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

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from __________ to __________.

Commission file number: 000-31659

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

Delaware **(State or other jurisdiction or incorporation or organization)**	**86-0824673** **(I.R.S. Employer Identification No.)**
9645 Scranton Road, Suite 205, San Diego, CA **(Address of principal executive offices)**	**92121** **(zip code)**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐.

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

The number of shares of the Registrant's common stock outstanding as of November 7, 2005 was 29,292,749.

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; the utilization of our net operating loss carryforwards; the impact of expensing stock options effective January 1, 2006; 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 “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

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

PART I – FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NOVATEL WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,068	$ 16,486
Marketable securities	52,827	36,591
Accounts receivable, net of allowance for doubtful accounts of $86 in 2005 and $105 in 2004	36,840	14,061
Inventories	17,819	9,653
Deferred tax assets, net	1,078	—
Prepaid expenses and other	6,373	2,182
Total current assets	130,005	78,973
Property and equipment, net	6,560	4,476
Marketable securities	11,002	28,144
Intangible assets, net	3,655	4,620
Deferred tax assets, net	875	—
Other assets	225	110
	$ 152,322	$ 116,323
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,753	$ 5,952
Accrued expenses	8,684	7,962
Restructuring accrual	377	573
Deferred revenue	20	531
Capital lease obligation	—	1,127
Total current liabilities	35,834	16,145
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, par value $0.001, 2,000 shares authorized and none outstanding	—	—
Common stock, par value $0.001, 50,000 shares authorized, 29,257 and 28,944 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	29	29
Additional paid-in capital	339,342	333,945
Accumulated other comprehensive loss	(418)	(336)
Accumulated deficit	(222,465)	(233,460)
Total stockholders' equity	116,488	100,178
	$ 152,322	$ 116,323

See accompanying notes to unaudited consolidated financial statements

NOVATEL WIRELESS, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Revenue	$42,129	$31,018	$113,053	$70,278
Cost of revenue	28,991	20,708	77,431	47,923
Gross profit	13,138	10,310	35,622	22,355
Operating costs and expenses:				
Research and development	5,200	2,917	13,163	7,291
Sales and marketing	1,912	1,325	5,197	3,163
General and administrative	1,913	1,357	5,557	3,585
Total operating costs and expenses	9,025	5,599	23,917	14,039
Operating income	4,113	4,711	11,705	8,316
Other income (expense):				
Interest income and expense, net	632	262	1,652	418
Other income/(expense), net	(207)	(46)	(288)	(83)
Income before taxes	4,538	4,927	13,069	8,651
Income tax expense (benefit)	(912)	—	2,074	—
Net income	5,450	4,927	10,995	8,651
Accretion of dividends and beneficial conversion features pertaining to preferred stock	—	—	—	(145)
Net income available to common stockholders	$ 5,450	$ 4,927	$ 10,995	$ 8,506
Per share data:				
Net income per common share:				
Basic	$ 0.19	$ 0.18	$ 0.38	$ 0.38
Diluted	$ 0.18	$ 0.16	$ 0.36	$ 0.31
Weighted average shares used in computation of basic and diluted net income per common share:				
Basic	29,186	28,116	29,076	22,377
Diluted	30,333	30,564	30,275	28,117

See accompanying notes to unaudited consolidated financial statements

NOVATEL WIRELESS, INC.

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Cash flows from operating activities:		
Net income	$ 10,995	$ 8,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,072	2,642
Inventory write-offs	657	131
Gain on sale of property and equipment	—	(26)
Compensation for stock options issued below fair value	—	141
Non-cash income tax expense	2,074	—
Increase (decrease) in cash resulting from changes in:		
Restricted cash	—	635
Accounts receivable, net	(22,779)	540
Inventories	(8,823)	(2,405)
Prepaid expenses and other assets	(4,306)	(142)
Accounts payable	20,801	3,877
Accrued expenses	722	5,647
Restructuring accrual	(196)	(286)
Deferred revenue	(511)	(4,397)
Net cash provided by operating activities	1,706	15,008
Cash flows from investing activities:		
Purchases of property and equipment	(3,996)	(1,556)
Proceeds from sale of property and equipment	—	30
Purchases of intangible assets	(195)	(1,525)
Purchases of securities	(36,564)	(49,973)
Maturities/sales of securities	37,387	—
Net cash used in investing activities	(3,368)	(53,024)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	1,371	6,045
Proceeds from issuance of common stock, net	—	68,473
Principal payments under capital lease obligations	(1,127)	(478)
Net cash provided by financing activities	244	74,040
Net increase (decrease) in cash and cash equivalents	(1,418)	36,024
Cash and cash equivalents, beginning of period	16,486	3,942
Cash and cash equivalents, end of period	$ 15,068	$ 39,966
Supplemental disclosure of non-cash investing and financing activities:		
Accretion of dividends on Series A preferred stock	$ —	$ 18
Accretion of dividends on Series B preferred stock	—	127
Conversion of Series B preferred stock into shares of common stock	—	7
Capital lease obligations	—	2,030
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 25	$ 30

See accompanying notes to unaudited consolidated financial statements

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The information contained herein has been prepared by Novatel Wireless, Inc. (the "Company") in accordance with the rules of the Securities and Exchange Commission. The information at September 30, 2005 and for the three and nine months ended September 30, 2005 and September 30, 2004 is unaudited. The consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented. These consolidated financial statements and notes hereto should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2004. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to amounts included in the prior period's financials statements to conform to the current year presentation.

Use of Estimates

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 materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, inventory valuation, useful lives, valuation of intangible and long-lived assets, provision for warranty and price protection costs, estimated royalty costs, the deferred tax asset valuation allowance, and the use of option pricing models to establish values of equity instruments.

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 Financial Accounting Standards Board ("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, SFAS No. 148 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 income 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. During the nine months ended September 30, 2005, the Company issued options to purchase an aggregate of 1,519,138 shares of the Company's common stock to employees and a non-employee director. The vesting schedule for 1,100,000 of these options is generally 20% at six months from the vesting commencement date and 1/30th of the remaining balance of the grant each month thereafter. The remaining option grants vest 25% at one year from the vesting commencement date and monthly thereafter for a total of four years. However, the Company's 2000 Stock Incentive Plan, pursuant to which these options were granted, permits accelerated vesting upon a change in control of the Company. The weighted average exercise price per share of the options granted during the nine months ended September 30, 2005, was estimated to be $11.83 on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options granted during the nine months ended September 30, 2005 was estimated to be $6.38 per share on the date of grant using the Black-Scholes option pricing model. For the nine months ended September 30, 2005 and September 30, 2004, the following assumptions for option grants have been made: risk-free interest rates of 3.85% and 2.58%, respectively, dividend yields of 0%, expected volatility of 68% and 149%, respectively, and an expected life of the options of four years.

Had compensation expense been determined based on the fair value method at the dates of grant for the nine months ended September 30, 2005 and September 30, 2004 consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net income per share would have been reported as the pro forma amounts indicate below (In thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income available to common stockholders, as reported	$ 5,450	$ 4,927	$10,995	$ 8,506
Add: Share-based employee compensation expense included in reported net income available to common stockholders, net of related tax benefits	—	—	—	—
Deduct: Share-based employee compensation expense determined under the fair value based method for all awards, net of related tax benefits	(2,882)	(3,257)	(9,078)	(7,234)
Net income available to common stockholders, pro forma	$ 2,568	$ 1,670	$ 1,917	$ 1,272
Net income per share, as reported – Basic	$ 0.19	$ 0.18	$ 0.38	$ 0.38
Net income per share, pro forma – Basic	$ 0.09	$ 0.06	$ 0.07	$ 0.06
Net income per share, as reported – Diluted	$ 0.18	$ 0.16	$ 0.36	$ 0.31
Net income per share, pro forma – Diluted	$ 0.08	$ 0.05	$ 0.06	$ 0.05

Future Accounting Requirements

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43 Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that " . . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal to require treatment as current period charges . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement will be effective for inventory costs during the fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of this statement will have a material impact on its financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which requires companies to expense the estimated fair value of employee stock options and similar awards. In April 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the compliance dates for SFAS No. 123R. In accordance with the new rule, the accounting provisions of SFAS No. 123R will be effective for the Company beginning in the first quarter of fiscal 2006. The Company plans to adopt the provisions of SFAS No. 123R using the modified prospective application. Under the modified prospective application, SFAS No. 123R, which provides certain changes to the method for valuing share-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date, will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123. At September 30, 2005, unamortized compensation expense, as determined in accordance with SFAS No. 123, that the Company expects to record during fiscal 2006 was approximately $10.4 million before income taxes. The Company expects to incur additional expense during fiscal 2006 related to new awards granted during the remainder of fiscal 2005 and during fiscal 2006 that cannot yet be quantified. The Company is currently evaluating the future impact the adoption SFAS No. 123R will have on its consolidated financial statements and expects that the adoption will result in a significant increase in operating expenses.

In March 2005, the SEC released Staff Accounting Bulletin (SAB) No. 107, “Share-Based Payment” (“SAB 107”). SAB 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the Staff’s views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently reviewing the effect of SAB 107 on its consolidated financial statements as it prepares to adopt SFAS No. 123R.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, “Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3” (“SFAS No. 154”), which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 applies to all voluntary changes in accounting principles, and changes the accounting and reporting requirements for a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless doing so is impracticable. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period in which the change occurred the cumulative effect of changing to the new accounting principle. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 carries forward without change the guidance in APB 20 for reporting the correction of an error in previously issued financial statements, a change in accounting estimate and a change in reporting entity, as well as the provisions of SFAS 3 that govern reporting accounting changes in interim financial statements. The Company is currently evaluating the impact of SFAS No. 154 on its consolidated financial statements, but does not expect that the impact will be material.

2. Balance Sheet Details

Marketable Securities

As of September 30, 2005, unrealized losses of $418,000 are included in accumulated other comprehensive loss. The Company's portfolio of available-for-sale securities by contractual maturity consists of the following as of September 30, 2005 (In thousands):

	Maturity in Years	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
U.S. Agency securities	1 or less	$ 11,770	$ (94)	$ 11,676
Corporate debentures/bonds	1 or less	29,144	(206)	28,938
Commercial paper	1 or less	12,218	(5)	12,213
Total short-term marketable securities		53,132	(305)	52,827
U.S. Agency securities	1 to 2	2,984	(41)	2,943
Corporate debentures/bonds /preferred	1 to 2	8,131	(72)	8,059
Total long-term marketable securities		11,115	(113)	11,002
		$ 64,247	$ (418)	$ 63,829

Inventories

Inventories consist of the following (In thousands):

	September 30, 2005	December 31, 2004
Finished goods	$ 13,800	$ 2,436
Raw materials and components	4,019	7,217
	$ 17,819	$ 9,653

Accrued Expenses

Accrued expenses consist of the following (In thousands):

	September 30, 2005	December 31, 2004
Royalties	$ 5,303	$ 4,524
Payroll and related expenses	2,261	2,175
Product warranty and sales returns reserve	441	404
Professional fees	405	124
Other	274	735
	$ 8,684	$ 7,962

Restructuring Accrual

As a result of the previous adverse economic developments in the Company's industry sector, the Company reduced its operating costs from 2001 through 2003, primarily through employee layoffs and facility consolidations. The restructuring accrual related to these cost reductions at September 30, 2005 and December 31, 2004 consists solely of facility closing costs.

The following table displays the activity and balances of the restructuring accrual from January 1, 2005 through September 30, 2005 (In thousands):

Balance – January 1, 2005	$ 573
Net cash payments	(196)
Balance – September 30, 2005	$ 377

Cash payments for facility closing costs of $377,000 are expected to be paid ratably over the next 24 months.

3. 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 September 30, 2005 were $150.1 million and $2.2 million, respectively, and as of December 31, 2004 were $114.0 million and $2.3 million, respectively. For the nine months ended September 30, 2005, approximately 65% of revenues were derived from international customers (Europe/Middle East/Africa 62%, Asia/Australia 3%) as compared to approximately 75% of revenues derived from international customers (Europe/Middle East/Africa 61%, Asia/Australia 14%), for the nine months ended September 30, 2004.

Concentrations of Risk

Substantially all of the Company's revenues are derived from the sales of wireless access products. Any significant decline in market acceptance of the Company's products or in the financial condition of the Company's existing customers could impair the Company's ability to operate effectively.

A significant portion of the Company's revenue is derived from a small number of customers. Three customers accounted for 22.6%, 15.1%, and 10.6% of revenues for the nine months ended September 30, 2005. Two customers accounted for 16.0% and 11.9% of revenues for the nine months ended September 30, 2004.

4. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income or loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (currently consisting of 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 nine months ended September 30, 2005 and 2004 (In thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic weighted average common shares outstanding	29,186	28,116	29,076	22,377
Effect of dilutive securities:				
Warrants	75	300	70	444
Options	1,072	2,148	1,129	2,103
Series A Preferred Stock	—	—	—	30
Series B Preferred Stock	—	—	—	3,163
Diluted weighted average common and potential common shares outstanding	30,333	30,564	30,275	28,117

Weighted average options and warrants to purchase a total of 2,033,305 and 1,714,877 shares of common stock for the three and nine months ended September 30, 2005, respectively, and 4,666,877 and 4,491,804 shares of common stock for the three and nine months ended September 30, 2004, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

5. Net Income Available to Common Stockholders

A reconciliation of the net income available to common stockholders is as follows (In thousands):

	Three Months ended September 30,		Nine Months ended September 30,	
	2005	2004	2005	2004
Net income	$ 5,450	$ 4,927	$10,995	$8,651
Adjustments to net income used in computing basic and diluted net income available to common stockholders:				
Accretion of dividends on Series A convertible preferred stock	—	—	—	(18)
Accretion of dividends on Series B convertible preferred stock	—	—	—	(127)
Total	—	—	—	(145)
Net income available to common stockholders	$ 5,450	$ 4,927	$10,995	$8,506

6. Income Taxes

During the third quarter of 2005, the Company completed its formal IRC Section 382 study and analysis. The results of this study concluded that the Company experienced several ownership changes for purposes of the IRC Section 382 limitation. As a result of the most recent ownership change, which occurred in 2003, utilization of the Company’s NOL is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate. The Company estimates its annual limitation for GAAP reporting purposes to amount to approximately $115,000. However, from time to time, the Company may take positions for filing our tax returns which may differ from the treatment of the same item for financial reporting purposes.

At December 31, 2004, a full valuation allowance had been provided against the Company's net operating loss carryforwards and other deferred tax assets since the amounts and extent of the Company's future earnings were not determinable with a sufficient degree of probability to recognize the deferred tax assets. As the third quarter of 2005 represented the Company's seventh consecutive quarter of profitability, management evaluated the deferred tax valuation allowance and determined that the valuation allowance on a portion of the U.S. deferred tax assets and a portion of the net operating loss carryforwards should be revised and as a result, the Company recorded a non-cash deferred income tax benefit to the Statements of Operations of $2.4 million for the three and nine months ended September 30, 2005. This determination was based on expected operating results for 2005 as well as current projections of future taxable income.

In addition, the Company has NOL carryforwards of approximately $7.4 million relating to stock option deductions from 2004. During the third quarter of 2005, the Company recorded a credit of $4.0 million to Stockholders' Equity relating to the reduction of the valuation allowance on a portion of these stock option deductions. For the remainder of 2005, the Company will continue to record income taxes at a rate equal to the Company's combined federal and state effective rates. As a result of the utilization of net operating loss carryforwards for tax reporting purposes, the Company does not anticipate paying cash income taxes for 2005, other than possibly alternative minimum taxes and certain state taxes.

7. Commitments and Contingencies

Royalties

The Company is required to make royalty payments on the sale of certain products which include licensed technology. For the nine months ended September 30, 2005 and 2004, the Company incurred royalty expense of $7.9 million and $6.1 million, respectively, which includes an accrual for royalty costs using the current best estimate of its obligation to holders of intellectual property with whom the Company has not entered into license agreements. These estimated royalty costs are based on various market data and other relevant information. If the Company enters into definitive license agreements, or if further relevant market data becomes available related to the intellectual property covered by this accrual, the Company may need to revise its estimates accordingly.

Legal Matters

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

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, 2004 contained in our 2004 annual report on Form 10-K.

Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products includes 3G wireless PC card modems, embedded modems, ruggedized modems, communications software and Multimedia Application Consoles for wide area and local area networks, which we sell principally to wireless network operators and to a lesser extent, distributors, original equipment manufacturers or OEMs and vertical markets worldwide. Through the integration of our hardware and software, our products are designed to operate on wireless networks throughout the world and provide mobile subscribers with secure and convenient high speed access to corporate, public and personal information through the Internet and enterprise networks. We also offer software engineering, integration and design services to our customers to facilitate the use of our products.

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, through early 2003, 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.

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 $35.7 million for fiscal year 2001 to a positive $33.9 million for fiscal year 2004, and an improvement in our gross margin percentage from negative 81.7% in 2001 to positive 32.7% for 2004. For the nine months ended September 30, 2005 our gross profit was $35.6 million, as compared to $22.4 million for the nine months ended September 30, 2004. We also increased our operating results and have reduced our operating loss from $28.0 million for fiscal year 2002 to operating income of $13.4 million for fiscal year 2004 and $11.7 million for the nine months ended September 30, 2005.

Factors Which May Influence Future Results of Operations

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

Revenue. We believe that our revenue growth will be influenced largely by the speed and breadth of the increase in demand for wireless access to data through the use of next generation networks including demand for 3G products and 3G data access services, particularly in Europe, North America and Asia, end customer acceptance of our new product offerings that address these markets, and our ability to meet customer demand. Factors that could potentially affect customer demand for our products include the following:

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

We began shipping our first 3G products in December 2003. We have shipped seven new 3G products since then and anticipate introducing additional 3G products during the remainder of 2005. In the future, we may enter into customer contracts for development services, but not at significant levels in relation to total revenue. Certain end customers have purchased our products through our strategic relationship with Lucent Technologies.

Cost of Revenue. We currently outsource our manufacturing operations to LG Innotek, Celestica and SerComm. All costs associated with these manufacturers are included in our cost of revenue. Cost of revenue also includes warranty costs, amortization of intangible licenses, royalties based on a percentage of revenue, operations group expenses, costs related to development services and costs related to inventory adjustments, including any write downs for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above. We plan 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, Asia and Africa. If these markets continue to grow, we will likely develop new products to serve these markets, resulting in increased research and development expenses associated with 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 products. In addition, the accounting for stock options beginning in the first quarter of 2006 will require us to use the fair value method to account for all stock-based compensation pursuant to Statement of Financial Accounting Standard No. 123R, which will significantly increase our operating expenses.

Critical Accounting Policies and Estimates

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 revenue recognition, allowance for doubtful accounts receivable, inventory valuation, provision for warranty costs and price protection, useful lives, valuation of intangible and long-lived assets, estimates for costs recorded in restructuring and royalty accruals, deferred tax asset valuation allowance, and the use of option pricing models to establish values of equity instruments.

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

For our fixed price development services contracts, we recognize revenue as services are rendered using labor costs as an input measure. If the contract includes milestones, we do not recognize revenue until the milestone criteria are met. 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, or 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 was deferred and was recognized as revenue when products were shipped or as development services were performed. During 2004, we recognized approximately $5.7 million of this deferred revenue and the remaining $531,000 was recognized during the first quarter of 2005.

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

Inventory Valuation. Inventories are stated at the lower of cost (first-in, first-out method) or market. We review the components of our inventory and our inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value depend on various items, including factors related to customer demand as discussed under "Revenue" above, economic and competitive conditions, technological advances or new product introductions by us or our customers that vary from our current expectations.

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 less than our estimates, inventory write-downs 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-year 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.

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

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

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

Royalty Costs. We have license agreements which commit us to royalty payments generally based on a percentage of the sales price of our products using certain technologies. We recognize royalty obligations in accordance with terms of the respective royalty agreements. We have also accrued for royalty costs in cases where we do not have agreements by using our current best estimate of our obligation. These estimates are based on various market data information and other relevant information. If we enter into such agreements, or when additional market data becomes available, we from time to time revise our estimates accordingly.

Income Taxes. We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax authorities. We also recognize federal, state and foreign deferred tax liabilities or assets for our estimate of future tax effects attributable to temporary differences and carry forwards and record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized. During the third quarter of 2005, we recorded a non-cash deferred income tax benefit to the Statements of Operations of $2.4 million for the three and nine months ended September 30, 2005, as discussed in Footnote 6. We will continue to evaluate the necessity for the valuation allowance on the remaining deferred tax assets each quarter.

Foreign Currency Translation. The functional currency of our foreign subsidiary is the U.S. dollar. Assets and liabilities denominated in foreign currencies are translated using the exchange rates at the balance sheet date. Revenues and expenses are translated using average exchange rates during the year. Translation adjustments are recorded in the consolidated statements of operations.

Foreign Exchange Forward Contracts We use foreign exchange forward contracts to hedge our economic exposure associated with sales and asset balances denominated in Euros. Our forward contracts do not qualify as accounting hedges. We mark-to-market the forward contracts and include unrealized gains and losses in the current period as a component of other income (expense). As of September 30, 2005, the total amount of outstanding forward contracts amounted to 22 million Euros.

Results of Operations

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Revenue. Revenue for the three months ended September 30, 2005 increased $11.1 million, or 35.8%, to $42.1 million compared to $31.0 million for the same period in 2004. The overall increase in revenue is primarily attributable to an increase in product sales of approximately $12.0 million primarily due to strong demand for our UMTS U630 and EVDO PC Cards, which we introduced during the fourth quarter of 2004 and the first nine months of 2005, respectively. In addition, the increase in revenue was attributable to the introduction of our Ovation Multimedia Application Console during the second quarter of 2005. The increase in revenue was also attributable to the overall increase in demand for wireless products and wireless access services, which is the direct result of the continued deployment of 3G networks throughout Europe, North America, Asia and Africa. This increase in revenue was offset by a decrease in revenue recognized for development services during 2005 compared to 2004. During the third quarter of 2005, there was no revenue recognized for development services, as compared to approximately $900,000 recognized for the same period in 2004. 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 September 30, 2005 increased $8.3 million, or 40.0% to $29.0 million compared to $20.7 million for the same period in 2004. The increase in cost of revenues was primarily related to increased product volumes of $8.3 million, an increase in manufacturing overhead costs of approximately $1.3 million and an increase of approximately $400,000 related to excess inventory for products that are no longer being manufactured. These increases were offset by a reduction in royalty costs of approximately $900,000 during the three months ended September 30, 2005 compared to the same period in 2004. This decrease was primarily due to the change in sales mix of products with lower royalty percentages and due to updating our royalty accrual estimate for intellectual property where we have not entered into license agreements. The cost of revenues were also favorably impacted by $700,000 in development costs in the third quarter of 2004 that were not incurred in the same period of 2005 and a reduction in amortization of software licenses of approximately $100,000 during the three months ended September 30, 2005 compared to the same period in 2004.

Gross profit. Gross profit for the three months ended September 30, 2005 increased by $2.8 million, or 27.4% to $13.1 million compared to $10.3 million for the same period in 2004. The increase was primarily attributable to the increase in sales volume of our products. Gross margin as a percent of revenue decreased to 31.2% for the three months ended September 30, 2005 compared to 33.2% for the same period in 2004. The decrease in gross margin as a percentage of revenue was primarily attributable to a negative impact on our sales prices in Europe as a result of competitive pricing pressures and the additional freight and distribution costs associated with our move towards a direct distribution model in Europe in 2005. Our gross margins were also negatively impacted by the charge for excess inventory as described above as compared to the same period in 2004. These decreases were partially offset by the decrease in royalty expense during the quarter as discussed above.

Research and development. Research and development expenses for the three months ended September 30, 2005 increased $2.3 million, or 78.3%, to $5.2 million compared to $2.9 million for the same period in 2004. The increase was primarily attributable to an increase in salary and related expenses of approximately $700,000, an increase in the use of research supplies and expendable equipment of $500,000 and an increase in research and development overhead costs of approximately $400,000 in the third quarter of 2005 as compared to the same period in 2004. In addition, research and development expenses increased by approximately $700,000 as a result of the reassignment of research and development personnel from customer funded development contracts to internally funded research and development projects in the third quarter of 2005 as compared to the same period in 2004.

Sales and marketing. Sales and marketing expenses for the three months ended September 30, 2005 increased approximately $600,000, or 44.3%, to $1.9 million compared to approximately $1.3 million for the same period in 2004. The increase was primarily a result of an increase in sales and marketing efforts which included hiring new personnel during the second half of 2004 and during 2005, primarily to expand our European sales team, which increased salary and related expenses by approximately $400,000. In addition to the increases in personnel, sales and marketing overhead and travel expenses increased by approximately $200,000 during the third quarter of 2005, as a result of the expansion of our sales force in Europe as compared to the same period in 2004.

General and administrative. General and administrative expenses for the three months ended September 30, 2005 increased approximately $500,000, or 41.0%, to $1.9 million compared to $1.4 million for the same period in 2004. The increase was primarily attributable to an increase in salary and related expenses of approximately $300,000 due to additional headcount increases during the second half of 2004 and during 2005. Professional fees increased approximately $200,000 due primarily to costs associated with complying with the requirements of the Sarbanes-Oxley Act of 2002 as well as fees associated with our ongoing evaluation of our ability to utilize our net operating losses.

Interest income and expense, net. Interest income and expense, net increased by approximately $400,000 for the three months ended September 30, 2005 compared to the same period in 2004 primarily due to the increase in our average cash and marketable securities balances for the three months ended September 30, 2005, compared to the same period in 2004, as well as an increase in the average yields realized on our marketable securities and cash balances.

Provision for income taxes. We reported an income tax benefit of approximately $900,000 for the three months ended September 30, 2005, which consists of federal and state taxes at our estimated effective tax rate of 35% offset by a revision of our valuation allowance on specific U.S. deferred tax assets of approximately $2.4 million. In addition, we recorded a credit of $4.0 million to Stockholders’ Equity relating to the revision of the valuation allowance on stock option deductions. For the remainder of 2005, we will continue to record income taxes at a rate equal to our combined federal and state effective rates. As a result of the utilization of net operating loss carry-forwards, we do not anticipate paying cash income taxes for 2005, other than possibly alternative minimum taxes and certain state taxes.

The difference between the federal and state statutory rate of 40% and our effective tax rate is due primarily to research and development credits generated in 2005 and a low effective state tax rate. Our future effective income tax rate depends on various factors, such as the company’s profits before taxes, additional releases of valuation allowance reserves, the geographic composition of pre-tax income and the use of our net operating loss carryforwards. Future effective tax rates may therefore vary based on these factors.

Net income. For the three months ended September 30, 2005, we reported net income available to common stockholders of $5.5 million as compared to net income available to common stockholders of $4.9 million for the same period in 2004. The increase in net income available to common stockholders was attributable to the results of operations described above and the income tax benefit recorded during the third quarter of 2005. No income taxes were provided for during the same period in 2004.

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Revenue. Revenue for the nine months ended September 30, 2005 increased $42.8 million, or 60.9%, to $113.1 million compared to $70.3 million for the same period in 2004. The overall increase in revenue is primarily attributable to an increase in product sales of approximately $45.3 million primarily due to strong demand for our UMTS U630 and EVDO PC Cards, which we introduced during the fourth quarter of 2004 and the first nine months of 2005, respectively. In addition, the increase in revenue was attributable to the introduction of our Ovation Multimedia Application Console during the first half of 2005. The increase in revenue was also attributable to the overall increase in demand for wireless products and wireless access services during the nine months ended September 30, 2005 as compared to the same period in 2004, which is the direct result of the continued deployment of 3G networks throughout Europe, North America, Asia and Africa. This increase in revenue was offset by a $2.6 million decrease in revenue recognized for development services during the nine months ended September 30, 2005 as compared to the same period in 2004. Revenue recognized for development services was approximately $500,000 for the nine months ended September 30, 2005, as compared to approximately $3.1 million for the same period in

2004. 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 nine months ended September 30, 2005 increased $29.5 million, or 61.6%, to $77.4 million compared to $47.9 million for the same period in 2004. The increase in cost of revenue related to products of $31.9 million was primarily attributable to a $27.0 million increase in costs related to product shipments, an increase in manufacturing overhead costs of approximately $2.6 million, an increase in royalty costs of approximately $1.8 million, and an increase of $500,000 related to excess inventory for products that are no longer being manufactured, offset by a reduction in amortization of software licenses of approximately $200,000. Total cost of revenue for development services during the nine months ended September 30, 2005 amounted to $200,000 as compared to $2.4 million during the same period in 2004.

Gross profit. Gross profit for the nine months ended September 30, 2005 increased by $13.2 million, or 59.3% to $35.6 million compared to $22.4 million for the same period in 2004. The increase was primarily attributable to the increase in sales volume of our products. Gross margin as a percent of revenue were 31.5% for the nine months ended September 30, 2005 compared to 31.8% for same period in 2004. During the nine months ended September 30, 2005, our gross margins on our sales in Europe were negatively impacted by additional freight and distribution costs associated with our move towards a direct distribution model in Europe in 2005 and by the charge for excess inventory as described above, as compared to the same period in 2004.

Research and development. Research and development expenses for the nine months ended September 30, 2005 increased $5.9 million, or 80.5%, to $13.2 million compared to $7.3 million for the same period in 2004. The increase was primarily attributable to increases in salary and related expenses of approximately $1.8 million, an increase of approximately $1.1 million attributable to an increase in the use of research supplies and expendable equipment due to increased product development activities, and an increase in research and development overhead costs of approximately $900,000 during the nine months ended September 30, 2005 as compared to the same period in 2004. In addition, research and development expenses increased by approximately $2.1 million as a result of the reassignment of research and development personnel from customer funded development contracts to internally funded research and development projects during the nine months ended September 30, 2005 as compared to the same period in 2004.

Sales and marketing. Sales and marketing expenses for the nine months ended September 30, 2005 increased approximately $2.0 million, or 64.3%, to $5.2 million compared to approximately $3.2 million for the same period in 2004. The increase was primarily a result of an increase in sales and marketing efforts which included hiring new personnel during the second half of 2004 and during 2005, primarily to expand our European sales team, which increased salary and related expenses by approximately $1.3 million. In addition to the increases in personnel, sales and marketing overhead, travel and promotion expenses increased by approximately $700,000, as a result of the expansion of our sales force in Europe and marketing activities.

General and administrative. General and administrative expenses for the nine months ended September 30, 2005 increased approximately $2.0 million, or 55.0%, to $5.6 million compared to $3.6 million for the same period in 2004. The increase was primarily attributable to an increase in professional fees of approximately $1.0 million due primarily to costs associated with complying with the requirements of the Sarbanes-Oxley Act of 2002, as well as fees associated with our ongoing evaluation of our ability to utilize our net operating losses. Additionally, our salary and related expenses increased by approximately $1.0 million due to headcount increases during the nine months ended September 30, 2005 compared to the same period in 2004.

Interest income and expense, net. Interest income and expense, net increased by approximately $1.2 million for the nine months ended September 30, 2005 compared to the same period in 2004 primarily due to the increase in our average cash and marketable securities balances for the nine months ended September 30, 2005, as compared to the same period in 2004, as well as an increase in the average yields realized on our marketable securities and cash balances.

Provision for income taxes. Provision for income taxes of approximately $2.1 million for the nine months ended September 30, 2005 consists of federal and state taxes at our estimated effective tax rate of 35% offset by a revision of our valuation allowance on specific U.S. deferred tax assets of approximately $2.4 million. In addition, we recorded a credit of $4.0 million to Stockholders' Equity relating to the revision of the valuation allowance on stock option deductions. For the remainder of 2005, we will continue to record income taxes at a rate equal to our combined federal and state effective rates. As a result of the utilization of our net operating loss carry-forwards, we do not anticipate paying any cash income taxes for 2005, other than possibly alternative minimum taxes and certain state taxes.

The difference between the federal and state statutory rate of 40% and our effective tax rate is due primarily to research and development credits generated in 2005 and a low effective state tax rate. Our future effective income tax rate depends on various factors, such as our profits before taxes, additional releases of valuation allowance reserves, the geographic composition of pre-tax income and the use of our net operating loss carryforwards. Future effective tax rates may therefore vary based on these factors.

Net income. For the nine months ended September 30, 2005, we reported net income available to common stockholders of $11.0 million as compared to net income available to common stockholders of $8.5 million for the same period in 2004. The increase in net income available to common stockholders was attributable to the results of operations described above and the income tax benefit recorded during the third quarter of 2005. No income taxes were provided for during the same period in 2004.

Liquidity and Capital Resources

As of September 30, 2005, we had working capital of $94.2 million and approximately $78.9 million in cash and cash equivalents and short-term and long-term marketable securities, which is a decrease of approximately $2.3 million from $81.2 million at December 31, 2004. We have historically financed our operating and capital resource requirements using cash flows from sales of our equity securities and borrowings. During 2004, cash proceeds from operations became a source of financing.

Historical Cash Flows

Net cash provided by operating activities. Net cash provided by operating activities decreased by $13.3 million to approximately $1.7 million for the nine months ended September 30, 2005 compared to net cash provided by operating activities of $15.0 million for the same period in 2004. This decrease was primarily attributable to a $22.8 million increase in our accounts receivable balance, a $8.8 million increase in inventories, a $4.3 million increase in other current assets, offset by a $20.8 million increase in our accounts payable balance and $11.0 million of net income recorded for the nine months ended September 30, 2005, which includes approximately $3.1 million of non-cash depreciation and amortization expense, and non-cash income tax expense of approximately $2.1 million.

Net cash used in investing activities. Net cash used in investing activities for the nine months ended September 30, 2005 was approximately $3.4 million compared to net cash used in investing activities of $53.0 million during the same period in 2004. Cash used in investing activities in 2005 was primarily due to cash provided by the net sales of marketable securities of $800,000 offset by purchases of property and equipment of $4.0 million and $200,000 used in the purchase of intangible assets. Cash used in investing activities in 2004 was primarily due to the net purchases of marketable securities of $50.0 million, purchases of intangible assets of $1.5 million and purchases of property and equipment of $1.5 million.

Net cash provided by financing activities. Net cash provided by financing activities for the nine months ended September 30, 2005 was approximately $200,000, compared to $74.0 million provided by financing activities during the same period in 2004. Cash used in financing activities in 2005 was due to the payments on capital lease obligations of approximately $1.1 million, offset by approximately $1.4 million of proceeds received from the exercise of common stock options. Cash provided from financing activities in 2004 was primarily attributable to the net proceeds of $68.5 million from the issuance of common stock and proceeds from the exercise of common stock options and warrants of $6.0 million, offset by payments on capital lease obligations of approximately $500,000.

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and other commitments at September 30, 2005, and the effect such obligations could have on our liquidity and cash flow in future periods (In thousands):

	Payments Due by Fiscal Year				
	2005	2006	2007	2008 and Beyond	Total
Operating leases	$ 389	$1,794	$1,797	$ 4,070	$ 8,050
Committed purchase orders	44,539	—	—	—	44,539
Total contractual cash obligations	$44,928	$1,794	$1,797	$ 4,070	$52,589

Other Liquidity Needs

During the next twelve months we plan to incur approximately $15.0 million to $17.0 million for the acquisition of additional licenses and for capital expenditures. In addition, certain of our operating leases related to facilities obligate us to pay an aggregate of approximately $7.2 million, net of sublease income, over the next 63 months. This obligation is included in the operating lease commitments in the above table.

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

Risks Related to Our Business

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

The market for wireless broadband data access products is highly competitive, and we expect competition to increase and intensify. 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 and other industry relationships that they can leverage to establish dealings with many of our current and potential customers. Some of these companies also have more established customer support organizations than we do. In addition, these companies may adopt more 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 new relationships among existing competitors may emerge and rapidly acquire significant market share to the detriment of our business.

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

- wireless data modem providers, such as Option International, Sierra Wireless, Kyocera, Curitel and Sony-Ericsson;

- wireless computing device manufacturers, such as palmOne and Research in Motion; and
- wireless handset and infrastructure manufacturers, such as Motorola, Nokia, Siemens and Sony-Ericsson.

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

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

In our industry, it is critical to our success that we accurately anticipate evolving wireless technology standards and that our products comply with such standards. We are currently focused on engineering and manufacturing products that comply with 3G wireless standards. Any failure of our products to comply with 3G or future applicable standards could delay their introduction and require costly and time-consuming engineering changes. Additionally, if wireless operators or subscribers fail to adopt, in sufficient numbers, 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 wireless data products requires technological innovation and can be difficult, lengthy and costly. In addition, wireless operators require that wireless data systems deployed on their networks comply with their own technical and product performance standards, which may differ from the standards our products are required to meet for other operators. This increases the complexity of the product development process. In addition, as we introduce new versions of our existing products or new products altogether, our current customers may not require or desire the technological innovations of these products and may not purchase them.

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 and operating income under any such contracts depends upon, among other factors, our ability to develop products that are suitable for manufacturing and in a cost effective manner and that meet defined product design and technical specifications. Our ability to maximize the benefits of these contracts depends in part on the following:

- We have priced the products to be sold under these contracts based on our estimated development, production and post-production warranty costs. If these or other related production costs are actually higher than our estimated costs, our gross margins and operating margins on the corresponding contracts will decrease.
- If we are unable to commit the necessary resources or are otherwise unable to successfully or timely 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 be unable to launch the product, we may have to reduce the price we charge for such product if it launches, or we may be required to pay damages to the customer.

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

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

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

We depend upon a small number of our customers for a substantial portion of our revenue.

A significant portion of our revenue comes from a small number of customers. Our top ten customers for the nine months ended September 30, 2005 and 2004 accounted for approximately 86.1% and 70.0% of our revenue, respectively. Our top ten customers for the year ended December 31, 2004 accounted for approximately 67.7% of our revenue. Similarly, our revenue could be adversely affected if we are unable to retain the level of business of any of our significant customers or if we are unable to diversify our customer base. We expect that a small number of customers will continue to combine to account for a substantial amount of our revenue for the foreseeable future.

In addition, a majority of our current customers purchase our products under stand alone purchase orders and not pursuant to any longer term contractual minimum purchase obligations. Such customers have no contractual obligation to continue to purchase our products following our fulfillment of the given purchase order 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 strength of 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 developed at a slower rate than we had anticipated and as a result our product sales did not generate sufficient revenue to cover our operating costs. The failure of these markets to continue to grow at the rate that we currently anticipate may adversely impact our rate of growth and the growth in 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, in part, on the capacity, affordability, reliability and prevalence of wireless data networks provided by wireless telecommunications operators. Currently, various wireless telecommunications operators, either individually or jointly with us, sell our products in connection with the sale of their wireless data services to their customers. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services which customers consider valuable, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services or fail to market their services effectively. In addition, our future growth depends on the successful deployment of next generation wireless data networks provided by third parties, including those networks for which we are currently developing products. If these next generation networks are not deployed or widely accepted, or if deployment is delayed, there will be no market for the products we are developing to operate on these networks. If any of these events occur, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline and our business could be harmed.

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

Various risks arise when companies and industries grow quickly. If our business grows too quickly, 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 properly 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 currently rely on third party manufactures to manufacture our products, which exposes us to a number of risks and uncertainties outside our control.

We currently outsource our manufacturing to LG Innotek, Celestica and SerComm Corporation. If these parties were to experience delays, disruptions, capacity constraints or quality control problems in their manufacturing operations, product shipments to our customers could be delayed or prevented, which would negatively impact our revenues and our competitive position and reputation and may expose us to other adverse contractual consequences. Further, if we are unable to manage successfully our relationship with our manufacturers, the quality and availability of our products may be harmed. Neither of them is 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. Therefore, any of them could at any time and at their sole election decline to accept new purchase orders from us or otherwise reduce their respective business with us. If our manufacturers stopped manufacturing our products for any reason or reduced their 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 our manufacturers were to negatively change the payment and other terms under which each 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 manufacturing 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 our manufacturers 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.

In addition, at various times since our inception, we have depended on a single third-party manufacturer to produce all our products. This subjected us to potential disruptions in product supply and other potential adverse effects. Nevertheless, we may need or desire to return to using a single manufacturer if our prevailing business needs demand it including such factors as cost, component procurement practices and product quality.

Although we promote ethical business practices and our operations personnel periodically visit and monitor the operations of our manufacturers, we do not control the manufacturers or their labor practices. If our current manufacturers, or any other third-party manufacturer which we use in the future, violate United States or foreign laws or regulations, we may be subjected to extra duties, significant monetary penalties, adverse publicity, the seizure and forfeiture of products that we are attempting to import or the loss of or other use 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 is 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, and we cannot obtain a suitable substitute, we may not be able to timely deliver sufficient quantities of our products to satisfy demand. Moreover, if we locate a substitute and its price is prohibitive, our ability to maintain cost-effective production of our products would be seriously harmed.

Others could claim that we infringe on their intellectual property rights, which may result in substantial costs, diversion of resources and management attention, and harm to our reputation.

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

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

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. There can be no assurance that we will be able to maintain our third-party licenses or that additional third-party licenses will be available to us on commercially reasonable terms, if at all. The inability to maintain or obtain 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 sales activities and our ability to obtain products from our foreign manufacturers.

In addition to our manufacturing activities in Asia, a significant portion of our sales activity takes place in Europe. In addition, a significant portion of our research and development staff is located in Canada. Our international sales accounted for approximately 64% of our revenue for the three months ended September 30, 2005 and 72% for the three months ended September 30, 2004, 65% for the nine months ended September 30, 2005 and 75% for the nine months ended September 30, 2004. Although our experience in marketing, selling, distributing and manufacturing our products and services internationally is limited, we expect to further expand our international sales and marketing activities in the future. Consequently, we are subject to certain risks associated with doing business abroad, including:

- difficulty in managing widespread sales, research and development operations and post sales logistics and support;

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

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

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

Our product sales agreements in Europe have been historically denominated solely in U.S. dollars. Recently, we have entered into sales agreements denominated in foreign currencies and expect to enter into additional agreements as we expand our international customer base. As a result, we transact some of our business in foreign currencies, which exposes us to changes in foreign currency exchange rates and we currently expect this exposure may increase in the future. We attempt to manage this risk, in part, by minimizing the effects of volatility on cash flows by identifying forecasted transactions exposed to these risks and using hedging instruments. There can be no assurance that we will not incur foreign currency losses or that any hedging activities we may enter into to reduce the risk of such losses will be successful.

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.

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

Our future quarterly operating results may fluctuate significantly and may not meet the expectations of securities analysts, investors or management. 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 during the fourth quarter of 2005 and thereafter, 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.
- *Foreign currency*. We are exposed to market risk from changes in foreign currency exchange rates. As a significant amount of our revenues are generated in the Euro currency, we use foreign exchange forward contracts to minimize exposure to the risk of loss on changes in foreign currency exchange rates upon the eventual net cash inflows from foreign currency denominated sales with our customers. Since there is a high correlation between the hedging instruments and the underlying exposures, the gains and losses on these underlying exposures are generally offset by reciprocal changes in the value of the hedging instruments. We use derivative financial instruments as risk management tools and not for trading or speculative purposes. Fluctuations in the Euro currency may have a material impact on our future operating results and gross margins.

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

We incurred significant operating losses and negative cash flows since our inception through the end of 2003 and if our revenue and gross margins decline or we are unable to increase our revenue and gross margins relative to our operating expenses, we may incur significant net losses and negative cash flow from operations.

We incurred significant operating losses and net losses in each annual period since our inception until the beginning of 2004. In 2004, we reached profitability for the first time since our inception and recorded net income available to common stockholders of $13.7 million for the year ended December 31, 2004. We incurred net losses available to common shareholders of $16.7 million for the fiscal year ended 2003 and $53.5 million for the fiscal year ended 2002. For the nine months ended September 30, 2005, we recorded net income available to common stockholders of $11.0 million. We had positive cash flows from operations of $5.6 million for the year ended December 31, 2004, while we had negative cash flows from operations of $400,000 for the fiscal year ended December 31, 2003 and $28.7 million for the fiscal year ended December 31, 2002. For the nine months ended September 30, 2005, we had positive cash flow from operations of $1.7 million. As of September 30, 2005, we had an accumulated deficit of $222.5 million. If we are unable to generate revenue and gross margins to sufficiently offset our increasing expenses, we may not maintain profitability and may incur operating losses, net losses and negative cash flow from 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. 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.

Utilization of our net operating loss carryforwards is dependent on future taxable income and may be limited in certain events.

From our inception in 1996 through December 31, 2004, we generated an aggregate of approximately $156.5 million in net operating loss carryforwards for federal income tax purposes. Generally, these net operating loss carryforwards may be used to offset taxable income in future periods, but are limited in that they are available for a maximum of 20 years following the year in which the respective net operating loss in generated. In addition, the availability of tax loss carryforwards may be limited both in the aggregate and on an annual basis in the event of an ownership change as specified in Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). During the year ended December 31, 2003, we completed a series of financing transactions, including the issuance of our Series B Convertible Preferred Stock. As a result of these issuances, we have concluded that we experienced several ownership changes for purposes of the IRC Section 382 limitation. As a result of the most recent ownership change, which occurred in 2003, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate. We estimate our annual limitation for GAAP reporting purposes to amount of approximately $115,000. However, from time to time, we may take positions for filing our tax returns which may differ from the treatment of the same item for financial reporting purposes. The ultimate outcome of these items will not be known until such time as the IRS has completed its examination or until the statute of limitations has expired.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and the Nasdaq National Market rules, are creating uncertainty for many companies, including ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

FASB's adoption of Statement 123R will cause our net income and earnings per share to be significantly reduced and any changes to existing accounting pronouncements or taxation rules or practices may cause adverse fluctuations in our reported results of operations or affect how we conduct our business.

In December 2004, the FASB adopted Statement 123R, "Share Based Payment," which will require us, beginning in the first quarter of 2006, to measure compensation costs for all stock based compensation (including stock options and our employee stock purchase plan, as currently constructed) at fair value and record a compensation charge equal to that value. This compensation charge for the cost of stock option grants will have an adverse effect on our future net income and earnings per share compared to our historical operating results.

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

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

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

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

Interest Rate Risk

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits our credit exposure to any single issuer. The fair value of our cash equivalents and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. At September 30, 2005, we had $78.9 million in cash, cash equivalents and marketable securities, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of $15.1 million of our cash and cash equivalents at September 30, 2005, as these consisted of cash or securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, increase or decrease, respectively, the interest income generated from the $63.8 million of our investments by approximately $500,000 on annualized basis. While changes in interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our Consolidated Statements of Operations until the investment is sold or if the reduction in fair value was determined to be other than temporary.

Foreign Currency Exchange Rate Risk

During the first nine months of fiscal 2005, approximately $47.8 million of our sales transactions were denominated in Euros. In order to hedge against the short-term impact of foreign currency fluctuations on our accounts receivable balances we have entered into forward foreign exchange contracts. The effect of exchange rate changes on forward foreign exchange contracts is expected to offset the effect of exchange rate changes on the underlying hedged items. We believe these financial instruments do not subject us to speculative risk that would otherwise result from changes in currency exchange rates. [If foreign currency rates were to fluctuate by 10% from rates at September 30, 2005, our financial position, results of operations and cash flows would not be materially affected.] We do not use foreign currency forward exchange contracts for speculative or trading purposes.

All of our outstanding foreign currency contracts are marked-to-market, with unrealized gains and losses included as a component of other income and expense. As of September 30, 2005 the total amount of outstanding forward contracts amounted to 22 million Euros. During the nine months ended September 30, 2005, we recorded an unrealized gain of approximately $1.3 million on our forward contracts. This unrealized gain was offset by a foreign currency loss of $1.6 million recorded in other income and expense related primarily to our foreign currency receivable balances denominated in Euros during the nine months ended September 30, 2005.

Revenues generated outside the United States (denominated in U.S. dollars), as a percentage of total revenues were approximately 65% for the first nine months ended September 30, 2005 and 74% for the same period in 2004. Fluctuations in foreign exchange rates could impact future operating results.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures: We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial 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 September 30, 2005, 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 chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls over Financial Reporting: 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***

Not applicable

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

Not applicable

Item 3. ***Defaults upon Senior Securities***

Not applicable

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

On July 28, 2005, 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 2008 and until their respective successors are duly elected and qualified, (ii) the ratification of the appointment of KPMG as our Independent Registered Public Accountants for the fiscal year ending December 31, 2005, (iii) the amendment of our Amended and Restated 2000 Stock Incentive Plan in order to (A) increase the number of shares reserved for issuance under the plan by 1,500,000, (B) eliminate a provision in the plan that provides for the automatic annual increase in the number of shares reserved for issuance thereunder, and (C) eliminate provisions in the plan that permit the company to re-price the exercise price of outstanding stock options or stock appreciate rights. The directors sitting for re-election were Messrs. Mark Rossi and David Werner and the directors continuing in office were Messrs. John Davis, Robert Getz, Peter Leparulo, Peng Lim and Horst Pudwill.

Our stockholders elected both Messrs. Mark Rossi and David Werner 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 2005 annual meeting may be found in our definitive proxy statement filed with the Securities and Exchange Commission on June 10, 2005.

	For	Against/ Withheld	Abstentions	Broker non-votes
1 Election of Directors:				
Mark Rossi	24,048,893	3,548,920	—	—
David A. Werner	26,265,322	1,332,491	—	—
2 Ratification of Appointment of Independent Public Accountants	27,275,957	295,482	26,374	—
3 Amendment of the Amended and Restated 2000 Stock Incentive Plan	11,219,892	6,505,800	65,070	9,807,051

Item 5. ***Other Information***

Not applicable

Item 6. *Exhibits*

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

4.11	Securities Purchase Agreement entered into in connection with the Company's January 2004 Financing Transaction (incorporated by reference to Exhibit 10.20 to the Company's Annual Report to Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.12	Registration Rights Agreement entered into in connection with the Company's January 2004 Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report to Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.13	Form of Common Stock Purchase Warrant issued in connection with the Company's January 2004 Financing Transaction (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
10.1	1997 Employee Stock Option Plan, as Amended and Restated (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
10.2	2000 Stock Incentive Plan, as Amended and Restated (incorporated by reference to Exhibit 10.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004) as amended in accordance with that certain Amendment filed as Appendix A to the Company's Definitive Proxy Statement filed June 16, 2005.
10.3	2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
10.4	Form of Indemnification Agreement by and between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended).
10.5	Form of Management Retention Agreement by and between the Company and certain of its executive officers (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.6	Form of Executive Officer Bonus Plan (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2005, filed May 10, 2005.)
31.1	Certification of our Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of our Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: November 9, 2005	Novatel Wireless, Inc.
	By: /s/ DAN L. HALVORSON
	Dan L. Halvorson
	Chief Financial Officer and Treasurer
	(Principal Financial and Accounting Officer)

Section 302 Certifications

CERTIFICATIONS

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

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

I, Peter Leparulo, certify that:

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

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's 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 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: November 9, 2005

Exhibit 31.2

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

I, Dan L. Halvorson, certify that:

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

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's 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 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: November 9, 2005

Exhibit 32.1

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 906 of the Sarbanes-Oxley Act of 2002:

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

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

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 9th day of November, 2005.

/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)