

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-31659

**NOVATEL WIRELESS, INC.**

(exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**9645 Scranton Road, San Diego, CA**  
(Address of principal executive offices)

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

**92121**  
(zip code)

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

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

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

Large accelerated filer

Accelerated filer

Non-Accelerated filer

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

The number of shares of the Registrant's common stock outstanding as of August 6, 2007 was 32,261,939.

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

### **Forward-Looking Statements**

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

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

### **Trademarks**

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

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	June 30, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51,598	\$ 34,612
Marketable securities	59,949	48,071
Accounts receivable, net of allowance for doubtful accounts of \$723 in 2007 and \$631 in 2006	41,056	47,774
Inventories	29,543	25,662
Deferred tax assets, net	5,931	5,931
Prepaid expenses and other	3,863	3,344
Total current assets	<u>191,940</u>	<u>165,394</u>
Property and equipment, net	22,845	15,501
Marketable securities	7,655	1,479
Intangible assets, net	1,776	2,411
Deferred tax assets, net	8,452	6,630
Other assets	238	230
	<u>\$ 232,906</u>	<u>\$ 191,645</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 26,945	\$ 39,346
Accrued expenses	19,246	16,158
Accrued income taxes	8,117	1,905
Total current liabilities	<u>54,308</u>	<u>57,409</u>
Capital lease obligations, long-term	374	—
Total liabilities	<u>54,682</u>	<u>57,409</u>
Commitments and contingencies		
Stockholders' equity:		
Series A and B Preferred stock; par value \$0.001; 2,000 shares authorized and none outstanding	—	—
Common stock; par value \$0.001; 50,000 shares authorized; 31,635 and 29,743 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	32	30
Additional paid-in capital	382,023	356,138
Accumulated other comprehensive income (loss)	3	(31)
Accumulated deficit	<u>(203,834)</u>	<u>(221,901)</u>
Total stockholders' equity	<u>178,224</u>	<u>134,236</u>
	<u>\$ 232,906</u>	<u>\$ 191,645</u>

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		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenue	\$97,427	\$45,654	\$207,275	\$85,813
Cost of revenue	66,808	34,107	142,662	65,386
Gross margin	<u>30,619</u>	<u>11,547</u>	<u>64,613</u>	<u>20,427</u>
Operating costs and expenses:				
Research and development	9,936	7,108	18,919	13,835
Sales and marketing	5,333	3,466	10,692	6,195
General and administrative	4,224	3,989	8,611	7,730
Total operating costs and expenses	<u>19,493</u>	<u>14,563</u>	<u>38,222</u>	<u>27,760</u>
Operating income (loss)	11,126	(3,016)	26,391	(7,333)
Other income (expense):				
Interest income and expense, net	1,213	547	2,242	1,166
Other income (expense), net	173	964	374	1,531
Income (loss) before taxes	12,512	(1,505)	29,007	(4,636)
Income tax expense (benefit)	4,551	(1,600)	10,940	(3,385)
Net income (loss)	<u>\$ 7,961</u>	<u>\$ 95</u>	<u>\$ 18,067</u>	<u>\$ (1,251)</u>
Per share data:				
Net income (loss) per share:				
Basic	\$ 0.26	\$ 0.00	\$ 0.59	\$ (0.04)
Diluted	\$ 0.25	\$ 0.00	\$ 0.59	\$ (0.04)
Weighted average shares used in computation of basic and diluted net income (loss) per share:				
Basic	30,826	29,547	30,374	29,461
Diluted	31,270	30,233	30,539	29,461

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 18,067	\$ (1,251)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,890	3,576
Inventory provision	2,093	824
Provisions for bad debts	92	300
Share-based compensation expense	4,969	4,652
Excess tax benefits from stock options exercised	(4,778)	(617)
Deferred tax benefit	—	(3,385)
Changes in assets and liabilities:		
Accounts receivable, net	6,626	(7,310)
Inventories	(5,974)	4,891
Prepaid expenses and other assets	(527)	5,695
Accounts payable	(12,401)	(11,755)
Accrued expenses	7,391	1,102
Net cash provided by (used in) operating activities	<u>20,448</u>	<u>(3,278)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(11,131)	(3,222)
Purchases of securities	(46,091)	(15,475)
Securities maturities/sales	28,071	23,245
Net cash (used in) provided by investing activities	<u>(29,151)</u>	<u>4,548</u>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options and warrants	20,918	1,114
Excess tax benefits from stock options exercised	4,778	617
Payments on line of credit	—	(5,000)
Principal payments under capital lease obligations	(7)	(3,891)
Net cash provided by (used in) financing activities	<u>25,689</u>	<u>(7,160)</u>
Net increase (decrease) in cash and cash equivalents	16,986	(5,890)
Cash and cash equivalents, beginning of period	34,612	36,653
Cash and cash equivalents, end of period	<u>\$ 51,598</u>	<u>\$ 30,763</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 28	\$ 54
Income taxes	\$ 1,828	\$ 383
<b>Supplemental disclosures of non-cash financing activities:</b>		
Capital lease obligations (See Note 5)	\$ 468	\$ —

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 June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 is unaudited. The consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented. These consolidated financial statements and notes hereto should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2006. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

*Principles of Consolidation*

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

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, provision for excess and obsolete inventory, useful lives of long-lived assets, valuation of intangible and long-lived assets, provision for warranty costs, estimated royalty costs, deferred tax asset valuation allowance, foreign exchange forward contracts, and share-based compensation expense.

**2. Balance Sheet Details**

*Marketable Securities*

As of June 30, 2007, unrealized losses of \$16,000 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 June 30, 2007 (in thousands):

	<u>Maturity in Years</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Certificates of Deposit	1 or less	\$ 3,200	\$ —	\$ (1)	\$ 3,199
Asset backed	1 or less	8,898	—	—	8,898
Commercial paper	1 or less	12,869	—	—	12,869
Corporate debentures/bonds	1 or less	34,986	9	(12)	34,983
Total short-term marketable securities		<u>59,953</u>	<u>9</u>	<u>(13)</u>	<u>59,949</u>
Asset backed	1 to 2	1,670	—	—	1,670
Corporate debentures/bonds—long-term marketable securities	1 to 2	5,997	—	(12)	5,985
Total long-term marketable securities		<u>7,667</u>	<u>—</u>	<u>(12)</u>	<u>7,655</u>
		<u>\$ 67,620</u>	<u>\$ 9</u>	<u>\$ (25)</u>	<u>\$ 67,604</u>

At June 30, 2007, the Company did not have any investments in individual securities that have been in a continuous unrealized loss position deemed to be other than temporary for more than 12 months. Because the Company's general intent is to hold its investment securities to maturity, and considering the high quality of the investment securities, the Company believes that the unrealized losses at June 30, 2007 represent a temporary condition and will not result in realized losses on sale or maturity of the securities.

### *Inventories*

Inventories consist of the following (in thousands):

	June 30, 2007	December 31, 2006
Finished goods	\$28,871	\$ 25,059
Raw materials and components	672	603
	<u>\$29,543</u>	<u>\$ 25,662</u>

### *Accrued Expenses*

Accrued expenses consist of the following (in thousands):

	June 30, 2007	December 31, 2006
Royalties	\$ 7,653	\$ 6,754
Payroll and related	4,859	4,947
Product warranty	2,320	1,464
Professional fees	1,045	683
Deferred rent	949	969
Other	2,420	1,341
	<u>\$19,246</u>	<u>\$ 16,158</u>

## **3. Share-Based Compensation**

### *Restricted Stock*

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

In May 2006, the Compensation Committee of the Board of Directors also awarded 7,500 shares of restricted stock to each of the existing 5 non-employee directors (for a total of 37,500 shares) at a fair value of \$10.61 per share. 2,500 shares of each grant vests annually each May, commencing in 2007, so long as the director is serving on such date. The Company estimated the aggregate fair value of these awards to the non-employee directors at approximately \$400,000, which is being amortized to compensation expense ratably over a three year period. In March 2007, 7,500 shares of restricted stock were forfeited upon termination of service by a non-employee director due to his death. In May 2007, one-third of the outstanding restricted stock awards granted to non-employee directors had vested in accordance with the conditions of the grant. On June 21, 2007, 10,000 shares of restricted stock were forfeited upon termination of service by two such directors, effective upon the conclusion of our annual meeting on that date.

### *Restricted Stock Units*

In January 2007, the Company granted approximately 194,000 restricted stock units to employees at a weighted-average fair value of \$10.27 per share. Restricted stock units are converted into shares of the Company's common stock upon vesting on a one-for-one basis. Vesting of restricted stock units is subject to the employee's continued service with the Company. Certain restricted stock units also have performance conditions that determine the number of restricted stock units that will ultimately vest. The compensation expense related to these awards was determined using the fair value of the Company's common stock on the date of the grant, and compensation is recognized over the service period. Restricted stock units vest at the rate of 33% per year over three years on the anniversary of the grant date.

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

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

The Company included the following amounts for share-based compensation awards in the accompanying unaudited consolidated statements of operations for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cost of revenue	\$ 224	\$ 112	\$ 380	\$ 189
Research and development	624	585	1,234	1,088
Sales and marketing	496	514	988	986
General and administrative	1,159	1,231	2,367	2,389
Totals	2,503	2,442	4,969	4,652
Tax effect on share-based compensation	(682)	(1,900)	(1,192)	(3,390)
Net effect on net income (loss)	<u>\$ 1,821</u>	<u>\$ 542</u>	<u>\$ 3,777</u>	<u>\$ 1,262</u>
Effect on earnings per share:				
Basic	\$ (0.06)	\$ (0.02)	\$ (0.12)	\$ (0.04)
Diluted	\$ (0.06)	\$ (0.02)	\$ (0.12)	\$ (0.04)

#### 4. Credit Facility

In 2005, the Company entered into a two-year \$25.0 million secured revolving credit facility (“the Credit Agreement”). The Credit Agreement was entered into with Bank of America, N.A., as Administrative Agent, who was granted a first priority blanket lien on substantially all the Company’s assets in order to secure repayment of outstanding indebtedness under the Credit Agreement. At the Company’s option, borrowings under the Credit Agreement will bear interest at either the London Interbank Offering Rate (LIBOR) plus 100-150 basis points depending on the level of borrowing under the Credit Agreement, or at the prime rate plus 50 basis points (8.75% at June 30, 2007). The Credit Agreement further contains certain customary restrictive financial and operating covenants which, among other things, require the Company to (i) maintain minimum financial performance requirements as measured by the Company’s income or loss before taxes, (ii) limit the levels of certain indebtedness and capital expenditures, and (iii) maintain a minimum liquidity ratio. In the event that a default were to occur under the Credit Agreement which was not subsequently cured or waived, then repayment in full of all the borrowings then outstanding could become immediately due and payable. Such events of default include, without limitation, failing to pay borrowed amounts when due, failing to adhere to agreed upon financial covenants or failing to notify Bank of America of the occurrence of an event that could reasonably be expected to result in a material adverse effect upon the Company. Borrowings under the Credit Agreement can be used for general corporate purposes including capital expenditures, working capital, letters of credit and certain permitted acquisitions and investments. As of June 30, 2007, the Company had no outstanding balance under the Credit Agreement and was in compliance with all covenants of the Credit Agreement.

#### 5. Capital Lease Obligations

During the three months ended June 30, 2007, the Company purchased equipment under capital leases for approximately \$468,000.

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007 (in thousands):



<u>For the Periods Ending December 31,</u>	<u>Amount</u>
Remainder of 2007	\$ 52
2008	104
2009	104
2010	104
2011	104
Thereafter	44
Total minimum lease payments	512
Less: amounts representing interest	51
Present value of net minimum lease payments	461
Less: current portion	87
Long-term portion	<u>\$ 374</u>

## 6. Segment Information and Concentrations of Risk

### *Segment Information*

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

The Company has operations in the United States, Canada, and the United Kingdom. The amount of the Company's assets in the United States, Canada and United Kingdom as of June 30, 2007 were \$215.1 million, \$16.4 million, and \$1.4 million, respectively, and as of December 31, 2006 were \$172.8 million, \$18.0 million, and \$800,000, respectively.

For the six months ended June 30, 2007, approximately 22% of revenues were derived from international customers (Europe/Middle East/Africa 20%, Asia/Australia 2%) as compared to approximately 31% of revenues derived from international customers (Europe/Middle East/Africa 29%, Asia/Australia 2%), for the six months ended June 30, 2006.

### *Concentrations of Risk*

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

A significant portion of the Company's revenue is derived from a small number of customers. Two customers accounted for 33.5% and 33.1% of revenues for the six months ended June 30, 2007. Two customers accounted for 43.9%, and 13.6% of revenues for the six months ended June 30, 2006.

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

## 7. Earnings (Loss) Per Share

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

The following table sets forth the computation of diluted weighted-average common and potential common shares outstanding for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic weighted average common shares outstanding	30,826	29,547	30,374	29,461
Effect of dilutive securities:				
Warrants	99	20	82	—
Restricted Shares	29	6	83	—
Options	316	660	—	—
Diluted weighted average common and potential common shares outstanding	<u>31,270</u>	<u>30,233</u>	<u>30,539</u>	<u>29,461</u>

Weighted average options and warrants to purchase a total of 376,303, and 1,271,648 shares of common stock for the three and six months ended June 30, 2007, respectively, and 4,324,762 and 5,079,528 shares of common stock for the three and six months ended June 30, 2006, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

## 8. Commitments and Contingencies

### *Royalties*

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

### *Legal Matters*

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

In December 2006, the Company filed a complaint in U.S. District Court for the Southern District of California against a former supplier seeking damages for breach of contract. In March 2007, the supplier filed a counter claim against the Company. Subsequent to June 30, 2007, the Company reached an agreement in principal to settle the claim with the supplier. The Company does not expect the results of this settlement to have a material impact on its financial position or results of operations.

## 9. Comprehensive Income

Comprehensive income includes net income, tax benefits from stock options exercised, and unrealized gains and losses on marketable securities, which are recorded as short-term and long-term investments in the accompanying consolidated balance sheets.

Comprehensive income consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$ 7,961	\$ 95	\$18,067	\$ (1,251)
Unrealized gain on cash equivalents and marketable securities	8	96	34	162
Tax benefits from stock options exercised Options	3,785	617	4,778	617
Comprehensive income	<u>\$ 11,754</u>	<u>\$ 808</u>	<u>\$22,879</u>	<u>\$ (472)</u>

## 10. Income Taxes

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, “Definition of *Settlement* in FASB Interpretation No. 48.” (“FSP FIN 48-1”) This FSP amends FASB Interpretation No. 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The interpretation was effective upon initial adoption of FIN 48. As the Company had applied FIN 48 in a manner consistent with the provisions of FSP FIN 48-1 there was no impact of this new pronouncement on its consolidated financial statements.

The Company adopted the provisions of FIN 48 on January 1, 2007, and implemented the guidance of FSP FIN 48-1 with no impact on beginning retained earnings as the Company had applied FIN 48 in a manner consistent with the provisions of FSP FIN 48-1. The total liability for unrecognized tax benefits as of the date of adoption was \$3.7 million. As a result of the implementation of FIN 48, the Company recognized a \$2.0 million increase in the liability for unrecognized tax benefits. As of June 30, 2007, the total liability for the unrecognized tax benefit has increased by \$4.4 million resulting in a total liability of \$8.1 million.

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

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

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

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the consolidated financial statements and the accompanying notes included in Item 1 of this quarterly report, as well as the audited consolidated financial statements and accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006 contained in our 2006 annual report on Form 10-K.

#### Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products includes 3G wireless PC card modems, embedded modems, communications software and Fixed Mobile Convergence solutions for wireless network operators, infrastructure providers, distributors, OEMs and vertical markets worldwide. Through the integration of our hardware and software, our products are designed to operate on a majority of global wireless networks and provide mobile subscribers with secure and convenient high speed access to corporate, public and personal information through the Internet and enterprise networks. We also offer software engineering, integration and design services to our customers to facilitate the use of our products.

#### Factors Which May Influence Future Results of Operations

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

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

- demand for broadband access services and networks;
- use of the Internet;
- rate of change to new products;
- loss of significant customers;

- increase in competition;
- timing of deployment of 3G networks by carriers;
- drop in demand for EV-DO and HSDPA products; and
- changes in technologies.

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

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

*Cost of Revenue.* We currently outsource our manufacturing operations to LG Innotek Co., Ltd., or LG Innotek, and Inventec Appliances Corporation, or IAC. In addition, we currently outsource certain distribution and fulfillment services related to our business in EMEA to Mobiltron (Europe) Limited, or Mobiltron. All costs associated with these manufacturers and Mobiltron are included in our cost of revenue. Cost of revenue also includes warranty costs, amortization of intangible licenses, royalties based on a percentage of revenue, operations group expenses, costs related to development services and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above. We expect to continue to outsource our manufacturing operations, and as our business grows we expect our manufacturing activity to increase.

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

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ from these estimates. Critical accounting policies and significant estimates include revenue recognition, allowance for doubtful accounts receivable, provision for excess and obsolete inventory, useful lives of long-lived assets, valuation of intangible and long-lived assets, provision for warranty costs, estimated royalty costs, deferred tax asset valuation allowance, foreign exchange forward contracts, and share-based compensation expense.

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

*Allowance for Doubtful Accounts Receivable.* We provide an allowance for our accounts receivable for estimated losses that may result from our customers' inability to pay. We determine the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, we review our customers' credit-worthiness periodically based on credit scores generated by independent credit reporting services, our experience with our customers and the economic condition of our customers' industries. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required. We have

not experienced significant variances in the past between our estimated and actual allowance for doubtful accounts and anticipate that we will be able to continue to make reasonable estimates in the future.

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

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

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

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

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

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

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

*Royalty Costs.* We have intellectual property license agreements which generally require us to make royalty payments based on a percentage of the revenue generated by sales of products incorporating the licensed technology. We recognize royalty obligations in accordance with the terms of the respective royalty agreements. We have also accrued for estimated royalty costs in situations where we do not have agreements based upon our current best estimate of the royalty obligation.

These estimates are based on various market data information and other relevant information. If we enter into such agreements, or when additional market data becomes available, we will revise our estimates if necessary.

*Income Taxes.* We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal, state and foreign deferred tax liabilities or assets based on our estimate of future tax effects attributable to temporary differences and carry forwards and record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

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

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

*Foreign Exchange Forward Contracts.* We use foreign exchange forward contracts to hedge the economic exposure associated with accounts receivable balances denominated in Euros. Our forward contracts do not qualify as accounting hedges. We mark-to-market the forward contracts and include unrealized gains and losses in the current period as a component of other income (expense). As of June 30, 2007, the total amount of outstanding forward contracts amounted to 11 million Euros.

*Share-based Compensation.* We grant stock options, restricted stock, and restricted stock units to our employees and non-employee directors under our current stock plan. The benefits provided under this plan are share-based payments subject to the provisions of SFAS No. 123(R). Effective January 1, 2006, we adopted the requirements of SFAS No. 123(R) which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. As a result of this accounting requirement, our consolidated financial statements include compensation expense as calculated per the provisions of SFAS No. 123(R). Share-based compensation was \$2.5 million and \$5.0 million for the three and six months ended June 30, 2007, respectively, and \$2.4 million and \$4.7 million for the three and six months ended June 30, 2006, respectively.

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

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

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

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

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

### **Future Accounting Requirements**

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

### **Results of Operations**

#### **Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006**

**Revenue.** Revenue for the three months ended June 30, 2007 increased \$51.7 million, or 113.1%, to \$97.4 million compared to \$45.7 million for the same period in 2006. The overall increase in revenue was primarily attributable to an increase in demand for our EV-DO and HSDPA ExpressCards and Embedded Modules, and our EV-DO Fixed Mobile Convergence products that were introduced during 2006. The increase in EV-DO product sales for the three months ended June 30, 2007 compared to the same period in 2006 was approximately \$43.2 million. The increase in our UMTS / HSDPA product sales for the three months ended June 30, 2007 compared to the same period in 2006 was approximately \$8.5 million.

**Cost of revenue.** Cost of revenue for the three months ended June 30, 2007 increased \$32.7 million, or 95.9%, to \$66.8 million compared to \$34.1 million for the same period in 2006. The increase in cost of revenue was primarily related to an increase in product cost of \$27.7 million due to the increase in product sales. The remaining increase in cost of revenue primarily consists of an increase of approximately \$1.8 million in royalty costs for intellectual property licenses, an increase of approximately \$1.4 million related to the write down of excess and obsolete inventory, an increase in manufacturing overhead costs of approximately \$1.0 million, and approximately \$800,000 increase in freight and distribution costs during the three months ended June 30, 2007 compared for the same period in 2006.

**Gross margin.** Gross margin for the three months ended June 30, 2007 increased by \$19.1 million, or 166.1% to \$30.6 million compared to \$11.5 million for the same period in 2006. The increase was primarily attributable to the changes in revenue and cost of revenue as discussed above. Gross margin as a percent of revenue increased to 31.4% for the three months ended June 30, 2007 compared to 25.3% for same period in 2006. The increase in gross margin as a percentage of revenue was primarily attributable to the additional revenue that exceeded our fixed cost structure, and sales of products with higher margins in 2007 as compared to 2006.

**Research and development expenses.** Research and development expenses for the three months ended June 30, 2007 increased \$2.8 million, or 39.4% to \$9.9 million compared to \$7.1 million for the same period in 2006. The increase was primarily attributable to an increase in salary and related expenses of approximately \$1.2 million. Other increases consist primarily of approximately \$900,000 related to new product development efforts, \$400,000 related to research and development overhead costs, and \$300,000 in depreciation on capital equipment during the three months ended June 30, 2007 as compared to the same period in 2006.

**Sales and marketing expenses.** Sales and marketing expenses for the three months ended June 30, 2007 increased approximately \$1.8 million, or 51.4%, to \$5.3 million compared to approximately \$3.5 million for the same period in 2006. The increase was primarily a result of an increase in sales and marketing personnel resulting in increased salary and related expenses of approximately \$1.1 million. Sales and marketing expenses also increased by approximately \$300,000 as a result of advertising and marketing programs entered with certain carriers to promote our products, \$200,000 in sales and marketing overhead costs, and travel and related costs of approximately \$200,000 for the second quarter of 2007 as compared for the same period in 2006.

**General and administrative expenses.** General and administrative expenses for the three months ended June 30, 2007 increased approximately \$200,000, or 5.0%, to \$4.2 million compared to \$4.0 million for the same period in 2006. The increase was attributable to an increase in salary and related expenses primarily due to increases in personnel to support the growth of the Company.

**Interest income and expense.** Interest income and expense increased by approximately \$700,000 for the three months ended June 30, 2007 compared to the same period in 2006 primarily due to the increase in our average cash and marketable

securities balances in 2007, as well as an increase in the average yields realized on our marketable securities and cash balances, which resulted in higher income as compared to the same period in 2006.

**Other income (expense).** Other income (expense) decreased by approximately \$800,000 for the three months ended June 30, 2007 compared to the same period in 2006 due to the decrease in our foreign exchange gains on our Euro denominated receivable and cash balances, and on our forward foreign exchange contracts.

**Income tax expense (benefit).** Income tax expense (benefit) of approximately \$4.6 million for the three months ended June 30, 2007 consists of federal and state taxes at our estimated effective tax rate of approximately 36%. The difference between the federal and state statutory rate of 40% and our effective tax rate is due primarily to research and development credits generated in 2007 and a low effective state tax rate. This compares to an income tax benefit of \$1.6 million recorded during the three months ended June 30, 2006. The income tax benefit and related deferred tax asset recorded during the second quarter of 2006 was based on the expected annualized effective tax rate. The effective tax rate for the three months ended June 30, 2006 was approximately 106%. The difference between the federal and state statutory combined rate of 40% and our effective tax rate for 2006 was primarily due to the result of the impact of accounting for share-based compensation, for which certain share-based awards are treated as permanent differences.

**Net income.** For the three months ended June 30, 2007, we reported net income of \$8.0 million, as compared to a net income of approximately \$100,000 for the same period in 2006. The increase in net income is due to the growth in revenue and overall profitability of the Company as discussed above.

#### **Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006**

**Revenue.** Revenue for the six months ended June 30, 2007 increased \$121.5 million, or 141.6%, to \$207.3 million compared to \$85.8 million for the same period in 2006. The overall increase in revenue was primarily attributable to an increase in demand for our EV-DO and HSDPA ExpressCards and Embedded Modules, and our EV-DO Fixed Mobile Convergence products that were introduced during 2006. The overall increase in EV-DO product sales for the six months ended June 30, 2007 compared to 2006 was approximately \$102.3 million. Our UMTS / HSDPA product sales increased by approximately \$19.2 million during the six months ended June 30, 2007 compared to the same period in 2006.

**Cost of revenue.** Cost of revenue for the six months ended June 30, 2007 increased \$77.3 million, or 118.2%, to \$142.7 million compared to \$65.4 million for the same period in 2006. The increase in cost of revenue was primarily related to an increase in product cost of \$66.7 million due to the increase in product sales and new product introduction efforts as discussed above. The remaining increase in costs of revenue primarily consist of approximately \$4.9 million in royalty costs for intellectual property licenses, an increase in manufacturing overhead costs of approximately \$2.3 million, an increase in freight and distribution costs of approximately \$1.8 million due to the additional volume of products shipped, and an increase of approximately \$1.6 million related to the write down of excess and obsolete inventory during the six months ended June 30, 2007 as compared to the same period in 2006.

**Gross margin.** Gross margin for the six months ended June 30, 2007 increased by \$44.2 million, or 216.7% to \$64.6 million compared to \$20.4 million for the same period in 2006. The increase was primarily attributable to the increase in revenue and the cost of revenue as discussed above. Gross margin as a percent of revenue increased to 31.2% for the six months ended June 30, 2007 compared to 23.8% for the same period in 2006. The increase in gross margin as a percentage of revenue was primarily attributable to the additional revenue that exceeded our fixed cost structure, and sales of products with higher margins in 2007 as compared to 2006.

**Research and development expenses.** Research and development expenses for the six months ended June 30, 2007 increased \$5.1 million, or 37.0% to \$18.9 million compared to \$13.8 million for the same period in 2006. The increase was primarily attributable to an increase in salary and related expenses of approximately \$2.6 million. Other increases consist of approximately \$900,000 in consulting fees and services primarily related to product development certification costs, approximately \$700,000 related to an increase in facilities overhead cost charged to research and development, approximately \$700,000 in amortization of capital equipment procured to support increased product development activities, and approximately \$200,000 in travel and related costs in 2007 as compared to the same period in 2006.

**Sales and marketing expenses.** Sales and marketing expenses for the six months ended June 30, 2007 increased approximately \$4.5 million, or 72.6%, to \$10.7 million compared to approximately \$6.2 million for the same period in 2006. The increase was primarily a result of an increase in sales and marketing personnel resulting in increased salary and related expenses of approximately \$2.6 million, primarily to expand our Europe and Asia sales team. In addition to the increases in personnel, product marketing and advertising expenses increased by approximately \$1.5 million which consists primarily of advertising and marketing programs entered with certain carriers to promote our products, and sales and marketing overhead costs increased by approximately \$400,000 for the six months ended June 30, 2007 as compared to the same period in 2006.



**General and administrative expenses.** General and administrative expenses for the six months ended June 30, 2007 increased approximately \$900,000, or 11.7%, to \$8.6 million compared to \$7.7 million for the same period in 2006. The increase was primarily attributable to an increase in salary and related expenses of approximately \$1.1 million, offset by a decrease of approximately \$200,000 in professional service and legal fees during the six months ended June 30, 2007 as compared to the same period in 2006.

**Interest income and expense.** Interest income and expense increased by approximately \$1.1 million for the six months ended June 30, 2007 compared to the same period in 2006 primarily due to the increase in our average cash and marketable securities balances in 2007, as well as an increase in the average yields realized on our cash and marketable securities balances, which resulted in higher income as compared to the same period in 2006.

**Other income (expense).** Other income (expense) decreased by approximately \$1.2 million for the six months ended June 30, 2007 compared to the same period in 2006 primarily due to the decrease in our foreign exchange gains on our Euro denominated cash and receivable balances, and on our forward foreign exchange contracts.

**Income tax expense (benefit).** Income tax expense (benefit) of approximately \$10.9 million for the six months ended June 30, 2007 consists of federal and state taxes at our estimated effective tax rate of approximately 38%. The difference between the federal and state statutory rate of 40% and our effective tax rate is due primarily to research and development credits generated in 2007 and a low effective state tax rate. This compares to an income tax benefit of \$3.4 million recorded during the six months ended June 30, 2006. The income tax benefit and related deferred tax asset recorded during the six months ended June 30, 2006 was based on the expected annualized effective tax rate. The effective tax rate for the six months ended June 30, 2006 was approximately 73%. The difference between the federal and state statutory combined rate of 40% and our effective tax rate for 2006 was primarily due to the result of the impact of accounting for share-based compensation, for which certain share-based awards are treated as permanent differences.

**Net income.** For the six months ended June 30, 2007, we reported a net income of \$18.1 million as compared to a net loss of \$1.3 million for the same period in 2006. The increase in net income is due to the growth in revenue and overall profitability of the Company as discussed above.

## Liquidity and Capital Resources

As of June 30, 2007, we had working capital of \$137.6 million and approximately \$119.2 million in cash and cash equivalents and short-term and long-term marketable securities, which is an increase of approximately \$35.0 million from \$84.2 million at December 31, 2006.

### Historical Cash Flows

**Net cash provided by (used in) operating activities.** Net cash provided by operating activities was approximately \$20.4 million for the six months ended June 30, 2007 compared to net cash used in operating activities of \$3.3 million for the same period in 2006. Net cash provided by operating activities in 2007 was primarily attributable to the net income of \$18.1 million, a \$6.6 million decrease in accounts receivable, a \$7.3 million increase in other accrued liabilities, \$5.0 million in non-cash share-based compensation expense, \$4.9 million of non-cash depreciation and amortization expense, primarily offset by a \$12.4 million decrease in accounts payable, a \$4.8 million excess tax benefits from stock options exercised, and a \$3.9 million increase in net inventory. Net cash used in operating activities in 2006 was primarily attributable to the net loss of \$1.3 million, a \$7.3 million increase in accounts receivable, a \$11.8 million decrease in accounts payable and \$3.4 million in non-cash deferred tax benefit, primarily offset by a \$5.7 million decrease in prepaid expenses and other assets, a \$4.9 million decrease in inventories, \$3.6 million of non-cash depreciation and amortization expense, \$4.7 million in non-cash share-based compensation expense, and a \$1.1 million increase in accrued liabilities.

**Net cash (used in) provided by investing activities.** Net cash used in investing activities for the six months ended June 30, 2007 was approximately \$29.2 million compared to net cash provided by investing activities of \$4.5 million during the same period in 2006. Net cash used in investing activities in 2007 was primarily due to purchases of property and equipment of \$11.1 million, and net purchases of securities of \$18.1 million. Net cash provided by investing activities in 2006 was primarily due to net maturities/sales of securities of \$7.8 million offset by purchases of property and equipment of \$3.2 million.

**Net cash provided by (used in) financing activities.** Net cash provided by financing activities for the six months ended June, 2007 was approximately \$25.7 million, compared to \$7.2 million used in financing activities during the same period in 2006. Net cash provided by financing activities in 2007 was primarily due to proceeds received from the exercise of stock options of approximately \$20.9 million, and tax benefits from stock options exercised of approximately \$4.8 million. Net cash used in financing activities in 2006 was due to payments on our revolving credit facility of approximately \$5.0 million,

and payments on the capital lease obligations of approximately \$3.9 million, offset by \$1.1 million of proceeds received from the exercise of common stock options and \$600,000 of excess tax benefits from stock options exercised.

#### *Contractual Obligations and Commercial Commitments*

The following table summarizes our contractual obligations and commercial commitments at June 30, 2007, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Fiscal Year						Total
	2007	2008	2009	2010	2011	Thereafter	
Operating leases	\$ 982	\$ 1,832	\$ 1,874	\$ 1,916	\$ 90	\$ —	\$ 6,694
Capital leases	52	104	104	104	104	44	512
Committed purchase orders	75,287	—	—	—	—	—	75,287
Total contractual obligations	<u>\$76,321</u>	<u>\$ 1,936</u>	<u>\$ 1,978</u>	<u>\$ 2,020</u>	<u>\$ 194</u>	<u>\$ 44</u>	<u>\$82,493</u>

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

#### *Other Liquidity Needs*

During the next twelve months we plan to incur approximately \$15.0 million to \$18.0 million for the acquisition of capital expenditures and additional licenses. In addition, certain of our operating leases related to consolidated facilities obligate us to pay an aggregate of approximately \$166,000, net of sublease income, over the next 3 months. This obligation is included in the operating lease commitments in the above table.

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

#### **Risks Related to Our Business**

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

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

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

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

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

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

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

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

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

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

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

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

- We have priced the products to be sold under these contracts based on our estimated development, production and post-production warranty costs. If these or other related development and production costs are actually higher than our estimated costs, our gross margins and operating margins on the corresponding contracts will be less than anticipated.
- If we are unable to commit the necessary engineering, program management and other resources or are otherwise unable to successfully develop products as required by the terms of these contracts, our customers may cancel the related contracts, we may not be entitled to recover any costs that we incurred for research and development, sales and marketing, production and otherwise, and we may be subject to additional costs such as contractual penalties.

- If we fail to deliver in a timely manner a product that is suitable for manufacture or if a customer determines that a prototype product we delivered does not meet the agreed-upon specifications, we may be unable to commercially launch the product, we may have to reduce the price we charge for such product if it launches, or we may be required to pay damages to the customer.

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

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

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

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

A significant portion of our revenue comes from a small number of customers. Two customers accounted for 33.5% and 33.1% of revenues for the six months ended June 30, 2007. Two customers accounted for 43.9%, and 13.6% of revenues for the six months ended June 30, 2006. Similarly, our revenue could be adversely affected if we are unable to retain the level of business of any of our significant customers or if we are unable to diversify our customer base. We expect that a small number of customers will combine to account for a substantial amount of our revenue for the foreseeable future.

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

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

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

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

The success of our business depends, in part, on the capacity, affordability, reliability and prevalence of wireless data networks provided by wireless telecommunications operators and on which our products operate. Currently, various wireless telecommunications operators, either individually or jointly with us, sell our products in connection with the sale of their wireless data services to their customers. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services which customers consider valuable and at acceptable prices, 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 occurs, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline or remain stagnant and our business could be harmed.

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

Various risks arise when companies and industries grow quickly. If our business or industry grows too quickly, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development

or production delays as we seek to meet increased demand for our products. Our failure to properly manage the growth that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations, and our reputation with our current or potential customers.

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

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

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

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

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

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

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

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

Our products contain a variety of components, many of which are procured from single suppliers. These components include both tooled parts and industry-standard parts, many of which are also used in cellular telephone handsets. From time

to time, certain components used in our products have been in short supply worldwide or their anticipated commercial introduction has been delayed. If there is a shortage of any such components, and we cannot obtain a commercially and technologically suitable substitute or make sufficient and timely design or other product modifications to permit the use of such a substitute, we may not be able to timely deliver sufficient quantities of our products to satisfy demand. Moreover, if we locate a substitute and its price is prohibitive, our ability to maintain cost-effective production of our products would be seriously harmed.

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

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

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

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

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

In addition to our manufacturing activities in Asia, a significant portion of our sales activity takes place in Europe. In addition, a significant portion of our research and development staff is located in Canada. Our international sales accounted for approximately 22% of our revenue for the six months ended June 30, 2007 and 31% for the six months ended June 30, 2006. Although our experience in marketing, selling, distributing and manufacturing our products and services internationally is limited, we expect to further expand our international sales and marketing activities in the future. Consequently, we are subject to certain risks associated with doing business abroad, including:

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

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

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

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

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

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

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

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

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

derivative financial instruments as risk management tools and not for trading or speculative purposes. Fluctuations in the Euro currency may have a material impact on our future operating results and gross margins.

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

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

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

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

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

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

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

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

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

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

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

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



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

#### **Interest Rate Risk**

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits our credit exposure to any single issuer. The fair value of our cash equivalents and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. At June 30, 2007, we had \$119.2 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 \$51.6 million of our cash and cash equivalents at June 30, 2007, as these consisted of securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, the remaining \$67.6 million of our investments by approximately \$700,000. While changes in interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our consolidated statements of operations until the investment is sold or until the reduction in fair value was determined to be other than temporary.

#### **Foreign Currency Exchange Rate Risk**

During the six months ended June 30, 2007, approximately \$31.0 million of our sales transactions were denominated in Euros. In order to hedge against the short-term impact of foreign currency fluctuations on our accounts receivable balances we have entered into forward foreign exchange contracts. The effect of exchange rate changes on forward foreign exchange contracts is expected to offset the effect of exchange rate changes on the underlying hedged items. We believe these financial instruments do not subject us to speculative risk that would otherwise result from changes in currency exchange rates. If foreign currency rates were to fluctuate by 10% from rates at June 30, 2007, our financial position, results of operations and cash flows would not be materially affected. We do not use foreign currency forward exchange contracts for speculative or trading purposes.

All of our outstanding foreign currency contracts are marked-to-market, with unrealized gains and losses included as a component of other income and expense. As of June 30, 2007 the total amount of outstanding forward contracts amounted to 11 million Euros. During the six months ended June 30, 2007 we recorded an unrealized gain of approximately \$200,000 on our forward contracts. In addition, we recorded approximately \$200,000 of foreign currency gains related to our foreign currency receivable and cash balances denominated in Euros recorded in other income and expense during the six months ended June 30, 2007.

Revenues generated outside the United States, as a percentage of total revenues were approximately 22% for the six months ended June 30, 2007 and 31% for the same period in 2006. Significant fluctuations in foreign exchange rates could impact future operating results.

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

**Evaluation of Disclosure Controls and Procedures:** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2007, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of June 30, 2007.

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

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

Not applicable

**Item 1A. Risk Factors.**

See Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risks Related to our Business.”

**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 June 21, 2007, we held our annual meeting of stockholders at which our stockholders voted upon (i) the election of one nominee to our board of directors to serve a three-year term that expires at our 2010 annual meeting of stockholders; (ii) approval of an amendment to our Novatel Wireless, Inc. 2000 Stock Incentive Plan, as amended and restated to date, to increase the number of shares reserved for issuance under the plan by 2,000,000; (iii) approval of an amendment to our Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan, as amended and restated to date, to increase the number of shares reserved for issuance under the plan by 250,000; and (iv) ratification of the appointment of KPMG as our Independent Registered Public Accountants for the fiscal year ending December 31, 2007.

Our stockholders elected Mr. Greg Lorenzetti to a three-year term as a member of our board of directors and 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 2007 annual meeting may be found in our definitive proxy statement filed with the Securities and Exchange Commission on April 30, 2007.

	For	Against/ Withheld	Abstentions	Broker non-votes
1 Election of Greg Lorenzetti	25,214,021	—	2,864,174	—
2 Increase the number of shares reserved for issuance under the Stock Incentive Plan	11,927,799	11,320,917	38,017	4,791,462
3 Increase the number of shares reserved for issuance under the Employee Stock Purchase Plan	21,335,152	1,914,541	37,040	4,791,462
4 Ratification of Appointment of Registered Independent Public Accountants	27,977,016	83,625	17,554	—

The directors whose terms continued after the annual meeting are Messrs. Werner, Pudwill and Leparulo.

**Item 5. Other Information.**

On June 21, 2007, at our annual meeting of stockholders, our stockholders voted to amend our 2000 Stock Incentive Plan (Incentive Plan) and our 2000 Employee Stock Purchase Plan (ESPP) by increasing the number of shares reserved for issuance under each such plan. Pursuant to such approved amendments, 2,000,000 additional shares were reserved for issuance under the Incentive Plan and 250,000 additional shares were reserved for issuance under the ESPP, effective as of June 21, 2007. Our Incentive Plan and our ESPP are attached to this Form 10-Q as Exhibit 10.1 and 10.2, respectively.

**Item 6. Exhibits.**

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

<b>Exhibit Number</b>	<b>Description</b>
4.9	Registration Rights Agreement entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.10	Form of Common Stock Purchase Warrant issued in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
10.1	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan.
10.2	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan.
31.1	Certification of our Chief Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Chief Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

Date: August 9, 2007

Novatel Wireless, Inc.

By: \_\_\_\_\_ /s/ BRAD WEINERT

**Brad Weinert**  
**President**  
**(principal executive officer)**



*2000 STOCK INCENTIVE PLAN*

June 21, 2007

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**AMENDED AND RESTATED  
NOVATEL WIRELESS, INC.  
2000 STOCK INCENTIVE PLAN**

**SECTION 1. INTRODUCTION.**

The Company's Board of Directors adopted the Novatel Wireless, Inc. 2000 Stock Incentive Plan on July 24, 2000 (the "Adoption Date"), and the Company's stockholders approved the Plan on September 13, 2000. The Plan is effective on the date of our initial public offering and as amended and restated to date.

The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications.

The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Stock, Stock Units, Stock Appreciation Rights and Options (which may be Incentive Stock Options or Nonstatutory Stock Options).

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions). Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or the applicable Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement.

**SECTION 2. DEFINITIONS.**

(a) "**Affiliate**" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity. For purposes of determining an individual's "Service," this definition shall include any entity other than a Subsidiary, if the Company, a Parent and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "**Award**" means any award of an Option, SAR, Stock Unit or Restricted Stock under the Plan.

(c) "**Board**" means the Board of Directors of the Company, as constituted from time to time.

(d) **“Change In Control”** except as may otherwise be provided in a Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement, means the occurrence of any of the following:

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

(ii) The sale, transfer or other disposition of all or substantially all of the Company’s assets;

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

(iv) Any transaction as a result of which any person becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company’s then outstanding voting securities. For purposes of this Paragraph (iii), the term “person” shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude:

(A) A trustee or other fiduciary holding securities under an employee benefit plan of the Company or a subsidiary of the Company;

(B) A corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company; and

(C) The Company; or

(v) A complete liquidation or dissolution of the Company.

(e) **“Code”** means the Internal Revenue Code of 1986, as amended.

(f) **“Committee”** means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer the Plan.

(g) **“Common Stock”** means the Company’s common stock.

(h) **“Company”** means Novatel Wireless, Inc., a Delaware corporation.

(i) “**Consultant**” means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate other than as an Employee or Director or Non-Employee Director.

(j) “**Director**” means a member of the Board who is also an Employee.

(k) “**Disability**” means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(l) “**Employee**” means any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(m) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(n) “**Exercise Price**” means, in the case of an Option, the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. “Exercise Price,” in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of a Share in determining the amount payable upon exercise of such SAR.

(o) “**Fair Market Value**” means the market price of Shares, determined by the Committee as follows:

(i) If the Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the last trading price reported by the applicable composite transactions report for such date;

(ii) If the Shares were traded over-the-counter on the date in question and were classified as a national market issue, then the Fair Market Value shall be equal to the last trading price quoted by the NASDAQ system for such date;

(iii) If the Shares were traded over-the-counter on the date in question but were not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted by the NASDAQ system for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Wall Street Journal. Such determination shall be conclusive and binding on all persons.

(p) “**Grant**” means any grant of an Award under the Plan.

- (q) **“Incentive Stock Option”** or **“ISO”** means an incentive stock option described in Code section 422(b).
- (r) **“Key Employee”** means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.
- (s) **“Non-Employee Director”** means a member of the Board who is not an Employee.
- (t) **“Nonstatutory Stock Option”** or **“NSO”** means a stock option that is not an ISO.
- (u) **“Option”** means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.
- (v) **“Optionee”** means an individual, estate or other entity that holds an Option.
- (w) **“Parent”** means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.
- (x) **“Participant”** means an individual or estate or other entity that holds an Award.
- (y) **“Plan”** means this Novatel Wireless, Inc. 2000 Stock Incentive Plan as it may be amended from time to time.
- (z) **“Restricted Stock”** means a Share awarded under the Plan.
- (aa) **“Restricted Stock Agreement”** means the agreement described in Section 8 evidencing each Award of Restricted Stock.
- (bb) **“SAR Agreement”** means the agreement described in Section 9 evidencing each Award of a Stock Appreciation Right.
- (cc) **“Securities Act”** means the Securities Act of 1933, as amended.
- (dd) **“Service”** means service as an Employee, Director, Non-Employee Director or Consultant.
- (ee) **“Share”** means one share of Common Stock.
- (ff) **“Stock Appreciation Right”** or **“SAR”** means a stock appreciation right awarded under the Plan.
- (gg) **“Stock Option Agreement”** means the agreement described in Section 6 evidencing each Grant of an Option.

(hh) “**Stock Unit**” means a bookkeeping entry representing the equivalent of a Share, as awarded under the Plan.

(ii) “**Stock Unit Agreement**” means the agreement described in Section 8 evidencing each Award of Stock Units.

(jj) “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(kk) “**10-Percent Shareholder**” means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its subsidiaries. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

### SECTION 3. ADMINISTRATION.

(a) **Committee Composition.** A Committee appointed by the Board shall administer the Plan. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been approved, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

With respect to officers or directors subject to Section 16 of the Exchange Act, the Committee shall consist of those individuals who shall satisfy the requirements of Rule 16b-3 (or its successor) under the Exchange Act with respect to Awards granted to persons who are officers or directors of the Company under Section 16 of the Exchange Act. Notwithstanding the previous sentence, failure of the Committee to satisfy the requirements of Rule 16b-3 shall not invalidate any Awards granted by such Committee.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not qualify under Rule 16b-3, who may administer the Plan with respect to Key Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

Either the Board or the Committee shall administer the Plan with respect to all Awards granted to Non-Employee Directors.

(b) **Authority of the Committee.** Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

- (i) selecting Key Employees who are to receive Awards under the Plan;
- (ii) determining the type, number, vesting requirements and other features and conditions of such Awards;
- (iii) interpreting the Plan; and
- (iv) making all other decisions relating to the operation of the Plan.

The Committee may adopt such rules or guidelines, as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) **Indemnification.** Each member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

#### **SECTION 4. ELIGIBILITY.**

(a) **General Rules.** Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee.

(b) **Incentive Stock Options.** Only Key Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Shareholder shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(5) of the Code are satisfied.

(c) **Non-Employee Director Options.** Non-Employee Directors shall also be eligible to receive Options as described in this Section 4(c) from and after the date the Board has determined to implement this provision.

(i) Each eligible Non-Employee Director shall be granted, upon joining the Board, an NSO to purchase up to 85,000 Shares (subject to adjustment under Section 10)



as a result of his or her election or appointment as a Non-Employee Director. All Options granted pursuant to this Section 4 shall vest and become exercisable provided the individual is serving as a director of the Company as of the vesting date as follows: 20% of the Options shall vest on the six-month anniversary of grant, and the balance of such options shall vest in 30 equal monthly installments thereafter commencing on the date seven months after the date of grant. Notwithstanding the foregoing, the Board or the Committee shall be permitted to make such other grants hereunder, from time to time, to Non-Employee Directors and to determine the vesting schedule or schedules thereto as it determines in its reasonable good faith discretion and as set forth in a duly adopted resolution thereof.

(ii) All NSOs granted to Non-Employee Directors under this Section 4(c) shall become exercisable in full in the event of Change in Control with respect to the Company.

(iii) The Exercise Price under all NSOs granted to a Non-Employee Director under this Section 4(c) shall be equal to one hundred percent (100%) of the Fair Market Value of a Share of Common Stock on the date of grant, payable in one of the forms described in Section 7.

(iv) All NSOs granted to a Non-Employee Director under this Section 4(c) shall terminate on the earlier of:

(1) The 10th anniversary of the date of grant; or

(2) The date ninety (90) days after the termination of such Non-Employee Director's service for any reason.

#### **SECTION 5. SHARES SUBJECT TO PLAN.**

(a) **Basic Limitation.** The stock issuable under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 11,322,743.

(b) **Additional Shares.** If Awards are forfeited or terminate for any other reason before being exercised, then the Shares underlying such Awards shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available under Section 5(a) and the balance shall again become available for Awards under the Plan.

(c) **Dividend Equivalents.** Any dividend equivalents distributed under the Plan shall not be applied against the number of Shares available for Awards whether or not such dividend equivalents are converted into Stock Units.

(d) **Limits on Options and SARs.** No Key Employee shall receive Options to purchase Shares and/or SARs during any fiscal year covering in excess of 1,000,000 Shares, or 2,000,000 Shares in the first fiscal year of a Key Employee's employment with Company.

(e) **Limits on Restricted Stock and Stock Units.** No Key Employee shall receive Award(s) of Restricted Stock and/or Stock Units during any fiscal year covering in excess of 500,000 Shares, or 1,000,000 Shares in the first fiscal year of a Key Employee's employment with Company.

#### **SECTION 6. TERMS AND CONDITIONS OF OPTIONS.**

(a) **Stock Option Agreement.** Each Grant under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. A Stock Option Agreement may provide that new Options will be granted automatically to the Optionee when he or she exercises the prior Options. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(b) **Number of Shares.** Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 9.

(c) **Exercise Price.** An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. To the extent required by applicable law the Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Shareholders) of a Share on the date of Grant. In the case of an NSO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NSO is outstanding.

(d) **Exercisability and Term.** Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed ten (10) years from the date of Grant. An ISO that is granted to a 10-Percent Shareholder shall have a maximum term of five (5) years. No Option can be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. A Stock Option Agreement may permit an Optionee to exercise an Option before it is vested, subject to the Company's right of repurchase over any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) **Modifications or Assumption of Options.** Within the limitations of the Plan, the Committee may amend, modify or extend outstanding options under the Plan. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option. Notwithstanding any provision in the Plan to the contrary, absent the prior approval of the majority of shares of common stock of the Company, no Option may be modified to reduce the per share exercise price of the shares subject to such Option below the per share exercise price as of the date the Option is granted and, except as permitted by Section 10 of the Plan, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per share exercise price.

(f) **Transferability of Options.** Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, no Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Optionee only or by the guardian or legal representative of the Optionee. No Option or interest therein may be assigned, pledged or hypothecated by the Optionee during his lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

(g) **No Rights as Stockholder.** An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Common Stock covered by an Option until such person becomes entitled to receive such Common Stock by filing a notice of exercise and paying the Exercise Price pursuant to the terms of such Option.

(h) **Restrictions on Transfer.** Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law.

## **SECTION 7. PAYMENT FOR OPTION SHARES.**

(a) **General Rule.** The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows:

(i) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Section 7.

(ii) In the case of an NSO granted under the Plan, the Committee may in its discretion, at any time accept payment in any form(s) described in this Section 7.

(b) **Surrender of Stock.** To the extent that this Section 7(b) is applicable, payment for all or any part of the Exercise Price may be made with Shares which have already been owned by the Optionee for such duration as shall be specified by the Committee. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan.

(c) **Promissory Note.** To the extent that this Section 7(c) is applicable, payment for all or any part of the Exercise Price may be made with a full-recourse promissory note.

(d) **Other Forms of Payment.** To the extent that this Section 7(d) is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

#### **SECTION 8. TERMS AND CONDITIONS FOR AWARDS OF RESTRICTED STOCK AND STOCK UNITS.**

(a) **Time, Amount and Form of Awards.** Awards under this Section 8 may be granted in the form of Restricted Stock in the form of Stock Units, or in any combination of both. Restricted Stock or Stock Units may also be awarded in combination with NSOs or SARs, and such an Award may provide that the Restricted Stock or Stock Units will be forfeited in the event that the related NSOs or SARs are exercised.

(b) **Agreements.** Each Award of Restricted Stock or Stock Units under the Plan shall be evidenced by a Restricted Stock Agreement or Stock Unit Agreement between the Participant and the Company. Such Awards shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Agreement. The provisions of the various Agreements entered into under the Plan need not be identical.

(c) **Payment for Restricted Stock or Stock Unit Awards.** Restricted Stock or Stock Units may be issued with or without cash consideration under the Plan.

(d) **Form and Time of Settlement of Stock Units.** Settlement of vested Stock Units may be made in the form of (i) cash, (ii) Shares or (iii) any combination of both. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 10.

(e) **Vesting Conditions.** Each Award of Restricted Stock or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the applicable Agreement. An Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or retirement or other events.

(f) **Assignment or Transfer of Restricted Stock or Stock Units.** Except as provided in Section 13, or in a Restricted Stock Agreement or Stock Unit Agreement, or as required by applicable law, a Restricted Stock or Stock Unit Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 8(f) shall be void. However, this Section 8(f) shall not preclude a Participant from designating a beneficiary who will receive any outstanding Restricted Stock or Stock Unit Awards in the event of the Participant's death, nor shall it preclude a transfer of Restricted Stock or Stock Unit Awards by will or by the laws of descent and distribution.

(g) **Death of Stock Units Recipient.** Any Stock Unit Award that becomes payable after the Award recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Unit Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the recipient's death. If no beneficiary was designated or if no designated beneficiary survives the recipient, then any Stock Unit Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(h) **Trusts.** Neither this Section 8 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Stock from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Stock held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Restricted Stock Agreement, as if such trustee were a party to such Agreement.

(i) **Voting and Dividend Rights.** The holders of Restricted Stock awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Stock invest any cash dividends received in additional Restricted Stock. Such additional Restricted Stock shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Stock shall not reduce the number of Shares available under Section 5.

(j) **Stock Unit Voting and Dividend Rights.** The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

(k) **Creditors' Rights.** A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

#### **SECTION 9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.**

(a) **SAR Agreement.** Each Award of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

(b) **Number of Shares.** Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 10.

(c) **Exercise Price.** Each SAR Agreement shall specify the Exercise Price. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

(d) **Exercisability and Term.** Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. SARs may also be awarded in combination with Options, Restricted Stock or Stock Units, and such an Award may provide that the SARs will not be exercisable unless the related Options, Restricted Stock or Stock Units are forfeited. A SAR may be included in an ISO only at the time of Grant but may be included in an NSO at the time of Grant or at any subsequent time, but not later than six months before the expiration of such NSO. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) **Exercise of SARs.** If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (i) Shares, (ii) cash or (iii) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(f) **Modification or Assumption of SARs.** Within the limitations of the Plan, the Committee may amend, modify or extend outstanding SARs under the Plan. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the holder thereof, alter or impair his or her rights or obligations under such SAR. Notwithstanding any provision in the Plan to the contrary, absent the prior approval of the majority of shares of common stock of the Company, no SAR may be amended to reduce the per share exercise price of the shares subject to such SAR below the per share exercise price as of the date the SAR is granted and, except as permitted by Section 10 of the Plan, no SAR may be granted in exchange for, or in connection with, the cancellation or surrender of a SAR having a higher per share exercise price.

#### **SECTION 10. PROTECTION AGAINST DILUTION.**

(a) **Adjustments.** In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, reorganization, merger, liquidation, spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its reasonable discretion, deems appropriate in order to prevent the dilution or enlargement of rights hereunder in one or more of:

- (i) the number of Shares available for future Awards and the per person Share limits under Section 5;
- (ii) the number of Shares covered by each outstanding Award; or
- (iii) the Exercise Price under each outstanding SAR or Option.

(b) **Participant Rights.** Except as provided in this Section 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

#### **SECTION 11. EFFECT OF A CHANGE IN CONTROL.**

(a) **Merger or Reorganization.** In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for their cancellation with or without consideration.

(b) **Acceleration.** The Committee may determine, at the time of granting an Award or thereafter, that such Award shall become fully vested as to all Shares subject to such Award in the event that a Change in Control occurs with respect to the Company.

#### **SECTION 12. LIMITATIONS ON RIGHTS.**

(a) **Retention Rights.** Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's Certificate of Incorporation and Bylaws and a written employment agreement (if any).

(b) **Stockholders' Rights.** A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Section 10.

(c) **Regulatory Requirements.** Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

#### **SECTION 13. WITHHOLDING TAXES.**

(a) **General.** A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with his or her Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) **Share Withholding.** If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including, but not limited to, any restrictions required by rules of the Securities and Exchange Commission.



**SECTION 14. DURATION AND AMENDMENTS.**

(a) **Term of the Plan.** The Plan, as set forth herein, shall become effective on the date of its adoption by the Board, subject to the approval of the Company's stockholders. No Options or SARs shall be exercisable until such stockholder approval is obtained. In the event that the stockholders fail to approve the Plan within twelve (12) months after its adoption by the Board, any Awards made shall be null and void and no additional Awards shall be made. The Plan shall terminate on the date that is ten (10) years after its adoption by the Board and may be terminated on any earlier date pursuant to Section 14(b).

(b) **Right to Amend or Terminate the Plan.** The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

**SECTION 15. EXECUTION.**

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this Plan on behalf of the Company.

**NOVATEL WIRELESS, INC.**

By \_\_\_\_\_ /s/ PETER V. LEPARULO  
Title Executive Chairman



*2000 EMPLOYEE STOCK PURCHASE PLAN*

**June 21, 2007**

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**AMENDED AND RESTATED  
NOVATEL WIRELESS, INC.  
2000 EMPLOYEE STOCK PURCHASE PLAN**

SECTION 1  
PURPOSE

Novatel Wireless, Inc. hereby establishes the Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan, effective as of the Initial Public Offering Date, in order to provide eligible employees of the Company and its participating Subsidiaries with the opportunity to purchase Common Stock through payroll deductions. The Plan is intended to qualify as an employee stock purchase plan under Section 423(b) of the Code.

SECTION 2  
DEFINITIONS

2.1 “1934 Act” means the Securities Exchange Act of 1934, as amended. Reference to a specific Section of the 1934 Act or regulation thereunder shall include such Section or regulation, any valid regulation promulgated under such Section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such Section or regulation.

2.2 “Board” means the Board of Directors of the Company.

2.3 “Code” means the Internal Revenue Code of 1986, as amended. Reference to a specific Section of the Code or regulation thereunder shall include such Section or regulation, any valid regulation promulgated under such Section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such Section or regulation.

2.4 “Committee” shall mean the committee appointed by the Board to administer the Plan. Any member of the Committee may resign at any time by notice in writing mailed or delivered to the Secretary of the Company. As of the effective date of the Plan, the Plan shall be administered by the Compensation Committee of the Board.

2.5 “Common Stock” means the common stock of the Company.

2.6 “Company” means Novatel Wireless, Inc., a Delaware corporation.

2.7 “Compensation” means a Participant’s regular wages. The Committee, in its discretion, may (on a uniform and nondiscriminatory basis) establish a different definition of Compensation prior to an Enrollment Date for all options to be granted on such Enrollment Date.

2.8 “Eligible Employee” means every Employee of an Employer, except (a) any Employee who immediately after the grant of an option under the Plan, would own stock

and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company (including stock attributed to such Employee pursuant to Section 424(d) of the Code), or (b) as provided in the following sentence. The Committee, in its discretion, from time to time may, prior to an Enrollment Date for all options to be granted on such Enrollment Date, determine (on a uniform and nondiscriminatory basis) that an Employee shall not be an Eligible Employee if he or she: (1) has not completed at least two years of service since his or her last hire date (or such lesser period of time as may be determined by the Committee in its discretion), (2) customarily works not more than 20 hours per week (or such lesser period of time as may be determined by the Committee in its discretion), (3) customarily works not more than 5 months per calendar year (or such lesser period of time as may be determined by the Committee in its discretion), or (4) is an officer or other manager.

2.9 "Employee" means an individual who is a common-law employee of any Employer, whether such employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

2.10 "Employer" or "Employers" means any one or all of the Company, and those Subsidiaries which, with the consent of the Board, have adopted the Plan.

2.11 "Enrollment Date" means such dates as may be determined by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time.

2.12 "Grant Date" means any date on which a Participant is granted an option under the Plan.

2.13 "Participant" means an Eligible Employee who (a) has become a Participant in the Plan pursuant to Section 4.1 and (b) has not ceased to be a Participant pursuant to Section 8 or Section 9.

2.14 "Plan" means the Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan, as set forth in this instrument and as hereafter amended from time to time.

2.15 "Purchase Date" means such dates as may be determined by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date.

2.16 "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

### SECTION 3 SHARES SUBJECT TO THE PLAN

3.1 Number Available. 292,501 shares of Common Stock are currently available for issuance pursuant to the Plan. On the first day of each fiscal year of the Company, Shares will be added to the Plan equal to the lesser of (a) 0.5% of the outstanding Shares on the

last day of the prior fiscal year, (b) 18,000 Shares, or such lesser number of Shares as may be determined by the Board in its sole discretion. Shares sold under the Plan may be newly issued shares or treasury shares.

3.2 Adjustments. In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights or other similar change in the capital structure of the Company, the Board may make such adjustment, if any, as it deems appropriate in the number, kind and purchase price of the shares available for purchase under the Plan and in the maximum number of shares subject to any option under the Plan.

#### SECTION 4 ENROLLMENT

4.1 Participation. Each Eligible Employee may elect to become a Participant by enrolling or re-enrolling in the Plan effective as of any Enrollment Date. In order to enroll, an Eligible Employee must complete, sign and submit to the Company an enrollment form in such form, manner and by such deadline as may be specified by the Committee from time to time (in its discretion and on a nondiscriminatory basis). Any Participant whose option expires and who has not withdrawn from the Plan automatically will be re-enrolled in the Plan on the Enrollment Date immediately following the Purchase Date on which his or her option expires. Any Participant whose option has not expired and who has not withdrawn from the Plan automatically will be deemed to be un-enrolled from the Participant's current option and be enrolled as of a subsequent Enrollment Date if the price per Share on such subsequent Enrollment Date is lower than the price per Share on the Enrollment Date relating to the Participant's current option.

4.2 Payroll Withholding. On his or her enrollment form, each Participant must elect to make Plan contributions via payroll withholding from his or her Compensation. Pursuant to such procedures as the Committee may specify from time to time, a Participant may elect to have withholding equal to a whole percentage from 1% to 10% (or such lesser percentage that the Committee may establish from time to time for all options to be granted on any Enrollment Date). A Participant may elect to increase or decrease his or her rate of payroll withholding by submitting a new enrollment form in accordance with such procedures as may be established by the Committee from time to time. A Participant may stop his or her payroll withholding by submitting a new enrollment form in accordance with such procedures as may be established by the Committee from time to time. In order to be effective as of a specific date, an enrollment form must be received by the Company no later than the deadline specified by the Committee, in its discretion and on a nondiscriminatory basis, from time to time. Any Participant who is automatically re-enrolled in the Plan will be deemed to have elected to continue his or her contributions at the percentage last elected by the Participant.

#### SECTION 5 OPTIONS TO PURCHASE COMMON STOCK

5.1 Grant of Option. On each Enrollment Date on which the Participant enrolls or re-enrolls in the Plan, he or she shall be granted an option to purchase shares of Common Stock.

5.2 Duration of Option. Each option granted under the Plan shall expire on the earliest to occur of (a) the completion of the purchase of shares on the last Purchase Date occurring within 24 months of the Grant Date of such option, (b) such shorter option period as may be established by the Committee from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date, or (c) the date on which the Participant ceases to be such for any reason. Until otherwise determined by the Committee for all options to be granted on an Enrollment Date, the period referred to in clause (b) in the preceding sentence shall mean the period from the applicable Enrollment Date through the last business day prior to the immediately following Enrollment Date.

5.3 Number of Shares Subject to Option. The number of shares available for purchase by each Participant under the option will be established by the Committee from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date.

5.4 Other Terms and Conditions. Each option shall be subject to the following additional terms and conditions:

- (a) payment for shares purchased under the option shall be made only through payroll withholding under Section 4.2;
- (b) purchase of shares upon exercise of the option will be accomplished only in accordance with Section 6.1;
- (c) the price per share under the option will be determined as provided in Section 6.1; and
- (d) the option in all respects shall be subject to such other terms and conditions (applied on a uniform and nondiscriminatory basis), as the Committee shall determine from time to time in its discretion.

## SECTION 6 PURCHASE OF SHARES

6.1 Exercise of Option. Subject to Section 6.2, on each Purchase Date, the funds then credited to each Participant's account shall be used to purchase whole shares of Common Stock. Any cash remaining after whole shares of Common Stock have been purchased shall be carried forward in the Participant's account for the purchase of shares on the next Purchase Date. The price per Share of the Shares purchased under any option granted under the Plan shall be eighty-five percent (85%) of the lower of:

- (a) the closing price per Share on the Grant Date for such option on the NASDAQ National Market System; or
- (b) the closing price per Share on the Purchase Date on the NASDAQ National Market System;

provided, however, that with respect to any Grant Date under the Plan that coincides with the date of the final prospectus for the initial public offering of the Common Stock, the price in clause (a) above shall be the price per Share at which shares of Common Stock are initially offered for sale to the public by the Company's underwriters in such offering.



6.2 Delivery of Shares. As directed by the Committee in its sole discretion, shares purchased on any Purchase Date shall be delivered directly to the Participant or to a custodian or broker (if any) designated by the Committee to hold shares for the benefit of the Participants. As determined by the Committee from time to time, such shares shall be delivered as physical certificates or by means of a book entry system.

6.3 Exhaustion of Shares. If at any time the shares available under the Plan are over-enrolled, enrollments shall be reduced proportionately to eliminate the over-enrollment. Such reduction method shall be "bottom up," with the result that all option exercises for one share shall be satisfied first, followed by all exercises for two shares, and so on, until all available shares have been exhausted. Any funds that, due to over-enrollment, cannot be applied to the purchase of whole shares shall be refunded to the Participants (without interest thereon).

#### SECTION 7 WITHDRAWAL

7.1 Withdrawal. A Participant may withdraw from the Plan by submitting a completed enrollment form to the Company. A withdrawal will be effective only if it is received by the Company by the deadline specified by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time. When a withdrawal becomes effective, the Participant's payroll contributions shall cease and all amounts then credited to the Participant's account shall be distributed to him or her (without interest thereon).

#### SECTION 8 CESSATION OF PARTICIPATION

8.1 Termination of Status as Eligible Employee. A Participant shall cease to be a Participant immediately upon the cessation of his or her status as an Eligible Employee (for example, because of his or her termination of employment from all Employers for any reason). As soon as practicable after such cessation, the Participant's payroll contributions shall cease and all amounts then credited to the Participant's account shall be distributed to him or her (without interest thereon). If a Participant is on a Company-approved leave of absence, his or her participation in the Plan shall continue for so long as he or she remains an Eligible Employee and has not withdrawn from the Plan pursuant to Section 7.1.

#### SECTION 9 DESIGNATION OF BENEFICIARY

9.1 Designation. Each Participant may, pursuant to such uniform and nondiscriminatory procedures as the Committee may specify from time to time, designate one or more Beneficiaries to receive any amounts credited to the Participant's account at the time of his or her death. Notwithstanding any contrary provision of this Section 9, Sections 9.1 and 9.2 shall be operative only after (and for so long as) the Committee determines (on a uniform and nondiscriminatory basis) to permit the designation of Beneficiaries.

9.2 Changes. A Participant may designate different Beneficiaries (or may revoke a prior Beneficiary designation) at any time by delivering a new designation (or revocation of a prior designation) in like manner. Any designation or revocation shall be effective only if it is received by the Committee. However, when so received, the designation or revocation shall be effective as of the date the designation or revocation is executed (whether or not the Participant still is living), but without prejudice to the Committee on account of any payment made before the change is recorded. The last effective designation received by the Committee shall supersede all prior designations.

9.3 Failed Designations. If a Participant dies without having effectively designated a Beneficiary, or if no Beneficiary survives the Participant, the Participant's Account shall be payable to his or her estate.

SECTION 10  
ADMINISTRATION

10.1 Plan Administrator. The Plan shall be administered by the Committee. The Committee shall have the authority to control and manage the operation and administration of the Plan.

10.2 Actions by Committee. Each decision of a majority of the members of the Committee then in office shall constitute the final and binding act of the Committee. The Committee may act with or without a meeting being called or held and shall keep minutes of all meetings held and a record of all actions taken by written consent.

10.3 Powers of Committee. The Committee shall have all powers and discretion necessary or appropriate to supervise the administration of the Plan and to control its operation in accordance with its terms, including, but not by way of limitation, the following discretionary powers:

- (a) To interpret and determine the meaning and validity of the provisions of the Plan and the options and to determine any question arising under, or in connection with, the administration, operation or validity of the Plan or the options;
- (b) To determine any and all considerations affecting the eligibility of any employee to become a Participant or to remain a Participant in the Plan;
- (c) To cause an account or accounts to be maintained for each Participant;
- (d) To determine the time or times when, and the number of shares for which, options shall be granted;
- (e) To establish and revise an accounting method or formula for the Plan;
- (f) To designate a custodian or broker to receive shares purchased under the Plan and to determine the manner and form in which shares are to be delivered to the designated custodian or broker;

- (g) To determine the status and rights of Participants and their Beneficiaries or estates;
- (h) To employ such brokers, counsel, agents and advisers, and to obtain such broker, legal, clerical and other services, as it may deem necessary or appropriate in carrying out the provisions of the Plan;
- (i) To establish, from time to time, rules for the performance of its powers and duties and for the administration of the Plan;
- (j) To adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by employees who are foreign nationals or employed outside of the United States;
- (k) To delegate to any one or more of its members or to any other person, severally or jointly, the authority to perform for and on behalf of the Committee one or more of the functions of the Committee under the Plan.

10.4 Decisions of Committee. All actions, interpretations, and decisions of the Committee shall be conclusive and binding on all persons, and shall be given the maximum possible deference allowed by law.

10.5 Administrative Expenses. All expenses incurred in the administration of the Plan by the Committee, or otherwise, including legal fees and expenses, shall be paid and borne by the Employers, except any stamp duties or transfer taxes applicable to the purchase of shares may be charged to the account of each Participant. Any brokerage fees for the purchase of shares by a Participant shall be paid by the Company, but fees and taxes (including brokerage fees) for the transfer, sale or resale of shares by a Participant, or the issuance of physical share certificates, shall be borne solely by the Participant.

10.6 Eligibility to Participate. No member of the Committee who is also an employee of an Employer shall be excluded from participating in the Plan if otherwise eligible, but he or she shall not be entitled, as a member of the Committee, to act or pass upon any matters pertaining specifically to his or her own account under the Plan.

10.7 Indemnification. Each of the Employers shall, and hereby does, indemnify and hold harmless the members of the Committee and the Board, from and against any and all losses, claims, damages or liabilities (including attorneys' fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from the implementation of a duty, act or decision with respect to the Plan, so long as such duty, act or decision does not involve gross negligence or willful misconduct on the part of any such individual.

#### SECTION 11 AMENDMENT, TERMINATION, AND DURATION

11.1 Amendment, Suspension, or Termination. The Board, in its sole discretion, may amend or terminate the Plan, or any part thereof, at any time and for any reason.

If the Plan is terminated, the Board, in its discretion, may elect to terminate all outstanding options either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit options to expire in accordance with their terms (and participation to continue through such expiration dates). If the options are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares shall be returned to the Participants (without interest thereon) as soon as administratively practicable.

11.2 Duration of the Plan. The Plan shall commence on the date specified herein, and subject to Section 11.1 (regarding the Board's right to amend or terminate the Plan), shall remain in effect for ten (10) years from the effective date.

## SECTION 12 GENERAL PROVISIONS

12.1 Participation by Subsidiaries. One or more Subsidiaries of the Company may become participating Employers by adopting the Plan and obtaining approval for such adoption from the Board. By adopting the Plan, a Subsidiary shall be deemed to agree to all of its terms, including (but not limited to) the provisions granting exclusive authority (a) to the Board to amend the Plan, and (b) to the Committee to administer and interpret the Plan. An Employer may terminate its participation in the Plan at any time. The liabilities incurred under the Plan to the Participants employed by each Employer shall be solely the liabilities of that Employer, and no other Employer shall be liable for benefits accrued by a Participant during any period when he or she was not employed by such Employer.

12.2 Inalienability. In no event may either a Participant, a former Participant or his or her Beneficiary, spouse or estate sell, transfer, anticipate, assign, hypothecate, or otherwise dispose of any right or interest under the Plan; and such rights and interests shall not at any time be subject to the claims of creditors nor be liable to attachment, execution or other legal process. Accordingly, for example, a Participant's interest in the Plan is not transferable pursuant to a domestic relations order.

12.3 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

12.4 Requirements of Law. The granting of options and the issuance of shares shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or securities exchanges as the Committee may determine are necessary or appropriate.

12.5 Compliance with Rule 16b-3. Any transactions under this Plan with respect to officers (as defined in Rule 16a-1 promulgated under the 1934 Act) are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. Notwithstanding any contrary provision of the Plan, if the Committee specifically determines that compliance with Rule 16b-3 no longer is required, all references in the Plan to Rule 16b-3 shall be null and void.

12.6 No Enlargement of Employment Rights. Neither the establishment or maintenance of the Plan, the granting of options, the purchase of shares, nor any action of any Employer or the Committee, shall be held or construed to confer upon any individual any right to be continued as an employee of the Employer nor, upon dismissal, any right or interest in any specific assets of the Employers other than as provided in the Plan. Each Employer expressly reserves the right to discharge any employee at any time, with or without cause.

12.7 Apportionment of Costs and Duties. All acts required of the Employers under the Plan may be performed by the Company for itself and its Subsidiaries, and the costs of the Plan may be equitably apportioned by the Committee among the Company and the other Employers. Whenever an Employer is permitted or required under the terms of the Plan to do or perform any act, matter or thing, it shall be done and performed by any officer or employee of the Employers who is thereunto duly authorized by the Employers.

12.8 Construction and Applicable Law. The Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423(b) of the Code. Any provision of the Plan which is inconsistent with Section 423(b) of the Code shall, without further act or amendment by the Company or the Committee, be reformed to comply with the requirements of Section 423(b). The provisions of the Plan shall be construed, administered and enforced in accordance with such Section and with the laws of the State of California (excluding California’s conflict of laws provisions).

12.9 Captions. The captions contained in and the table of contents prefixed to the Plan are inserted only as a matter of convenience, and in no way define, limit, enlarge or describe the scope or intent of the Plan nor in any way shall affect the construction of any provision of the Plan.

EXECUTION

IN WITNESS WHEREOF, Novatel Wireless, Inc., by its duly authorized officer, has executed this Plan.

**NOVATEL WIRELESS, INC.**

By: /s/ Peter V. Leparulo

Title: Executive Chairman

## Section 302 Certifications

## CERTIFICATIONS

Each of the undersigned, in his capacity as the principal executive officer and principal financial and accounting 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 PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brad Weinert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Novatel Wireless, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's 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/ BRAD WEINERT

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**Brad Weinert**  
**President**  
**(principal executive officer)**

Dated: August 9, 2007

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

I, Shawn Swaney, 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/ SHAWN SWANEY

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**Shawn Swaney**  
**Corporate Controller**  
**(principal financial and accounting officer)**

Dated: August 9, 2007

**CERTIFICATIONS**

Each of the undersigned, in his capacity as the principal executive officer and principal financial and accounting officer of Novatel Wireless, Inc. (the "Company"), as the case may be, hereby certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), that, to the best of his knowledge:

1. This Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by this Quarterly Report.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission ("SEC") or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of this Quarterly Report), irrespective of any general incorporation language contained in such filing.

**IN WITNESS WHEREOF**, the undersigned have set their hands hereto as of the 9th day of August, 2007.

/s/ BRAD WEINERT

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**Brad Weinert**  
**President**  
**(principal executive officer)**

/s/ SHAWN SWANEY

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**Shawn Swaney**  
**Corporate Controller**  
**(principal financial and accounting officer)**