory write-downs of $2.0 million and $2.5 million, respectively, due to the decrease in demand for our products. No inventory write-downs were recorded during the six months ended June 30, 2004. 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 as expected, 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 in future periods to incur these expenses in periods prior to recognizing revenue from these contracts. In addition, the portion of our revenue derived from international sales has increased, requiring an expansion of our sales and marketing efforts in these markets.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Significant estimates include revenue recognition, inventory adjustments for excess and obsolete balances, allowance for doubtful accounts receivable, the use of option pricing models to establish values of equity instruments issued in non-monetary transactions with non-employees, useful lives and realizability of long–lived assets and estimates for costs recorded in restructuring accruals.

Revenue Recognition. Our revenue is generated from the sale of our broadband wireless access solutions to wireless operators, OEM customers, VARs and distributors. Revenue from product sales is recognized upon the later of transfer of title or shipment of the product to the customer. We record deferred revenue for cash payments received from customers in advance of product shipments. We establish reserves for estimated product returns allowances in the period in which revenue is recognized. In estimating our future product returns, we consider various relevant factors, including our stated return policies and practices and our historical trends.

For our fixed price development services contracts, we recognize revenue as services are rendered using labor output measures or the achievement of milestones as indicators of progress. Total estimated costs are based on management's assessment of costs to complete the project including periodic assessments of the progress achieved and the costs expended to date. To the extent that our estimated costs materially change, our revenue and profit recorded under the associated contract is adjusted accordingly. If total costs of completion are estimated to exceed the contract value, a loss is recognized in the period the loss is identified.

During 2003, we amended a joint development agreement containing multiple elements with one of our customers including development services and product shipments. Accordingly, we have separated the deliverables into units of accounting and allocated arrangement consideration to these deliverables in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." In accordance with EITF Issue No. 00-21, $6.2 million in cash payments received in 2003 were deferred and is being recognized as revenue when products are shipped or as development services are performed.

Allowance for Doubtful Accounts. We provide an allowance against our receivables 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, changes in customer payment cycles, and our customer's 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 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 might be required. We have not experienced significant variances in the past between our estimated and actual doubtful accounts and anticipate that we will be able to continue to make reasonable estimates in the future.

Inventory Adjustments. Inventories are stated at 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, obsolete and impaired 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 "Revenues" above, economic and competitive conditions, technological advances or new product introductions by us or our customers that vary from our current expectations.

We believe that the estimates we use in calculating the inventory reserve are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for our inventory is substantially different from our estimates, adjustments to our inventory reserve may be required, which could have a material adverse effect on our consolidated financial statements.

Warranty Costs. We accrue warranty costs based on estimates of future warranty related repairs or rework of products. Our warranty policy generally provides one- or two-year coverage for products following the date of purchase. Our policy is to accrue the estimated cost of warranty coverage at the time the sale is recorded. In estimating our future warranty obligations we consider various relevant factors, including the historical frequency of claims and the cost to replace or repair products under warranty. We have not experienced significant variances in the past between our estimated and actual warranty costs. We have not experienced significant warranty expenses to date. Future expenses could be different, depending on the quality of our product design and manufacturing quality.

Valuation of Intangible and Long-Lived Assets. We periodically assess the impairment 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 the fair value, which is 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 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 will continue to 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.

Accrued Restructuring Related Cost. We estimate amounts for direct costs of our expenses and liabilities related to our restructurings in accordance with the EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." For restructurings initiated after December 31, 2002, we apply the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The restructuring accrual requires the use of estimates including the amounts of future lease obligations offset by estimated sublease income. Due to our inability to sublease certain facilities, we revised our estimates of future sublease income and recorded additional restructuring charges in 2003 and 2002. We believe that our assumptions and estimates utilized in the determination of the restructuring accrual were appropriate based on the information available to management. Future revisions, if any, in our estimates of the potential costs or sublease income could materially impact our results of operations and financial position.

Results of Operations

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Revenue. Revenue for the three months ended June 30, 2004 increased $16.5 million, or 215%, to $24.1 million compared to $7.7 million for the same period in 2003. The overall increase in product sales of approximately $16.0 million was attributable primarily to higher sales volumes resulting from our introduction of new products and the increased demand for wireless products and wireless access services during 2004. Revenue recognized for development services increased $500,000, or 66%, to $1.2 million for the three months ended June 30, 2004 compared to $700,000 for the same period in 2003. However, during the second quarter of 2004, development services revenue decreased as a percentage of total revenue due to the increase in product shipments. We do not expect development services revenue to represent a significant percentage of total revenue in the foreseeable future.

Cost of revenue. Cost of revenue for the three months ended June 30, 2004 increased $8.4 million, or 106%, to $16.4 million compared to $8.0 million for the same period in 2003. The increase in cost of revenue was attributable to an $8.2 million increase in product shipment costs, an increase in royalty costs of approximately $1.8 million and an increase in manufacturing overhead costs of approximately $200,000. Cost of revenue related to products increased due to the increase in the demand for our products as described above. Total cost of revenue for development services during 2004 and 2003 amounted to $900,000 and $700,000, respectively. Cost of revenue for the three months ended June 30, 2003 includes a $1.9 million inventory charge for excess and obsolete inventory, primarily related to products that were no longer being manufactured.

Gross margin. Gross margin for the three months ended June 30, 2004 increased by $8.0 million to $7.7 million compared to a negative gross margin of $300,000 for the same period in 2003. The increase was primarily attributable to the increase in sales of products with higher margin and an increase in margin on development services revenue in addition to the $1.9 million inventory charge included in the three months ended June 30, 2003. Gross margin as a percent of revenue increased to 32% for the three months ended June 30, 2004 compared to a negative 4% for same period in 2003. The increase in gross margin as a percentage of revenue was primarily attributable to sales of products with higher margin in 2004 as compared to 2003, higher margin on development services revenue and the inventory charge incurred in 2003 as described above.

Research and development expenses. Our research and development expenses for the three months ended June 30, 2004 increased $1.0 million, or 64%, to $2.4 million compared to $1.4 million for the same period in 2003. The increase primarily was attributable to an increase of approximately $700,000 in research supplies and expendable equipment, $500,000 was attributable to increases in salary and related expenses and an increase of approximately $200,000 in outside consulting services and travel costs. These increases were offset by decreases in depreciation, facility and overhead costs of approximately $400,000, primarily due to an increase in the number of assets that became fully depreciated during 2003 and the first quarter of 2004.

Sales and marketing expenses. Sales and marketing expenses for the three months ended June 30, 2004 increased $400,000, or 58%, to $1.0 million compared to $600,000 for the same period in 2003. The increase was primarily a result of an increase in sales and marketing efforts which included hiring new personnel during the first half of 2004, which increased salary and related expenses by approximately $300,000 and increased outside consulting service costs of approximately $100,000.

General and administrative expenses. General and administrative expenses for the three months ended June 30, 2004 increased approximately $300,000, or 23%, to $1.3 million compared to $1.0 million for the same period in 2003. The increase was primarily attributable to an increase in salary and related expenses of approximately $300,000.

Restructuring and impairment charges. There were no restructuring and impairment charges included in the results for the three months ended June 30, 2004. Restructuring and impairment charges for the three months ended June 30, 2003 were a negative $175,000. The negative amount in 2003 was due to the reversal of a portion of the accrual estimated in the first quarter of 2003 for severance payments payable to our former CEO pursuant to his employment agreement.

Amortization of deferred stock compensation. Amortization of deferred stock compensation for the three months ended June 30, 2004 decreased to $60,000 compared to approximately $130,000 for the same period in 2003. This decrease was the result of our use of the attribution method of accounting to amortize deferred compensation associated with equity compensation awards in 2000 which results in the majority of this amortization being recognized in the earlier years following the equity grant.

Interest income and expense. Interest income increased by approximately $100,000 for the three months ended June 30, 2004 compared to the same period in 2003. The increase was due to the increase in the cash and marketable securities balances in the second quarter of 2004 as compared to the same period in 2003. Interest expense of $1.7 million for the three months ended 2003 relates primarily to non-cash charges of $1.5 million for the accretion of imputed value assigned to the beneficial conversion feature on the Convertible Notes payable and interest charges on our bank line of credit.

Net income (loss). For the three months ended June 30, 2004, the Company reported net income applicable to common stockholders of $3.2 million as compared a net loss of $9.7 million for the same period in 2003.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenue. Revenue for the six months ended June 30, 2004 increased $24.1 million, or 159%, to $39.3 million compared to $15.1 million for the same period in 2003. The overall increase in product sales of approximately $23.6 million was attributable primarily to higher sales volumes resulting from our introduction of new products and the increased demand for wireless products and wireless access services during 2004. Revenue recognized for development services increased by $500,000 or 28% to $2.2 million during the first six months of 2004 as compared to $1.7 million for the same period in 2003. However, during the first six months of 2004, development services revenue decreased as a percentage of total revenue due to the increase in product shipments. We do not expect development services revenue to represent a significant percentage of total revenue in the foreseeable future.

Cost of revenue. Cost of revenue for the six months ended June 30, 2004 increased $13.0 million, or 91%, to $27.2 million compared to $14.2 million for the same period in 2003. The increase in cost of revenue was attributable to an $11.4 million increase in product shipment costs, an increase in royalty costs of approximately $2.6 million and an increase in manufacturing overhead and warranty costs of approximately $800,000. Costs of revenue for the six months ended June 30, 2003 includes a $1.9 million inventory charge for excess and obsolete inventory, primarily due to products that were no longer being manufactured. Cost of revenue related to products increased due to the increase in the demand for our products as described above. Total cost of revenue for development services during 2004 and 2003 amounted to $1.6 million and $1.7 million, respectively.

Gross margin. Gross margin for the six months ended June 30, 2004 increased by $11.2 million to $12.1 million compared to $900,000 for the same period in 2003. The increase was primarily attributable to the increase in sales of products with higher margin and an increase in margin on development services revenue discussed above. Gross margin as a percent of revenue increased to 31% for the six months ended June 30, 2004 compared to 6% for same period in 2003. The increase in gross margin as a percentage of revenue was primarily attributable to sales of products with higher margin in 2004 as compared to 2003 and higher margin on development services revenue.

Research and development expenses. Our research and development expenses for the six months ended June 30, 2004 increased $1.2 million, or 36%, to $4.3 million compared to $3.2 million for the same period in 2003. The increase primarily was attributable to an increase of approximately $700,000 in research supplies and expendable equipment, $600,000 was attributable to increases in salary and related expenses and an increase in outside consulting services and travel costs of approximately $300,000. These increases were offset by decreases in depreciation, facility and overhead costs of approximately $400,000, primarily due to an increase in the number of assets that became fully depreciated during 2003 and the first quarter of 2004.

Sales and marketing expenses. Sales and marketing expenses for the six months ended June 30, 2004 increased $500,000, or 39%, to $1.8 million compared to $1.3 million for the same period in 2003. The increase was primarily a result of an increase in sales and marketing efforts, which included hiring new personnel during the first half of 2004, which increased salary and related expenses by approximately $400,000 and an increase in travel costs of approximately $100,000.

General and administrative expenses. General and administrative expenses for the six months ended June 30, 2004 increased approximately $200,000, or 9%, to $2.2 million compared to $2.0 million for the same period in 2003. The increase was primarily attributable to an increase in salary and related expenses of approximately $300,000, an increase in professional fees of approximately $200,000, offset by a decrease in depreciation and facility overhead costs of approximately $200,000 primarily due to an increase in the number of assets that became fully depreciated during 2003 and the first quarter of 2004.

Restructuring and impairment charges. Restructuring and impairment charges for the six months ended June 30, 2003 were approximately $200,000 and were primarily comprised of severance payments and other related termination expenses associated with our restructuring plan. There was no charge included in the results for the six months ended June 30, 2004.

Amortization of deferred stock compensation. Amortization of deferred stock compensation for the six months ended June 30, 2004 decreased $500,000, or 78%, to approximately $100,000 compared to approximately $600,000 for the same period in 2003. This decrease was the result of our use of the attribution method of accounting to amortize deferred compensation associated with equity compensation awards in 2000 which results in the majority of this amortization being recognized in the earlier years following the equity grant. The decrease also reflected a reduction in the unamortized portion of the deferred compensation attributable to previously awarded stock options cancelled during the second quarter of 2003, totaling $850,000.

Interest income and expense. Interest income increased by approximately $200,000 for the six months ended June 30, 2004 compared to the same period in 2003. The increase was due to the increase in the cash and marketable securities balances in the first six months of 2004 as compared to the same period in 2003. Interest expense of $1.7 million for the six months ended 2003 relates primarily to non-cash charges of $1.5 million for the accretion of imputed value assigned to the beneficial conversion feature on the Convertible Notes payable and interest charges on our bank line of credit.

Net income (loss). For the six months ended June 30, 2004, the Company reported net income applicable to common stockholders of $3.6 million as compared a net loss of $12.9 million for the same period in 2003.

Liquidity and Capital Resources

During the first half of 2004, we reached profitability for the first time since our inception and recorded a net income of $3.6 million for the six months ended June 30, 2004. We had previously incurred significant costs to develop technologies and products, which exceeded total revenue. As a result, we had incurred losses in each year since inception through the end of 2003. As of June 30, 2004, we had an accumulated deficit of $243.6 million and working capital of $71.4 million.

In May 2004, we completed an underwritten equity offering transaction, raising approximately $61.0 million, net of offering costs and underwriters' commissions of approximately $4.9 million, upon the issuance of 4,250,000 shares of our common stock. Additionally, in conjunction with this offering, the remaining 4,516 shares of our Series B preferred stock, including accrued dividends, were converted into 6,782,858 shares of common stock, of which 1,750,000 were sold as part of the equity offering transaction. Net proceeds to the selling shareholders from the sale of these shares amount to approximately $25.7 million.

In January 2004, we raised aggregate net proceeds of approximately $7.5 million, net of fees to the placement agent and offering costs, from the issuance of 1,142,855 shares of common stock in a private placement transaction. Warrants to acquire 228,565 common shares at a price of $8.83, expiring on January 15, 2009, were also issued in conjunction with this offering.

Historical Cash Flows

Net cash provided by operating activities. Net cash provided by operating activities increased by $5.0 million to approximately $4.2 million for the six months ended June 30, 2004 compared to net cash used in operating activities of approximately $800,000 for the same period in 2003. This increase was attributable to a $3.7 million net income recorded for the six months ended June 30, 2004 compared to a net loss of $8.0 million for the same period in 2003. The 2004 net income includes $1.7 million of depreciation and amortization expenses. The increase was also attributable to an increase in accrued expenses of $3.8 million and an increase in accounts payable of $3.6 million, offset by an increase in accounts receivable of $4.6 million, a $2.4 million increase in our inventory balance and a $2.4 million decrease in our deferred revenue balance.

Net cash used in investing activities. Net cash used in investing activities for the six months ended June 30, 2004 was approximately $49.5 million compared to $100,000 provided from investing activities during the same period in 2003. The cash used in investing activities in 2004 was primarily due to the purchases of marketable securities of $47.1 million, purchases of intangibles of $1.5 million and purchases of property and equipment of $800,000. The cash provided from investing activities in 2003 is primarily due to the proceeds from the sale of property and equipment of approximately $100,000.

Net cash provided by financing activities. Net cash provided by financing activities for the six months ended June 30, 2004 was $72.5 million, compared to $1.5 million during the same period in 2003. The cash provided from financing activities in 2004 was due to the net proceeds of $61.1 million received from a follow-on underwritten, registered equity transaction that was completed in May 2004, $7.5 million from the January 2004 issuance of common stock and proceeds from the exercise of common stock options and warrants of $4.0 million. Cash provided by investing activities in 2003 was due to net proceeds of $1.6 million received from the issuance of Series B convertible preferred stock, $1.1 million of proceeds received from the issuance of convertible notes payable and proceeds from the exercise of common stock options and warrants of $1.0 million, offset by repayments on our line of credit borrowings of $2.1 million.

Current Sources of Capital and Liquidity

As of June 30, 2004, we had working capital of $71.4 million, approximately $47.1 million in marketable securities and approximately $31.2 million in cash and cash equivalents.

We had been party to an accounts receivable purchase facility with a bank, which had allowed us to borrow, at any given time, up to the lesser of $6.7 million or 75.0% of certain eligible accounts receivable balances. The interest rate charged on this facility was 1.5% per month when utilized. The facility was secured by substantially all of the Company's assets. As of June 30, 2004, no borrowings were outstanding under this facility. The borrowing amount available under this facility at June 30, 2004 was approximately $700,000. We cancelled this facility in July 2004.

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and other commitments at June 30, 2004, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Payments Due by Fiscal Year				
	2004	**2005**	**2006**	**2007**	**2008**
Capital lease and other obligations	$ 366,000	$ 354,000	$ —	$ —	$—
Operating leases	695,000	854,000	724,000	543,000	—
Committed purchase orders	28,044,000	—	—	—	—
Total contractual cash obligations	$ 29,105,000	$ 1,208,000	$ 724,000	$ 543,000	$—

Other Liquidity Needs

During the next twelve months we plan to incur approximately $2.0 million to $4.0 million for the acquisition of additional intellectual property licenses and for capital expenditures. In addition, certain of our operating leases related to consolidated facilities obligate us to pay an aggregate of approximately $1.0 million, net of sublease income, over the next 39 months. This obligation is included in the operating lease commitment in the above table.

We believe that our available cash reserves, including net proceeds of approximately $61.1 million received in May 2004 in connection with our equity offering together with our budgeted operating cash flows, will be sufficient to fund operations, including the 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 one of our significant sources of funds in the future will be our operating cash flow. Our future revenue is dependent on us fulfilling our commitments in accordance with agreements with a small number of major customers. Our liquidity could be impaired if there is any interruption to 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

We have incurred significant operating losses since our inception and if we are unable to increase our revenue and gross margins, we may continue to incur significant net losses and negative cash flow from operations.

We have incurred significant operating losses and net losses in each annual period since our inception. For the six months ended June 30, 2004, the Company reached profitability for the first time since its inception and recorded net income applicable to common stockholders of $3.6 million. In prior periods, we incurred net losses applicable to common shareholders of $16.7 million for the fiscal year ending 2003 and $53.5 million for the fiscal year ending 2002. In addition, we had negative cash flows from operations of $400,000 for the fiscal year ending 2003 and $28.7 million for the fiscal year ending 2002. As of June 30, 2004, we had an accumulated deficit of $243.6 million. If we are unable to continue increasing our revenue and gross margins sufficiently to offset our expenses, we will not maintain profitability and our operating losses, net losses and negative cash flow from operations will continue.

If we experience negative cash flow from operations, we may need to raise additional capital to fund our working capital requirements and anticipated capital expenditures.

We have experienced negative cash flow from operations in the past and, excluding working capital requirements to fund our growth, have only recently become cash flow positive. We currently anticipate that budgeted cash flow from operations, together with our current working capital, including cash received in the equity offering completed in May 2004 and the private placement transaction we completed in January 2004, will be sufficient to meet our working capital requirements and anticipated capital expenditures for the next twelve months. However, the forecast of our ability to meet working capital requirements and anticipated capital expenditures in the future is a forward-looking statement that involves risks and uncertainties and actual results could vary. Our budgeted cash flow from operations includes assumptions about increased sales volumes. If we are unable to increase our revenue and gross margins sufficiently to offset our operating expenses, we will continue to experience negative cash flow from operations and may be required to raise additional capital. Our ability to obtain additional capital will depend on financial market conditions, investor expectations for the wireless technology industry, the national economy and other factors outside our control. If we issue equity securities, our stockholders will experience dilution. There can be no assurance that any such additional financing will be available on acceptable terms, or at all. If needed, the failure to secure additional financing would have a material adverse effect on our business, financial condition and operating results.

Our failure to predict and comply with evolving 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 standards and that our products comply with such standards. We are currently focused on manufacturing and engineering products that comply with 3G wireless standards. Any failure of our products to comply with 3G or future standards could delay their introduction and require costly and time-consuming engineering changes. Additionally, if wireless operators or subscribers fail to adopt the standards to which we engineer our products, then sales of our new products could be materially harmed.

If we fail to develop and introduce new products successfully, we may lose key customers or product orders and may not be able to compete effectively.

The development of new 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 standards, which may differ from the standards of other operators. If we fail to complete the development of products on time and within budgeted amounts, we will be unable to introduce new products into the market on a timely basis, if at all. In addition, as we introduce new versions of our existing products or new products altogether, our current customers may not require the technological innovations of these products and may not purchase them.

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

- We have priced these contracts based on our estimated production costs. If our actual production costs are higher than our estimated costs, our gross margins on the corresponding contracts will decrease.
- If we are unable to commit the necessary 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 product we delivered does not meet the agreed-upon specifications, we may have to reduce the price we can charge for such product, or we may be required to pay damages to the customer.

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

The wireless communications market is highly competitive, and we may be unable to compete effectively.

The markets for wireless data access products are highly competitive, and we expect competition to increase. Many of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They also may devote greater resources than we do to the development, promotion and sale of their respective products.

Many of our current or potential competitors have more extensive customer bases and broader customer relationships and industry relationships that they can leverage to establish relationships with many of our current and potential customers. These companies also have more established customer support and professional services organizations. In addition, these companies may adopt aggressive pricing policies or offer more attractive terms to customers, may bundle their competitive products with broader product offerings and may introduce new products and enhancements. Current and potential competitors may establish cooperative relationships among themselves or with third parties to enhance their products. As a result, it is possible that new competitors or relationships among competitors may emerge and rapidly acquire significant market share.

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

- wireless data modem providers, such as Option International, Sierra Wireless, Sony-Ericsson and Wavecom;
- wireless device manufacturers, such as palmOne and Research in Motion; and
- wireless handset manufacturers, such as Motorola, Nokia, Samsung and Sony-Ericsson.

We expect our competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. For instance, new models of laptop PCs and handheld computing devices could include internal wireless modems installed by the manufacturer which would reduce the need for consumers to purchase our aftermarket wireless modem products. 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 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 to remain competitive. Increased competition could result in price reductions, fewer 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.

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 maintain these relationships and to cultivate additional or alternative relationships. We cannot assure you 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.

We depend upon a small number of our customers for a substantial portion of our revenue and we currently rely upon a few of our key customers to make contractual minimum volume purchases.

A significant portion of our revenue comes from a small number of customers. Our top ten customers for the six months ended June 30, 2004 and 2003 accounted for approximately 77.7% and 95.9% of our revenue, respectively. Our top ten customers for fiscal 2003 and 2002 accounted for approximately 94.7% and 84.6% of our revenue, respectively. Similarly, our revenue could be adversely affected if we are unable to retain the business of any of our significant customers or if we are unable to diversify our customer base.

Some of our key customers are currently obligated to make minimum volume purchases pursuant to contracts. Following the expiration of such obligations, those customers will not be obligated to make any purchases of our

products. In addition, a majority of our customers purchase our products under purchase orders and not pursuant to any contractual minimum purchase obligations. Such customers have no contractual obligation to purchase our products and if they do not continue to make purchases, 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 demand for wireless access to enterprise networks and the Internet. In the past, market demand for both wireless products and wireless access services for the transmission of data has developed at a slower rate than we anticipated and our product sales have not generated sufficient revenue to cover our operating costs. The failure of these markets to continue to grow may adversely impact the demand for our products, 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 on the capacity, affordability and reliability of wireless data networks provided by various wireless telecommunications operators. Currently, various wireless telecommunications operators such as Sprint PCS, either directly 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 wireless telecommunications operators cease 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 occurs, 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 disruptions in our business.

Various risks arise when companies and industries grow quickly. If our business grows, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience production delays as we seek to meet increased demand for our products. Our failure to manage our growth 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 customers.

We depend on a single third-party manufacturer to produce all of our products which subjects us to potential disruptions in product supply and other potential adverse effects.

We currently outsource the manufacture of all of our products to LG Innotek. We expect to continue to depend exclusively on LG Innotek or other third-party manufacturers to produce our products in a timely fashion and at satisfactory quality levels. LG Innotek is not obligated to supply products to us for any specific quantity, except as may be provided in particular purchase orders which we submit to them from time to time, and therefore could cease or reduce its business with us at its discretion. If LG Innotek experiences delays, disruptions, capacity constraints or quality control problems in their manufacturing operations, product shipments to our customers could be delayed, which would negatively impact our revenues and our competitive position and reputation. Further, if we are unable to manage successfully our relationship with LG Innotek, the quality and availability of our products may be harmed. If LG Innotek stopped manufacturing our products for any reason or reduced its 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 LG Innotek negatively changes 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 components.

We generally place orders with LG Innotek at least three months prior to scheduled delivery of products to our customers. Accordingly, if we inaccurately anticipate demand for our products, we may be unable to obtain adequate quantities of components to meet our customers' delivery requirements or, alternatively, we may accumulate excess inventories. If one or more of these events were to occur, we could experience increased costs, reduced revenue and lower product margins.

Although we promote ethical business practices and our operations personnel periodically visit and monitor the operations of LG Innotek, we do not control LG Innotek or their labor practices. If LG Innotek, or any other third-party manufacturer which we use in the future, violates 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 depend on sole source suppliers for some of our components, and our product availability and sales would be harmed if any of these suppliers are not able to meet our demand and alternative 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. If there is a shortage of any such components, we may not be able to deliver sufficient quantities of our products to satisfy demand. The cost, quality and availability of components are essential to the successful production and sale of our products. Some of these components come from sole or single source suppliers for which alternative components may not be available. If suppliers are unable to meet our demand for sole source components and if we are unable to obtain an alternative source or if the price for a substitute is prohibitive, our ability to maintain timely and cost-effective production of our products would be seriously harmed.

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

From time to time, we may be required to license technology from third parties to develop new products or product enhancements. We have licensed software for use in our products from third-parties, such as QUALCOMM. The license from QUALCOMM 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. We cannot assure you 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 any third-party license required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards 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 operations and sales and our ability to obtain products from foreign manufacturers.

All of our products are manufactured in South Korea by our sole, third-party manufacturer, LG Innotek, and many of the components used by LG Innotek in the manufacture of our products are produced outside the United States. In addition, we have international operations and sales, and a significant portion of our research and development staff is located in Canada. Our international sales accounted for approximately 76.3% of our revenue for the six months ended June 30, 2004 and 7.3% for fiscal 2003. 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:

- changes in international currency exchange rates;
- 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 international 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;
- international dock strikes or other transportation delays; and
- difficulty in managing widespread sales and research and development operations.

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

Our products may contain errors or defects, which could decrease their market acceptance.

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, damage to our reputation, lost revenue, diverted development resources, and increased customer service and support costs and warranty claims.

We may not be able to adequately protect our intellectual property, and we could incur substantial costs defending our intellectual property from infringement or a claim of infringement.

Our success depends in part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend significant resources to monitor and police our intellectual property rights. Despite these expenditures, we may not be able to detect infringement and as a consequence we may lose our competitive position in the market. Intellectual property rights also may be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share in such countries. The unauthorized use of our technology by competitors could have a material adverse effect on our ability to sell our products in some markets.

Although we are not currently involved in any material intellectual property litigation, we may be a party to material litigation in the future either to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These claims and any resulting litigation could subject us to significant liability for damages or could cause our proprietary rights to be invalidated. Litigation, regardless of the merits of the claim or outcome, would likely be time-consuming and expensive to resolve and would divert management time and attention away from the operation of our business. Any potential intellectual property litigation against us could also force us to do one or more of the following:

- stop using the challenged intellectual property and refrain from selling our products or services that incorporate it;
- obtain a license to use the challenged intellectual property or to sell products or services that incorporate it, which license may not be available on reasonable terms, or at all; or
- redesign those products or services that are based on or incorporate the challenged intellectual property.

If we are forced to take any of the foregoing actions, we may be unable to manufacture and sell our products, or we may be unable to do so on terms economically favorable to us, and our business, financial condition and results of operations may be materially adversely affected.

Our quarterly operating results may fluctuate in the future and may cause our stock price to decline.

Our future quarterly operating results may fluctuate significantly and may not meet the expectations of securities analysts or investors. If this occurs, the market price of our stock would likely decline. 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 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 a contract may take several months, and is subject to delays over which we have little or no control. The sale of our products is subject to delays from our customers' budgeting, approval, testing 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.

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 performance.

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 regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to telephone networks. 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 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.

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. In particular, the services of Peter Leparulo, our Chief Executive Officer, would be difficult to replace. 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 are bound by employment agreements. 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 intend to review, on an ongoing basis, acquisition opportunities that we believe would be advantageous 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 and results of operations:

- issue equity 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 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.

In the event we are unable to satisfy regulatory requirements relating to internal controls, or if these internal controls over financial reporting are not effective, our business could suffer.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required during 2004 to perform an evaluation of our internal controls over financial reporting and have our auditor attest to such evaluation. We have prepared an internal plan of action for compliance, which includes a timeline and scheduled activities, although as of the date of this filing we have not yet prepared the evaluation. Compliance with these requirements is expected to be expensive and time consuming. If we fail to timely complete this evaluation, or if our auditors cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

In designing and evaluating our internal controls over financial reporting, we recognize that any internal control or procedure, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. While we believe that our internal controls over financial reporting currently provide reasonable assurance of achieving their control objectives, no system of internal controls can be designed to provide absolute assurance of effectiveness. See "Item 4. Controls and Procedures" contained in this report. A material failure of internal controls over financial reporting could materially impact our reported financial results and the market price of our stock could significantly decline. Additionally, adverse publicity related to a material failure of internal controls over financial reporting would have a negative impact on our reputation and business.

To the extent we enter into contracts in the future that are denominated in foreign currencies, fluctuations in exchange rates between the United States dollar and other foreign currencies may affect our operating results.

To date, our distribution agreements in Europe and the Asia-Pacific region are denominated solely in U.S. dollars. In the event we enter into contracts in the future that are denominated in foreign currencies, we cannot assure you that we will not incur foreign currency losses or that we will enter into any hedging activities to reduce the risk of such losses or that these hedging activities will be successful.

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

We do not currently use derivative financial instruments. We generally place our cash and marketable securities in high-credit quality instruments, primarily U.S. Government obligations and corporate obligations with contractual maturities of less than two years. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our investments and therefore, impact our cash flows and results of operations. We do not expect any material loss from our cash and cash equivalents and therefore believe that our potential interest rate exposure is not material; however, these investments are subject to interest rate risk. We do not currently enter into foreign currency hedge transactions. During the six months ended June 30, 2004, we had a foreign currency gain of approximately $31,000 recorded in other income and expenses related to our restructuring accrual denominated in Canadian dollars. Revenues generated outside the United States (denominated in U.S. dollars), as a percentage of total revenues were 76.3% for the six months ended June 30, 2004 and 7.3% for the same period in 2003. Fluctuations in foreign exchange rates could impact future operating results.

Item 4. ***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 and principal accounting officer, 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 June 30, 2004, 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 chief executive officer and principal accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and principal accounting officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There have been no significant changes in our internal control over financial reporting or identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. ***Legal Proceedings***

None

Item 2. ***Changes in Securities and Use of Proceeds***

None

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

On June 22, 2004, we held our annual meeting of stockholders at which our stockholders voted upon (i) the election of two nominees to our board of directors to serve until the annual meeting of stockholders in 2007 and until their respective successors are duly elected and qualified, (ii) the ratification of the appointment of KPMG as our Independent Public Accountants for the fiscal year ending December 31, 2004, (iii) the amendment of our Amended and Restated 2000 Stock Incentive Plan in order to increase the number of shares reserved for issuance under the plan by 2,000,000, and (iv) the amendment of our 2000 Employee Stock Purchase Plan in order to increase the number of shares reserved for issuance under the plan by 80,000. The directors sitting for re-election were Messrs. Robert Getz and Peng Lim and the directors continuing in office were Messrs. Peter Leparulo, Daniel Pittard, Horst Pudwill, Mark Rossi and David Werner.

Our stockholders elected both Messrs. Getz and Lim to three-year terms as members of our board of directors, and each of the other proposals passed. The number of votes cast for, against or withheld, abstentions and broker non-votes with respect to each matter voted upon is set forth below. Additional information regarding the matters submitted to a vote of our security holders at our 2004 annual meeting may be found in our definitive proxy statement filed with the Securities and Exchange Commission on June 1, 2004.

	For	Against/ Withheld	Abstentions	Broker non-votes
i Election of Directors:				
Robert Getz	21,492,317	91,120		
Peng Lim	16,720,900	4,862,537		
ii Ratification of Appointment of Independent Public Accountants	21,566,272	9,013	8,152	
iii Amendment of the Amended and Restated 2000 Stock Incentive Plan	9,918,764	2,386,925	7,062	9,270,686
iv Amendment of the 2000 Employee Stock Purchase Plan	12,144,161	160,628	7,962	9,270,686

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits

Exhibit Number	Description
10.1	Form of Change of Control Letter Agreement dated as of August 13, 2004, by and between Novatel Wireless, Inc. and several executives of Novatel Wireless, Inc.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Current reports on Form 8-K, furnished August 13, 2004, July 26, 2004 and May 6, 2004.

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: August 13, 2004	Novatel Wireless, Inc.
	By: /s/ DAN L. HALVORSON
	Dan L. Halvorson *Chief Financial Officer and Treasurer* *(Principal Financial and Accounting Officer)*

Exhibit 10.1

NOVATEL WIRELESS, INC.
9255 TOWNE CENTRE DRIVE, STE. 225
SAN DIEGO, CA 92121

______, 2004

Dear__________

Novatel Wireless, Inc. (the "Corporation") considers it essential to the best interests of its shareholders to foster the continuous employment of the Corporation's key management personnel. In this regard, the Corporation's Board of Directors (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control of the Corporation may exist and the uncertainty and questions that it may raise among management could result in the departure or distraction of management personnel to the detriment of the Corporation and its shareholders.

The Board has decided to reinforce and encourage the continued attention and dedication of members of the Corporation's management, including yourself, to their assigned duties without the distraction arising from the possibility of a change in control of the Corporation.

In order to induce you to remain in its employ, the Corporation hereby agrees that after this letter agreement (this "Agreement") has been fully executed, you shall receive the severance benefits set forth in this Agreement in the event that your employment with the Corporation is terminated under the circumstances described below in anticipation of or subsequent to a Change in Control (as defined in Section 2 below).

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2005; *provided*, *however*, that commencing on January 1, 2006 and on each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31 of the preceding year, the Corporation shall have given you notice that it does not wish to extend this Agreement; *provided*, *further*, that if a Change in Control occurs during the original or any extended term of this Agreement, the term of this Agreement shall continue in effect for the two (2) year period immediately following the Change in Control.

2. Change in Control. No benefits shall be payable hereunder unless there has been a Change in Control. For purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following:

(i) The consummation of a merger, consolidation, business combination, or similar transaction, of the Corporation with or into another entity or any other corporate reorganization, or any similar transaction or series of transactions, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization or transaction or series of transactions is owned by persons who were not stockholders of the Corporation immediately prior to such merger, consolidation or other reorganization, or transaction or series of transactions;

(ii) The sale, transfer or other disposition of all or substantially all of the Corporation's business, property or assets;

(iii) A change in the composition of the Board, as a result of which fewer than one-half of the incumbent directors are directors who either (a) had been directors of the Corporation on the date twenty-four (24) months prior to the date of the event that may constitute a Change in Control (the "Original Directors") or (b) were elected, or nominated for election, to the Board with the affirmative votes of at a majority of the aggregate of the Original Directors who were still in office at the time of the election or nomination of the directors whose election or nomination was previously so approved;

(iv) Any transaction or series of transactions as a result of which any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), directly or indirectly, of securities of the Corporation representing at least 30% of the total voting power represented by the Corporation's then outstanding voting securities. For purposes of this Subparagraph (iv), the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude: (a) a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or a subsidiary of the Corporation; (b) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation; and (c) the Corporation;

(v) A liquidation or dissolution of the Corporation; or

(vi) The termination of employment of the Chief Executive Officer of the Corporation, in office as of the date of this Agreement, (the "CEO"), for any reason other than by the Corporation for Cause (as such term is defined in the Employment Agreement of the CEO) or by the CEO other than for Good Reason (as such term is defined in the Employment Agreement of the CEO) or death of the CEO.

3. Termination in Anticipation of or Following Change in Control.

(i) General. If a Change in Control shall have occurred during the term of this Agreement, you shall be entitled to the benefits provided in Section 4(ii) if your employment is terminated within the one (1) year period immediately following the date of such Change in Control (a) by the Corporation other than for Cause or Disability (each as defined in Section 3(ii) below), or (b) by you for Good Reason (as defined in Section 3(iv) below) (a termination of your employment under the circumstances described in this sentence is sometimes hereinafter referred to as a "Payment Termination"). Notwithstanding anything contained herein, if your employment is terminated during the period commencing on the public announcement of a transaction that if consummated will constitute a Change in Control and ending on the date of the consummation of such Change in Control either by the Corporation other than for Cause or Disability or by you for Good Reason, and if such termination (1) was at the request of a third party effecting the Change in Control or (2) otherwise arose in connection with or in anticipation

of the Change in Control, then for all purposes of this Agreement your employment shall be deemed to have been terminated immediately after the actual occurrence of the Change in Control. Except as described in the preceding sentence, in the event that your employment with the Corporation is terminated for any reason and subsequently a Change in Control occurs, you shall not be entitled to any benefits hereunder. In the event that you are entitled to the benefits provided in Section 4(ii), such benefits shall be paid notwithstanding the subsequent expiration of the term of this Agreement.

(ii) Death or Disability. Your employment with the Corporation shall terminate automatically upon your death. The Corporation may terminate your employment for Disability (as defined below in this Subparagraph (ii)), but only if that Disability continues through the Date of Termination (as defined in Section 3(vii) below).

For purposes of this Agreement, "Disability" shall mean your absence from the full-time performance of your duties with the Corporation for a period of not less than six (6) consecutive months by reason of your physical or mental illness.

(iii) Cause. The Corporation may terminate your employment for Cause (as defined below in this Section 3(iii)) by giving you thirty (30) days' advance written notice of such termination.

For purposes of this Agreement, "Cause" shall mean:

(a) your failure to substantially perform your duties with the Corporation (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after your issuance of a Notice of Termination (as defined in Section 3(vi) below) for Good Reason), after a written demand for substantial performance is delivered to you by the Board;

(b) your commission of an act of fraud or dishonesty resulting in material economic or financial injury to the Corporation;

(c) your willful violation of a federal or state law, rule or regulation applicable to the business of the Corporation of a type and kind that is materially adverse to the Company;

(d) your willful violation of a federal or state law securities law applicable to the Corporation; or

(e) your conviction of, or entry by you of a guilty or no contest plea to, the commission of a felony.

For purposes of this Section 3(iii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you in bad faith. Notwithstanding the foregoing, you shall not be deemed terminated for Cause pursuant to Sections 3(iii)(a) -(d) hereof unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters ($^3/_4$) of the entire membership of the Board (after reasonable notice to you, an opportunity for you, together with

your counsel, to be heard before the Board and a reasonable opportunity to cure), finding that in the Board's good faith opinion you were guilty of the conduct set forth above in this Section 3(iii) and specifying the particulars thereof in reasonable detail.

(iv) Good Reason. You may terminate your employment with the Corporation for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence, after a Change in Control, of any one or more of the following events without your prior written consent:

(a) the assignment to you of any duties which are adversely inconsistent with the position in the Corporation that you held immediately prior to the Change in Control, a significant adverse alteration in the nature or status of your responsibilities or the conditions of your employment from those in effect immediately prior to the Change in Control, including by virtue of the Corporation ceasing to be a publicly-held corporation, or any other action by the Corporation that results in a material diminution in your position, authority, title, duties or responsibilities;

(b) the Corporation's reduction of your annual base salary or bonus opportunity, each as in effect on the date hereof or as the same may be increased from time to time;

(c) the relocation of the Corporation's offices at which you are principally employed immediately prior to the date of the Change in Control (your "Principal Location") to a location more than thirty (30) miles from such location, or the Corporation's requiring you to be based at a location more than thirty (30) miles from your Principal Location, except for required travel on the Corporation's business to an extent substantially consistent with your present business travel obligations;

(d) the Corporation's failure to pay to you any portion of your then current compensation or any portion of an installment of deferred compensation under any deferred compensation program of the Corporation, in each case within seven (7) days of the date such compensation is due;

(e) the Corporation's failure to continue in effect compensation and employee benefits, including benefit plans which provide you with benefits which are substantially similar, on an aggregate basis, to the benefits provided to you under the Corporation's regular compensation and benefit plans and practices immediately prior to the Change in Control, unless an equitable arrangement (embodied in ongoing substitute or alternative plans) has been made with respect to such plans, or the Corporation's failure to continue your participation therein (or in such substitute or alternative plans) on a basis not materially less favorable in the aggregate, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

(f) the Corporation's failure to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 6 hereof;

(g) any purported termination of your employment that is not effected pursuant to a Notice of Termination (as defined in Section 3(vi) below)satisfying the requirements of Section 3(vi) hereof (and, if applicable, the requirements of Section 3(iii) hereof), which purported termination shall not be effective for purposes of this Agreement;

(h) the continuation or repetition, after written notice of objection from you, of harassing or denigrating treatment of you which is inconsistent with your position with the Corporation; or

(i) any breach by the Corporation of any provision of this Agreement applicable to it which is material and adverse to you.

(v) Your right to terminate your employment pursuant to this Section 3(iv) shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(vi) Notice of Termination. Any purported termination of your employment by the Corporation or by you (other than termination due to your death, which shall terminate your employment automatically) shall be communicated by a written Notice of Termination to the other party hereto in accordance with Section 7.

For purposes of this Agreement, "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement (if any) relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(vii) Date of Termination. For purposes of this Agreement, "Date of Termination" shall mean:

(a) if your employment is terminated due to your death, the date of your death;

(b) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full time performance of your duties during such thirty (30) day period); and

(c) if your employment is terminated for any reason other than death or Disability, the date specified in the Notice of Termination (which, in the case of a termination by the Corporation without Cause shall not be less than thirty (30) days from the date such Notice of Termination is given, and in the case of a termination by you for Good Reason shall not be less than fifteen (15) nor more than thirty (30) days from the date such Notice of Termination is given).

4. Compensation Upon Termination.

(i) If your employment with the Corporation is terminated by reason of your death, by the Corporation for Cause or Disability, or by you other than for Good Reason, the

Corporation shall pay you your full base salary, when due, through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan or practice of the Corporation at the time such payments are due, and the Corporation shall have no further obligations to you under this Agreement.

(ii) If you incur a Payment Termination, then, in lieu of any severance benefits to which you may otherwise be entitled under any severance plan or program of the Corporation, you shall be entitled to the benefits provided below:

(a) the Corporation shall, at the time specified in Section 4(iii), pay to you your full base salary, when due, through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan or practice of the Corporation at the time such payments are due;

(b) the Corporation shall, at the time specified in Section 4(iii), pay as severance pay to you a lump-sum severance payment equal to the sum of the following:

(A) three hundred percent (300%) of the greater of (x) your annual base salary as in effect immediately prior to delivery of the Notice of Termination or (y) your annual base salary as in effect immediately prior to the Change in Control; and

(B) three hundred percent (300%) of the greater of (x) your targeted annual bonus for the year in which the Date of Termination occurs or (y) your targeted annual bonus for the year in which the Change in Control occurs, in each case assuming that the bonus targets are satisfied;

(c) the Corporation shall, at its sole expense as incurred, provide you with financial planning services for the one (1) year period following the Date of Termination, such services to be of substantially the same type and scope as those which the Corporation was providing to you immediately prior to the Date of Termination, or, if more favorable to you, immediately prior to the date of the Change in Control;

(d) the Corporation shall, at its sole expense as incurred, provide you with outplacement services for a period not to exceed one (1) year at an aggregate cost to the Corporation not to exceed $10,000, the scope of which shall be selected by you in your sole discretion and the provider of which shall be selected by you from among the providers offered to you by the Corporation;

(e) for the period beginning on the Date of Termination and ending on the earlier of (i) the date which is twenty-four (24) full months following the Date of Termination or (ii) the first day of your eligibility to participate in a comparable group health plan maintained by a subsequent employer, the Corporation shall pay for and provide you and your dependents with the same medical benefits coverage to which you would have been entitled had you remained continuously employed by the Corporation during such period. In the event that you are ineligible under the terms of the Corporation’s benefit plans to continue to be so covered, the Corporation shall provide you with substantially equivalent coverage through other sources or will provide you with a lump sum payment (determined on a present value basis using

the interest rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), on the Date of Termination) in such amount that, after all income and employment taxes on that amount, shall be equal to the cost to you of providing yourself such benefit coverage. At the termination of the benefits coverage under the first sentence of this Section 4(ii)(e), you and your dependents shall be entitled to continuation coverage pursuant to Section 4980B of the Code, Sections 601-608 of the Employee Retirement Income Security Act of 1974, as amended, and under any other applicable law, to the extent required by such laws, as if you had terminated employment with the Corporation on the date such benefits coverage terminates.

(f) Gross-Up Payment.

(A) anything in this Agreement to the contrary notwithstanding, if it shall be determined that any payment or distribution to you or for your benefit (whether paid or payable or distributed or distributable) pursuant to the terms of this Agreement or otherwise (the "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then you shall be entitled to receive from the Corporation an additional payment (the "Gross-Up Payment") in an amount such that the net amount of the Payment and the Gross-Up Payment retained by you after the calculation and deduction of all Excise Taxes (including any interest or penalties imposed with respect to such taxes) on the payment and all federal, state and local income tax, employment tax and Excise Tax (including any interest or penalties imposed with respect to such taxes) on the Gross-Up Payment provided for in this Section 4(ii)(f)(A), and taking into account any lost or reduced tax deductions on account of the Gross-Up Payment, shall be equal to the Payment;

(B) all determinations required to be made under Section 4(ii)(f)(A), including whether and when the Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations shall be made by the Accountants (as defined below) which shall provide you and the Corporation with detailed supporting calculations with respect to such Gross-Up Payment within fifteen (15) business days of the receipt of notice from you or the Corporation that you have received or will receive a Payment.

For the purposes of this Section 4(ii)(f)(B), the "Accountants" shall mean the Corporation's independent certified public accountants serving immediately prior to the Change in Control. In the event that the Accountants are also serving as accountant or auditor for the individual, entity or group effecting the Change in Control, you shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accountants hereunder).

All fees and expenses of the Accountants shall be borne solely by the Corporation. For the purposes of determining whether any of the Payments will be subject to the Excise Tax and the amount of such Excise Tax, such Payments will be treated as "parachute payments" within the meaning of Section 280G of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that in the opinion of the Accountants such Payments (in whole or in part) either do not constitute "parachute payments"

or represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount," or such "parachute payments" are otherwise not subject to such Excise Tax. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay Federal income taxes at the highest applicable marginal rate of Federal income taxation for the calendar year in which the Gross-Up Payment is to be made and to pay any applicable state and local income taxes at the highest applicable marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in Federal income taxes which could be obtained from the deduction of such state or local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of your adjusted gross income), and to have otherwise allowable deductions for Federal, state and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-Up Payment in your adjusted gross income. To the extent practicable, any Gross-Up Payment with respect to any Payment shall be paid by the Corporation at the time you are entitled to receive the Payment and in no event will any Gross-Up Payment be paid later than five days after the receipt by you of the Accountant's determination. Any determination by the Accountants shall be binding upon the Corporation and you. As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accountants hereunder, it is possible that the Gross-Up Payment made will have been an amount less than the Corporation should have paid pursuant to this Section 4(ii)(f) (the "Underpayment"). In the event that the Corporation exhausts its remedies pursuant to Section 4(ii)(f)(3) and you are required to make a payment of any Excise Tax, the Underpayment shall be promptly paid by the Corporation to or for your benefit; and

(C) you shall notify the Corporation in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable after you are informed in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the expiration of the 30-day period following the date on which you give such notice to the Corporation (or such shorter period ending on the date that any payment of taxes, interest and/or penalties with respect to such claim is due). If the Corporation notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

(1) give the Corporation any information reasonably requested by the Corporation relating to such claim;

(2) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Corporation;

(3) cooperate with the Corporation in good faith in order to effectively contest such claim; and

(4) permit the Corporation to participate in any proceedings relating to such claims;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify you for and hold you harmless from, on an after-tax basis, any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of all related costs and expenses. Without limiting the foregoing provisions of this Section 4(ii)(f), the Corporation shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; *provided, however*, that if the Corporation directs you to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to you, on an interest-free basis, and shall indemnify you for and hold you harmless from, on an after-tax basis, any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance (including as a result of any forgiveness by the Corporation of such advance); *provided, further*, that any extension of the statute of limitations relating to the payment of taxes for the taxable year of you with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority;

(g) in any situation where under applicable law the Corporation has the power to indemnify (or advance expenses to) you in respect of any judgments, fines, settlements, loss, cost or expense (including attorneys' fees) of any nature related to or arising out of your activities as an agent, employee, officer or director of the Corporation or in any other capacity on behalf of or at the request of the Corporation, the Corporation shall promptly on written request, indemnify (and advance expenses to) you to the fullest extent permitted by applicable law, including but not limited to making such findings and determinations and taking any and all such actions as the Corporation may, under applicable law, be permitted to have the discretion to take so as to effectuate such indemnification or advancement. Such agreement by the Corporation shall not be deemed to impair any other obligation of the Corporation respecting your indemnification otherwise arising out of this or any other agreement or promise of the Corporation or under any statute; and

(h) the Corporation shall furnish you for six (6) years following the Date of Termination (without reference to whether the term of this Agreement continues in effect) with directors' and officers' liability insurance insuring you against insurable events which occur or have occurred while you were a director or officer of the Corporation, such insurance to have policy limits aggregating not less than the amount in effect immediately prior to the Change in Control, and otherwise to be in substantially the same form and to contain substantially the same terms, conditions and exceptions as the liability issuance policies provided for officers and directors of the Corporation in force from time to time, *provided, however*, that such terms, conditions and exceptions shall not be, in the aggregate, materially less favorable to you than those in effect on the date hereof; *provided, further*, that if the aggregate annual

premiums for such insurance at any time during such period exceed one hundred and fifty percent (150%) of the per annum rate of premium currently paid by the Corporation for such insurance, then the Corporation shall provide the maximum coverage that will then be available at an annual premium equal to one hundred and fifty percent (150%) of such rate.

(i) notwithstanding anything to the contrary contained in any equity plan or award agreement, or any other agreement to which the Corporation is a party, all outstanding stock options, restricted stock and other equity awards granted to you (whether before of after the date of this Agreement) under any of the Corporation's stock option plans, incentive plans or similar plans (or awards substituted therefor) or otherwise held by you immediately prior to a Payment Termination shall immediately become one hundred percent (100%) vested and exercisable in full, and remain exercisable for a period of two (2) years following a Payment Termination and/or restrictions with respect to restricted stock shall immediately lapse, as applicable.

(iii) The payments provided for in Sections 4(ii)(a), (b), and (e), as applicable, shall be made not later than the fifth business day following the Date of Termination; *provided, however*, that if the amounts of such payments cannot be finally determined on or before such day, the Corporation shall pay to you on such day an estimate, as determined in good faith by the Corporation, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Corporation to you, payable on the fifth day after demand by the Corporation (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(iv) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or self-employment, by retirement benefits, by offset against any amounts (other than loans or advances to you by the Corporation).

5. Reserved.

6. Successors; Binding Agreement.

(i) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business, equity and/or assets of the Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Unless expressly provided otherwise, "Corporation" as used herein shall mean the Corporation as defined in this Agreement and any successor to its business, equity and/or assets as aforesaid.

(ii) This Agreement shall inure to the benefit of and be enforceable by you and your personal or legal representatives, executors, administrators, successors, heirs,

distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder had you continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

7. Notice. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Corporation shall be directed to the attention of its Secretary, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Except as provided in Section 4(ii)(f) hereunder, any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Section 4 shall survive the expiration of the term of this Agreement. The section headings contained in this Agreement are for convenience only, and shall not affect the interpretation of this Agreement.

9. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

11. Arbitration. Any controversy or claim arising out of or relating to this Agreement shall be settled by binding arbitration in San Diego County, California, in accordance with the commercial arbitration rules of the American Arbitration Association. The demand for arbitration must be made within one year after the controversy or claim arises; failure to do so shall constitute an absolute bar to the institution of any such proceeding and shall forever constitute a waiver respecting any such controversy or claim. Any award pursuant to such arbitration shall be included in a written decision which shall state the legal and factual reasons upon which the award was based, including all the elements involved in the calculation of any

award of damages. Any such award shall be deemed final and binding and may be entered in any state or federal court of competent jurisdiction. The arbitrator(s) shall interpret the Agreement in accordance with the laws of California. The arbitrator(s) shall be authorized to award reasonable attorneys' fees and other arbitration–related costs to the prevailing party.

12. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto, and any prior agreement of the parties hereto in respect of the subject matter contained herein. Any of your rights hereunder shall be in addition to any rights you may otherwise have under benefit plans or agreements of the Corporation (other than severance plans or agreements) to which you are a party or in which you are a participant, including, but not limited to, any Corporation sponsored employee benefit plans and stock options plans. The provisions of this Agreement shall not in any way abrogate your rights under such other plans and agreements.

13. At-Will Employment. Nothing contained in this Agreement shall (i) confer upon you any right to continue in the employ of the Corporation, (ii) constitute any contract or agreement of employment, or (iii) interfere in any way with the at-will nature of your employment with the Corporation, including without limitation, the right of the Corporation to terminate you at the will of the Corporation, with or without cause, and you and the Corporation expressly agree that nothing contained in this agreement shall imply or constitute an express or implied contract to the contrary. Not withstanding anything set forth in this agreement, you shall not be entitled to any benefits hereunder whatsoever, unless there has been a Change in Control.

[SIGNATURE PAGE FOLLOWS]

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Corporation the enclosed copy of this letter, which shall then constitute our agreement on this subject.

Sincerely,

NOVATEL WIRELESS, INC.

____

By: ______________________________

Its: ______________________________

Agreed and Accepted,
this ______ day of August, 2004.

____

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 Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter Leparulo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Novatel Wireless Inc.;

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

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

4. The registrant's other certifying officer(s) 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)) 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) 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

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Peter Leparulo

Peter Leparulo
Chief Executive Officer

Dated: August 13, 2004

Exhibit 31.2

Certification of Principal Financial Officer

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(s) 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)) 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) 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

(c) 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 second 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(s) 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: August 13, 2004

Exhibit 32

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 created by 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) and 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 13th day of August, 2004.

/s/ Peter Leparulo

Peter Leparulo
Chief Executive Officer

/s/ Dan L. Halvorson

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