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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K**

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

For fiscal year ended December 31, 2012

OR

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

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

Commission file number: 000-31659

**NOVATEL WIRELESS, INC.**

(exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation or Organization)

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

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

**92121**  
(zip code)

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

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, par value \$.001 per share**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-Accelerated filer  Smaller Reporting Company

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on June 30, 2012, as reported by The Nasdaq Global Select Market, was approximately \$80,047,404. For the purposes of this calculation, shares owned by officers and directors (and their affiliates) have been excluded. This exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the Registrant. The Registrant does not have any non-voting stock issued or outstanding.

The number of shares of the Registrant's common stock outstanding as of February 27, 2013 was 33,705,412.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for the 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K to the extent stated herein.

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## Forward-Looking Statements

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

- our ability to compete in the market for wireless broadband data access products;
- our ability to develop and timely introduce new products successfully;
- our ability to integrate the operations of Enfora and any other business, products, technologies or personnel that we may acquire in the future;
- the continuing impact of uncertain global economic conditions on the demand for our products;
- our ability to introduce and sell new products that comply with current and evolving industry standards, including 3G and 4G standards, and government regulations;
- our ability to develop and maintain strategic relationships to expand into new markets;
- our dependence on a small number of customers for a substantial portion of our revenues;
- demand for broadband wireless access to enterprise networks and the Internet;
- the marketability of our products is dependent on wireless telecommunication operators delivering acceptable wireless services;
- our ability to properly manage the growth of our business to avoid significant strains on our management and operations and disruptions to our business;
- our reliance on third parties to procure components and manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture and timely delivery of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- the outcome of pending or future litigation, including the current class action securities litigation and intellectual property litigation;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development and sale of our products;
- risks associated with doing business abroad, including foreign currency risks;
- the risk of introducing new products that could contain errors or defects; and
- our ability to hire, retain and manage additional qualified personnel to maintain and expand our business.

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

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### **Trademarks**

“Novatel Wireless”, the Novatel Wireless logo, “MiFi”, “MiFi Intelligent Mobile Hotspot”, “MiFi OS”, “MiFi Home”, “MobiLink”, “Ovation,” “Expedite” and “MiFi.Freedom. My Way” are trademarks of Novatel Wireless, Inc. “Enfora”, the Enfora logo, “Spider”, “Enabling Information Anywhere”, “Enabler”, “eWide” and “N4A” are trademarks of Enfora, Inc. Other trademarks, trade names or service marks used in this report are the property of their respective owners.

## PART I

### Item 1. *Business*

#### Overview

We are a provider of intelligent wireless solutions for the worldwide mobile communications market. Our broad range of products principally includes intelligent mobile hotspots, USB modems, embedded modules for machine-to-machine (M2M) and mobile computing OEMs, integrated asset-management M2M devices, and communications and applications software.

Our products currently operate on every major cellular wireless technology platform. Our mobile hotspots, embedded modules, and modems provide subscribers with secure and convenient high-speed access to corporate, public and personal information through the Internet and enterprise networks. Our M2M products enable devices to communicate with each other and with server or cloud-based application infrastructure.

Our mobile-hotspot and modem customer base is comprised of wireless operators, including AT&T, Sprint, and Verizon Wireless; laptop PC and other original equipment manufacturers, or OEMs, including Dell and Hewlett-Packard; as well as distributors and various companies in other vertical markets. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers of medical devices and geographical-location devices, providers of security systems, application service providers and distributors. We have strategic relationships with several of these customers for technology development and marketing.

For the years ended December 31, 2012, 2011, and 2010, net revenues recognized from sales of our products were \$344.3 million, \$402.9 million, and \$338.9 million, respectively.

We were incorporated in 1996 under the laws of the State of Delaware.

#### Our Strategy

Our objective is to be a leading provider of intelligent wireless solutions. The key elements of our strategy are to:

- *Broaden Our Product Offerings.* We intend to diversify and continue to broaden our product lines in the following areas: intelligent mobile hotspots, embedded modules supporting The Internet of Things, integrated M2M devices for asset tracking, telemetry, and mobile tracking and customized service-delivery platforms to manage and enable M2M applications.
- *Expand Our Wireless Product Offerings Worldwide.* We intend to continue expanding our portfolio of wireless products with leading wireless operators and enterprises worldwide. Our products operate on the major wireless technology platforms, including Second Generation (2G) networks: GSM, CDMA, GPRS; Third Generation (3G) networks: CDMA2000 1xEV-DO, HSDPA and HSUPA; and Fourth Generation (4G) networks: LTE, dual carrier HSPA+, and WiMAX.
- *Lead the Intelligent Mobile Hotspot Product Category.* We invented and developed the MiFi® Intelligent Mobile Hotspot, a new category in wireless mobile data devices. In May 2009, the first nationwide commercial deployment of MiFi hotspots was launched by Verizon Wireless. Since that time, approximately 20 additional operators around the world have commercially launched MiFi for both 3G and 4G technologies. In September 2012 we introduced the next-generation MiFi® Intelligent Mobile Hotspot – the MiFi 2. The MiFi 2 was the first mobile hotspot with a touch-screen display and the most feature rich mobile hotspot in the market. We have multiple versions of MiFi mobile hotspots currently in development and we plan to continue to be a leader and innovator of the MiFi family of products.

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- *Capitalize on Our Direct Relationships with Wireless Operators.* We intend to continue to capitalize on our direct and long-standing relationships with wireless operators in order to increase our worldwide market position. In the United States and internationally, we are working closely with wireless operators to provide the best mobile computing solutions and relevant M2M solutions to consumers and enterprise customers.
- *Leverage Strategic Relationships.* We believe that strategic relationships with wireless carriers and enterprises that utilize mobile computing and M2M technology are critical to our ability to leverage sales opportunities and ensure that our technology investments address customer needs. Through strategic relationships, we believe that we can increase market penetration and differentiate our products by leveraging resources and knowledge including sales, marketing, and distribution systems. We are also addressing new market opportunities through innovation with our strategic partners.
- *Continue to Target Key Vertical Market Opportunities and Penetrate New Markets.* We believe that continuing developments in wireless technologies will create additional vertical market opportunities and more applications for our products. Currently, we market our wireless access and M2M solutions to key vertical industry segments by offering innovative solutions that are intended to increase productivity, reduce costs and create operational efficiencies.
- *Increase the Value of Our Products.* We will continue to add new features, functionality and intellectual property to our products and develop new services and software applications to enhance the overall value and ease of use that our products provide to our customers and end users.
- *Acquire Companies that Accelerate the Growth of Our Business.* We will continue to seek strategic acquisitions of companies in closely aligned businesses and technologies that will provide synergistic growth in revenue and profitability.

## **Our Segments**

We operate in the wireless communications industry in the following reportable segments:

- **Mobile Computing Products**—includes our MiFi Intelligent Mobile Hotspot devices, USB and PC-card modems and embedded modules that enable data transmission and services via cellular wireless networks.
- **M2M Products and Solutions**—includes our M2M embedded modules, integrated M2M communications devices and our service delivery platform – the N4A™ Communication and Management Software (CMS) that provides easy device management and service enablement.

For additional information on our segments, see Note 12 to our consolidated financial statements.

### **Mobile Computing Products**

We have a growing portfolio of leading-edge technology solutions that enable data transmission and services via cellular wireless networks. In 2012, we launched new products in our line of MiFi mobile hotspots, modems, and embedded modules for both CDMA and GSM networks.

Below are major Mobile Computing product lines:

**MiFi® Intelligent Mobile Hotspot** is our flagship product. Introduced in 2009, it has quickly become a leading brand in mobile communications. MiFi hotspots are gaining acceptance as a standard connectivity option for Wi-Fi-enabled devices such as the iPad, Kindle, tablets, PCs, MP3 players, and gaming devices. MiFi hotspots function by connecting to a cellular-wireless network and creating a secure Wi-Fi signal that can connect to as many as 10 devices simultaneously. MiFi hotspots accounted for 72%, 63%, and 49% of revenue in 2012, 2011, and 2010, respectively.

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Our strategy for the MiFi platform is to continue to innovate with a focus on ease of use and value adding features that take the device beyond just basic connectivity. With our introduction of MiFi 2 in September 2012, Novatel Wireless not only introduced the world's first mobile hotspot with a touch-screen, we also created a new set of features and services which redefines how users interact with and use their mobile hotspots. For example, with one touch, a user can get an account summary of their data plan, including their current data usage and international roaming usage. MiFi 2 also has a new DLNA-certified Media Center which allows users to enjoy and share their movies, music, presentations and photos stored on microSD cards on connected devices. A user can simply upload photos from their camera to MiFi 2 using a microSD card and start showing them on any DLNA-enabled television or compatible devices. For business users, MiFi 2 has a simple process to upload and download stored files from any connected device. MiFi 2 also allows a user to manage connected devices to the user's needs and desires, allowing connection and blocking of remote devices. In November 2012, MiFi<sup>®</sup> Liberate was introduced by AT&T – marking the commercial launch of the first MiFi 2 next generation device from Novatel Wireless.

**Modems** continue to be used to access wireless broadband networks. We originally introduced USB and PC-Card modems in North America, and continue to provide the most advanced wireless access in the industry. USB and PC-Card Modems accounted for 11%, 20%, and 46% of revenue in 2012, 2011, and 2010 respectively.

**Embedded Modules** are utilized in a wide range of computing devices, such as laptop PCs, netbooks, tablets, and various other electronic products to provide wireless broadband access. Embedded modules accounted for 5%, 4%, and 3% of revenue in 2012, 2011, and 2010, respectively.

In 2011, we expected embedded modules to be a source of revenue growth in 2012. While we have repeatedly demonstrated our ability to win key customers in this area, the market for this business has changed significantly, and the associated R&D expenditures are significant as well. Because the volumes have not materialized to match the projections of our customers, this product line incurred significant losses during 2012. Given the challenging economics, we are significantly changing our approach to this business. While we plan to continue to support our legacy embedded modules products, we are now only taking on new projects where our inventory and R&D investments will be adequately supported by our customers.

### **M2M Products and Solutions**

During 2012, we have expanded our M2M portfolio significantly adding additional technologies and features to our line of embedded modules and integrated devices to improve performance, and strengthen the competitive advantages of our solutions. M2M products and solutions accounted for 9%, 11%, and 2% of revenue in 2012, 2011, and 2010, respectively. M2M product lines consist of the following:

**MT, SA & AT Integrated Solutions** bring together essential elements for monitoring and managing mobile and fixed assets, vehicle tracking and telemetric functions, along with workforce tracking and management. We add value by developing solutions to meet the needs of specific customers with a particular emphasis on select vertical markets including: transportation & logistics, usage-based-insurance, security & asset tracking, industrial automation & smart grid, and remote patient monitoring. These solutions can be scaled from a small fleet customer to company-wide enterprise deployments. Our M2M solutions can be coupled with Novatel Wireless' robust N4A Communications and Management Software platform and be monitored, managed and reconfigured remotely from almost anywhere in the world. By combining the N4A CMS platform with the intelligence of the integrated M2M devices, customers will gain a solution that offers ease-of-deployment, superior, reliable performance in small and flexible packages.

**Enabler<sup>®</sup> III & HS Embedded Solutions** are integrated into various products or equipment so that those assets may communicate with other computers. These "machine-to-machine" applications enable back-end IT systems to receive data from remote assets. A common example is vehicle modules that transmit data about location, engine conditions, and abnormal situations to critical decision support or monitoring systems. During

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2012, we announced new modules development covering CDMA2000 1X and HSDPA. The two new modules, Enabler HS 3001 (1X) and HS 3002 (HSDPA), build on the legacy proven design of the Enfora Enabler series. Novatel Wireless' CDMA2000 1X and GSM/GPRS/EDGE/HSDPA low power platforms deliver small size and industry-leading performance, reliable connectivity, and device intelligence needed for today's demanding M2M applications. These solutions are ideal for markets including but not limited to security, telemetry, POS, mHealth, AVL and AMI/AMR market segments looking for high reliability and a common design across multiple technologies.

**N4A™ Software and Design Services** include our N4A Communications & Management Software, or CMS, and design services that we provide to other companies, primarily for asset management solutions. Our N4A CMS 3.0 platform is a next-generation service delivery platform that eases the development, deployment, and operation of asset-management applications. N4A CMS provides a standardized, scalable way to connect and manage remote assets and improve business operations. The platform is flexible and supports both on-premise server or cloud-based deployments and is the basis for delivery of a wide range of M2M services.

### **Customers**

Our customer base is comprised of wireless operators, distributors, OEMs, and various companies in vertical markets. Our tier-one wireless-operator customers include AT&T, Sprint, and Verizon Wireless. OEM customers include Dell and Hewlett-Packard. Our M2M customer base is a mix across various verticals including customers such as Alarm.com, Linear Technology, Honeywell, Fleetmatics/Sagequest, Numerex, and Nextraq.

We also have strategic technology, development and marketing relationships with several of our customers.

Our strong customer relationships provide us with the opportunity to expand our market reach and sales.

- **Wireless Operators and Distributors.** By working closely with our wireless operator and distributor customers, we are able to drive demand for our products by combining our expertise in wireless technologies with our customers' sales and marketing reach over a global subscriber base. Our customers also provide us with important services, including field trial participation, technical support, wireless data marketing and access to additional indirect distribution channels.
- **OEMs.** Our OEM customers integrate our products into devices that they manufacture and sell through their own direct sales forces and indirect distribution channels. Our products are capable of being integrated into a broad range of devices that utilize wireless-data capabilities. We seek to build strong relationships with our OEM partners by working closely with them and providing radio frequency, or RF, design consulting, performance optimization, software integration and customization and application engineering support during the integration of our products.
- **M2M customers.** We believe the M2M market provides substantial opportunities for growth. Machine-to-machine and smart-systems technologies are being integrated into a growing number of manufactured devices and machines—whether fixed, movable or fully mobile. We have strong positions in many of the high-growth segments of the M2M market. These include transportation, insurance, industrial automation, energy, security, and healthcare. We expect to work with these customers to develop customized solutions that incorporate our software and other intellectual property, providing significant product differentiation.

### **Strategic Relationships**

We continue to develop and maintain strategic relationships with wireless and computer industry leaders like QUALCOMM, Sprint, AT&T, Verizon Wireless, Texas Instruments and major software vendors. Through



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strategic relationships, we have been able to increase market penetration by leveraging the resources, knowledge and technology of our channel partners.

### **Sales and Marketing**

We sell our Mobile Computing Products primarily to wireless operators either directly or through strategic relationships, as well as to OEM partners and distributors located worldwide. Most of our Mobile Computing Products are sold directly by our sales force, or to a lesser degree, through distributors.

In order to maintain strong sales relationships, we provide co-marketing, trade show support, product training and demo units for merchandising. We are also engaged in a wide variety of activities, such as awareness and lead-generation programs, as well as product marketing. Other marketing initiatives include public relations, seminars and co-branding with partners.

We sell our M2M Products and Solutions primarily to enterprises in the following industries: transportation; energy and industrial automation; security and safety; and medical monitoring. We sell our M2M Products and Solutions through our own direct sales force and through distributors.

A significant portion of our revenue comes from a small number of customers. Our revenues from sales to Verizon Wireless represented approximately 58% of our total revenues for the year ended December 31, 2012.

A substantial majority of our revenue is derived from sales in the U.S. See Note 12 to our consolidated financial statements for a discussion of our revenue and asset concentrations by geographic location.

### **Product Research and Development**

Our research and development efforts are focused on developing innovative new wireless products and improving the functionality, design and performance of our existing products. Our research and development expenses for the years ended December 31, 2012, 2011, and 2010 were \$60.4 million, \$61.4 million, and \$48.9 million, respectively.

In both segments, we intend to continue to identify and respond to our customers' needs by introducing new product designs with an emphasis on supporting cutting edge wireless data technology, ease-of-use, performance, weight, cost and power consumption.

We manage our products through a structured life-cycle process, from identifying initial customer requirements through development and commercial introduction to eventual phase-out. During product development, emphasis is placed on innovation, time-to-market, performance, meeting industry standards and customer-product specifications, ease of integration, cost reduction, manufacturability, quality and reliability.

Our product development efforts leverage our core expertise in the following key technology areas:

- *Advanced Radio Frequency and Hardware Design.* Advanced RF design is a key technology that determines the performance of wireless devices. We have specialized in 700/800/900/1800/1900/2100/2500 MHz and AWS designs for digital cellular, packet data, CDMA, HSPA, WiMAX, and LTE technologies. Our expertise in RF, baseband, and firmware technology contributes to the performance, cost advantages and small size of our products.
- *Miniaturization and System Integration.* Our expertise includes the integration of RF and baseband chipsets and printed circuit board, or PCB technologies. We will continue to augment our miniaturization technology, working to further reduce the size and cost of current and future products.

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- *Software Development.* We specialize in integrating and customizing 3G and 4G software to meet carrier and regulatory requirements. We supply end-to-end solutions to enable our customers to achieve a time-to-market advantage. This includes firmware that runs on a modem processor, drivers for various host operating systems, software development kits, or SDK, modem-manager software that controls modem operation, and server applications for over-the-air updates.
- *Embedded Operating System.* We have developed an embedded operating system that runs applications on our mobile hotspot products and allows us to introduce innovative applications.
- *M2M Solutions.* We have developed customized asset-tracking systems and service-delivery platforms that utilize advanced radio-frequency technology and specialized software that interfaces with the information technology systems of our customers.

## **Manufacturing and Operations**

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control and fulfillment. We currently have manufacturing agreements in place with the following companies:

### Mobile Computing Products

- Inventec Appliances Corporation
- Hon Hai Precision Industry Co., Ltd.

### M2M Products and Solutions

- Benchmark Electronics

These contract manufacturers are located in China and Thailand, and are able to produce our products using modern state-of-the-art equipment and facilities and relatively low-cost labor.

We outsource our manufacturing in an effort to:

- focus on our core competencies of design, development and marketing;
- minimize our capital expenditures and lease obligations;
- realize manufacturing economies of scale;
- achieve production scalability by adjusting manufacturing volumes to meet changes in demand; and
- access best-in-class component procurement and manufacturing resources.

We believe that additional manufacturing efficiencies are realized due to our product architecture and our commitment to process design. Direct materials for our products consist of custom tooled parts such as printed circuit boards, molded plastic components and fabricated metal components, semi-custom parts such as batteries and cables, as well as industry-standard components such as Application Specific Integrated Circuits or ASICs, RF power amplifiers, flash memory, transistors, integrated circuits, piezo-electric filters, duplexers, inductors, resistors and capacitors. Many of the components used in our products are similar to those used in cellular telephone handsets, helping to reduce our component costs through the use of standard parts.

Our operations organization manages our relationships with the contract manufacturers as well as other key suppliers. Our operations team focuses on supply chain management, quality, cost optimization, customer order management and new product introduction.

## **Intellectual Property**

### ***Mobile Computing Products***

Our wireless broadband access solutions rely on and benefit from our portfolio of intellectual property, including patents and trademarks. We currently own 47 United States patents, two of which are also registered in Canada. In addition, we currently have 55 patent applications pending. From time to time, we also seek to have our patents registered in selected foreign jurisdictions. The patents that we currently own expire at various times between 2013 and 2029.

We have licensed software and other intellectual property for use in our products from third-parties, such as QUALCOMM. In the case of QUALCOMM, these licenses allow us to manufacture CDMA, UMTS, HSPA, EV-DO, and LTE-based wireless modems and to sell or distribute them worldwide. In connection with such sales, we pay royalties to QUALCOMM. The license from QUALCOMM does not have a specified term and may be terminated by us or by QUALCOMM for cause or upon the occurrence of other specified events. In addition, we may terminate the licenses for any reason upon 60 days prior written notice. We have also granted to QUALCOMM a nontransferable, worldwide, nonexclusive, fully-paid and royalty-free license to use, in connection with wireless communications applications, certain of our intellectual property that incorporates the technology licensed to us by QUALCOMM. This license allows QUALCOMM to make, use, sell or dispose of such products and the related components.

We also hold a number of trademarks including Expedite, MiFi, MiFi OS, MiFi Intelligent Mobile Hotspot, MobiLink and Ovation.

### ***M2M Products and Solutions***

Our M2M products and solutions incorporate patents, licensed technology, and trade secrets gained from our deep experience providing customized solutions to our customers.

We currently own 8 United States patents related to M2M products and solutions. In addition, we currently have 17 patent applications pending. From time to time, we also seek to have our patents registered in selected foreign jurisdictions. The patents that we currently own expire at various times between 2020 and 2029.

We have licensed software and other intellectual property for use in our products from various third-parties, such as Ericsson, Siemens, NEC and Interdigital Communications Corporation. These licenses allow us to use the licensed intellectual property for the worldwide manufacture and sale of GSM-based wireless devices. We pay royalties in connection with such sales. The licenses do not have a specified term and may be terminated by either party for cause or upon the occurrence of other specified events.

We also hold a number of trademarks including Enfora, Spider, Enabling Information Anywhere, Enabler, eWide, and N4A.

## **Backlog**

We do not believe that backlog is currently a meaningful indicator of our future business prospects due to the many variables, some of which are outside of our control, which could cause the actual volume of our product shipments to differ from those that comprise our backlog. Additionally, we sometimes have relatively short lead times between receipt of customer purchase orders and shipment of products.

## **Competition**

The market for wireless broadband access and M2M solutions is rapidly evolving and highly competitive. It is likely to continue to be significantly affected by the evolution of new wireless technology standards, additional

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companies entering the market, new product introductions and the product pricing and other market activities of industry participants.

We believe the principal competitive factors impacting the market for our products are price, form factor, time-to-market, features and functionality, performance, quality, and brand. To maintain and improve our competitive position, we must continue to develop new products and solutions, expand our customer base, grow our distribution network, and leverage our strategic relationships and our investment in R&D.

Our products compete with a variety of devices, including other wireless modems and mobile hotspots, wireless handsets, wireless handheld computing devices and M2M wireless solutions. Our current competitors include:

- wireless data modem and mobile hotspot providers, such as Huawei, ZTE, Sierra Wireless, PCD, LG Innotek and Samsung;
- wireless handset manufacturers, such as HTC, Apple, Motorola, Nokia, and Samsung;
- wireless M2M solution providers, such as Sierra Wireless, Telit Wireless Solutions, Gemalto, CalAmp and Huawei; and
- wireless chipset providers, such as QUALCOMM, Intel, GCT Semiconductor and ST-Ericsson.

We believe that we have advantages over each of our primary competitors due in varying measure to the technical and engineering design of our products, the broad range of customized solutions that we offer, the ease-of-use of our products, our ability to adapt our products to specific customer needs and our competitive pricing. As the market for wireless data solutions expands, other entrants may seek to compete with us either directly or indirectly.

### **Employees**

As of December 31, 2012, we had 459 employees. By segment, Mobile Computing Products had 378 employees, including corporate functions, and M2M Products and Solutions had 81 employees. By function, we had 261 employees in research and development, 84 in sales and marketing, 60 in operations, and 54 in general and administrative functions. We also use the services of consultants and temporary workers from time to time. Our employees are not represented by any collective bargaining unit and we consider our relationship with our employees to be good.

### **Website Access to SEC Filings**

We maintain an Internet website at [www.novatelwireless.com](http://www.novatelwireless.com). The information contained on our website or that can be accessed through our website does not constitute a part of this report. We make available, free of charge through our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file or furnish this information to the Securities and Exchange Commission, or SEC.

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### **Item 1A. Risk Factors**

*An investment in our common stock involves various risks. 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 in this report and in the documents incorporated by reference herein and therein. 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 do not consider material may in the future become material and impair our business operations. If any of the following risks actually occur, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. As a result, the trading price of our securities could decline, and you might lose all or part of your investment. You should also refer to the other information contained in this Form 10-K, including our financial statements and the related notes.*

#### ***The market for wireless broadband data access products and services is rapidly evolving and highly competitive. We may be unable to compete effectively.***

The market for wireless broadband data access products and services is rapidly evolving and highly competitive. 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 or more effective resources than we do to the development, manufacture, promotion, sale, and post-sale support of their respective products and services.

Many of our current and 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 do. They 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. In addition, at any time any given customer or supplier of ours could elect to enter our then existing line of business and thereafter compete with us, whether directly or indirectly. 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 products compete with a variety of devices, including other wireless modems and mobile hotspots, wireless handsets, wireless handheld computing devices and M2M wireless solutions. Our current competitors include:

- wireless data modem and mobile hotspot providers, such as Huawei, ZTE, Sierra Wireless, PCD, LG Innotek and Samsung;
- wireless handset manufacturers, such as HTC, Apple, Motorola, Nokia, and Samsung;
- wireless M2M solution providers, such as Sierra Wireless, Telit Wireless Solutions, Gemalto, CalAmp and Huawei; and
- wireless chipset providers, such as QUALCOMM, Intel, GCT Semiconductor and ST-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 which, if successful, could reduce our sales and the market acceptance of our products, generate increased price competition and make our products obsolete. For our

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products to remain competitive, we must, among other things, 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 will continue to have sufficient resources to make these investments or that we will be able to make the technological advances necessary for our products to remain competitive. Increased competition could result in price reductions, fewer or smaller customer orders, reduced product margins and loss of our market share. Our failure to compete successfully could seriously harm our business, financial condition and results of operations.

### ***If we fail to develop and timely 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 that 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 and might impact the timing of the product development and customer approval process. In addition, as we introduce new products or new versions of our existing products, 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 business, we may enter into contracts with some customers in which we would agree to develop products that we would sell to that customer. Our ability to generate future revenue and operating income under any such contracts would depend upon, among other factors, our ability to timely and profitably develop products that are suitable for manufacturing in a cost effective manner and that meet defined product design, technical and performance specifications.

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.

### ***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, acquisition opportunities that we believe would be advantageous or complementary to the development of our business. In November 2010, we completed our acquisition of Enfora. We may acquire additional 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:

- 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;
- issue equity or equity-based securities that would dilute existing stockholders' percentage ownership;
- assume contingent liabilities; and
- take substantial charges in connection with acquired assets.

Acquisitions, including the Enfora acquisition, also entail numerous other risks, including: difficulties in assimilating acquired operations, products, technologies and personnel; unanticipated costs; diversion of management's attention from existing operations; 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 existing business or the acquired organization. Acquisitions may result in

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substantial accounting charges for restructuring and other expenses, amortization of purchased technology and intangible assets and stock-based compensation expense, any of which could materially adversely affect our operating results. We may not be able to realize the anticipated benefits of or successfully integrate with our existing business the businesses, products, technologies or personnel that we acquire, and our failure to do so could harm our business and operating results.

### ***Weakness or deterioration in global economic conditions could have a material adverse effect on our results of operations and financial condition.***

As a result of weak or deteriorating economic conditions globally, we could experience lower demand for our products, which could adversely impact our results of operations.

Additionally, there could be a number of related effects on our business resulting from weak economic conditions, including the insolvency of one or more of our parts suppliers resulting in product launch or product delivery delays, customer insolvencies resulting in that customer's inability to order products from us or pay for already delivered product, an inability on the part of our customers to obtain credit to finance purchases of our products and reduced demand by the ultimate end-users of our products.

Although we continue to monitor market conditions, we cannot predict future market conditions or their impact on demand for our products.

### ***Our failure to predict carrier and end user customer preferences among the many evolving wireless industry 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 these standards in relevant respects. We are currently focused on engineering and manufacturing products that comply with several different 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 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 participants 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.

### ***We expect to 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 these customers.***

A significant portion of our net revenues come from only a few customers. Our revenue could be materially adversely affected if we are unable to retain the level of business of any of our significant customers and if we are unable to offset this loss fully from alternative customers. We expect that a small number of customers will continue to account for a substantial portion of our revenue for the foreseeable future and any impairment of our relationship with, or the material financial impairment of, these customers could adversely affect our business.

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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 other than the number of units ordered on an individual purchase order that might be issued to us from time to time. These 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 net revenue would decline if we are unable to increase sales from other existing or new customers.

In light of the limited number of leading wireless operators and OEMs that form our primary customer base, many of whom are already customers, it would be difficult to replace revenue resulting from the loss of any significant existing customer or from a material reduction in the volume of business we conduct with any significant existing customer. Consolidation among our customers may further concentrate our business to a more limited number of customers and expose us to increased risks relating to dependence on a limited number of customers, which dependence could adversely affect our operating results.

We have had to qualify, and are required to maintain our status, as a supplier for each of our customers. This is a lengthy process that involves the inspection and approval by each customer of our engineering, documentation, manufacturing and quality control procedures before that customer will place volume orders. Attempts to lessen the adverse effect of any loss of, or any material reduction in the volume of business we conduct with, any significant existing customer through the rapid addition of one or more new customers would be difficult because of these qualification requirements. Consequently, our business and operating results could be adversely affected by the loss of, or any material reduction in the volume of business we conduct with, any existing significant customer.

### ***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 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, 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 that customers consider valuable 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.



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

Various risks arise if companies and industries quickly evolve. If our business or industry develops more quickly than our ability to respond, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development, certification or production delays as we seek to meet increased demand for our products or unanticipated product requirements. Our failure to properly manage the developments that we or our industry might experience could negatively impact our ability to execute on our operating plan then in effect 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 Inventec Appliances Corporation, Hon Hai Precision Industry Co., Ltd., and Benchmark Electronics. These contract manufacturers have operations in China and Thailand and, in 2011, severe flooding in Thailand caused damage to infrastructure and factories and affected our supply of products from our contract manufacturer located in Thailand, which constrained our revenue in 2011. 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 rejected by them or our customers could consequently elect to cancel the underlying product purchase order. These disruptions would negatively impact our revenues, 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 that we may submit to them and that has been accepted. Our third-party manufacturers could under some circumstances decline to accept new purchase orders from us or otherwise reduce their business with us. If 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 and comparatively cost effective basis, which would adversely impact our operations. In addition, we generally do not enter into long-term contracts with our manufacturers. As a result, we are subject to price increases due to the availability and price volatility in the marketplace of the components and materials needed to manufacture our products. If a third-party manufacturer were to negatively change the product pricing 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.

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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 may 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 corresponding finished goods to our customer. In some instances, due to the length of component lead times, we might need to place manufacturing orders with our contract manufacturers solely 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 the actual number and timing of delivery of units that a customer orders from us on the subsequently issued purchase order differs materially from the number of units in respect of which we contractually ordered our manufacturer to procure component parts, we might be unable to obtain adequate quantities of components in time to meet our customers' binding delivery requirements or, alternatively, we might accumulate excess inventory that we are unable to timely use or 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 current or finished goods inventory levels and respond to short-term or unexpected shifts in customer demand as to quantities or our customer's product delivery schedule.

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

Our products contain a variety of components, some of which are procured from single suppliers. These components include both tooled parts and industry-standard parts, some 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 or their availability has been subsequently interrupted for reasons outside our control. For example, some of our product components are manufactured in Japan, which experienced a significant earthquake in 2011. Although our suppliers' facilities were undamaged, some manufacturers experienced temporary suspension of production due to power outages. If there is a shortage or interruption in the availability to us of any such components, and we cannot timely 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 component, we may not be able to timely deliver sufficient quantities of our products to satisfy our contractual obligations and particular revenue expectations. Moreover, even if we timely locate a substitute part (or locate the originally specified component from a parts broker) and its price materially exceeds the original cost of the component in our costed bill of materials, then our results of operations would be adversely affected.

### ***We are currently party to litigation that could be costly to defend and distracting to management.***

As of the date of this report, a class action lawsuit has been filed on behalf of persons who allegedly purchased our common stock between February 27, 2007 and November 10, 2008. The lawsuit names us and certain of our current and former officers as defendants. The complaint alleges generally that we issued materially false and misleading statements during the relevant time period regarding the strength of our products and market share, our financial results and internal controls.

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Additional litigation may be initiated against us based on the alleged false statements at issue in the pending litigation. We cannot predict the outcome of the existing lawsuits or the likelihood that further proceedings will be instituted against us. The cost of defending against these lawsuits or any future lawsuits may be high, and these legal proceedings may also result in the diversion of our management's time and attention away from our business. In the event that there is an adverse ruling in any legal proceeding, we may be required to make payments to third parties that could harm our business or financial results.

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

Third parties have in the past and may claim in the future that we, or our customers or suppliers, have violated their intellectual property rights. Defending an infringement or misappropriation claim, for example, regardless of the merits or success of the claim, could result in our incurring substantial legal and other costs. These claims could also divert our engineering and other human resources and management attention and cause harm to our reputation. These claims can be difficult and costly to assess and defend. A successful infringement claim related to our products could result in, among other things, our becoming liable for damages and litigation costs or unexpected and costly engineering changes to affected products.

In addition, any finding that our products infringe (or in some instances, our customer's reasonable conclusion that a bona fide infringement claim is likely to be made with respect to such products) could have other negative consequences. Those consequences could include prohibiting us from further use of the intellectual property, causing us to have to modify our product design, if possible, so it does not infringe, or causing us to have to license the intellectual property at issue, incurring licensing fees, some of which could be retroactive. Upon a finding of infringement, we or one of our suppliers may also have to develop a non-infringing alternative, which if available could be costly, and delay or prevent sales of affected products.

A number of putative patent infringement claims have been filed by various plaintiffs in a number of U.S. District Courts against us and/or numerous third parties, some of whom are our customers. These cases generally allege that the defendants' use, sale and importation of specified products and/or processes constitutes infringement of certain U.S. patents allegedly owned or exclusively licensed by each plaintiff. Under certain circumstances, we may have an obligation to indemnify and/or defend our customers against these lawsuits.

***Our business depends on our continued ability to license necessary third-party technology, which we may not be able to do on commercially competitive terms, if at all.***

We license technology from third parties for the development of our products. We have licensed from third parties, such as QUALCOMM, software, patents 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. There can be no assurance that we will be able to maintain our third-party licenses or that these licenses or the technologies that are the subject of these licenses will not be the subject of dispute or litigation, 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 prospects.

***We are subject to the risks of doing business internationally.***

In addition to our manufacturing activities in Asia, a significant portion of our research and development staff is located in Canada. We also sell our products outside the U.S. These international business activities expose the Company to additional business risks, including:

- difficulty in managing sales, research and development operations and post-sales logistics and support across these continents;
- 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 processes, standards and expectations;
- 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;
- international dock strikes or other transportation delays; and
- court ordered injunctions in a given jurisdiction in connection with alleged intellectual property rights infringement by our products or components contained with our products which might prohibit the importation, sale or offer for sale of our products in the jurisdiction subject to such injunction.

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.

***Our international business activities expose the Company to fluctuations in exchange rates between the United States dollar and foreign currencies which may materially affect our operating results.***

A portion of our revenues are generated from sales agreements denominated in foreign currencies, and we expect to enter into additional such agreements as we expand our international customer base. Additionally, a significant portion of our research and development staff is located in Canada and paid in Canadian dollars. As a result, we are exposed to changes in foreign currency exchange rates. At times, we may 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. 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 may use derivative financial instruments as risk management tools and not for trading or speculative purposes. Nevertheless, 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.

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***Our products, including our proprietary or third party software contained in 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 industry, regulatory and customer requirements. We must develop our hardware and software 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 at the time commercial shipments have begun, which could result in the rejection of our products, the loss of an existing or potential 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, due to pricing pressures or otherwise, or does not increase 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 in ways that might not be directly proportionate to the fluctuation in revenue.
- *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 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. Our attempts to minimize the effects of volatility in foreign currencies on cash flows may not be successful.

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.

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### ***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. The success of our acquisitions, such as Enfora, depends in part on our retention and integration of key personnel from the acquired company or business. 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 and other key personnel in the future, currently only Peter Leparulo, the Company's Chairman and CEO, is a party to 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 may not be able to maintain and expand our business.

### ***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 affect our reporting of transactions completed before the change is effective. New accounting pronouncements, taxation rules and varying interpretations of accounting pronouncements or taxation rules have occurred in the past and may occur in the future. The change to existing rules, future changes, if any, or the need for us to modify a current tax position 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 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.

### ***Failure or circumvention of our controls and procedures could seriously harm our business.***

Any system of control and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the controls and procedures are met. Acquired companies or businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, billing, information and other systems. Acquisitions of privately held companies, such as Enfora, and/or non-US companies are particularly challenging because their prior practices in these areas may not meet the requirements of the Sarbanes-Oxley Act and public accounting standards. The failure or circumvention of our controls, policies and procedures could have a material adverse effect on our business, results of operations and financial position.

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***System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or information technology services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.***

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of our or our customers’ systems. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our clients, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us or our customers affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected in the past, and in the future could adversely affect, our financial results, stock price and reputation.

***We are exposed to fluctuations in the market values of our portfolio investments and in interest rates.***

At December 31, 2012, we had \$55.3 million in cash, cash equivalents and marketable securities. Substantially all of our marketable securities are invested in fixed income securities.

Investments in fixed-rate instruments carry a degree of interest rate risk. The market value of fixed-rate securities may be adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates decline. Due in part to these factors, our future investment market values and income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt instruments is judged to be other-than-temporary.

We may also suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates or if declines in value are determined to be other-than-temporary.

### **Item 1B. *Unresolved Staff Comments***

None

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### **Item 2. Properties**

Our principal executive offices are located in San Diego, California where we lease approximately 96,000 square feet under an arrangement that expires in December 2016. In connection with our acquisition of Enfora, Inc., we lease approximately 42,000 square feet in Richardson, Texas under a lease arrangement that expires in December 2014. In Calgary, Canada, we lease approximately 24,000 square feet for certain aspects of our research and development organization under a lease that expires in September 2017. In Basingstoke, United Kingdom, we lease approximately 4,600 square feet for our European staff under a lease agreement that expires in November 2013. In Shanghai, China, we lease approximately 1,200 square meters for our Chinese staff under a lease agreement that expires in April 2015. We also lease space in various geographic locations abroad primarily for sales and support personnel or for temporary facilities. We believe that our existing facilities are adequate to meet our current needs and that we can renew our existing leases or obtain alternative space on terms that would not have a material impact on our financial condition.

### **Item 3. Legal Proceedings**

On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California on behalf of persons who allegedly purchased our stock between February 5, 2007 and August 19, 2008. On December 11, 2008, these lawsuits were consolidated into a single action entitled *Backe v. Novatel Wireless, Inc., et al.*, Case No. 08-CV-01689-H (RBB) (Consolidated with Case No. 08-CV-01714-H (RBB)) (U.S.D.C., S.D. Cal.). In May 2010, the district court re-captioned the case *In re Novatel Wireless Securities Litigation*. The plaintiffs filed the consolidated complaint on behalf of persons who allegedly purchased our stock between February 27, 2007 and November 10, 2008. The consolidated complaint names the Company and certain of our current and former officers as defendants. The consolidated complaint alleges generally that we issued materially false and misleading statements during the relevant time period regarding the strength of our products and market share, our financial results and our internal controls. The plaintiffs are seeking an unspecified amount of damages and costs. The court has denied defendants' motions to dismiss. In May 2010, the court entered an order granting the plaintiffs' motion for class certification and certified a class of purchasers of our common stock between February 27, 2007 and September 15, 2008. On February 14, 2011, following extensive discovery, we filed a motion for summary judgment on all of plaintiffs' claims. A trial date had been set for May 10, 2011. On March 15, 2011, the case was reassigned to a new district judge, the Honorable Anthony J. Battaglia. Following the reassignment, the court vacated the trial date pending the court's consideration of dispositive motions. Oral argument on the motion for summary judgment was heard by the court on June 17, 2011. On November 23, 2011, the court issued an order granting in part and denying in part the motion for summary judgment. On July 9, 2012, the court vacated the final pretrial conference date. On December 14, 2012, the court issued an order denying defendants' motion to exclude the testimony of plaintiffs' loss causation expert. The court set a pretrial conference for March 8, 2013 and a trial date of June 3, 2013. On February 7, 2013, the court reconsidered its December 14, 2012 order and granted defendants' motion to exclude plaintiffs' expert on loss causation. The court, however, gave plaintiffs the opportunity to provide a new report from the expert seeking to cure the deficiencies in the expert's testimony. The court provided a schedule for the cure process and ordered plaintiffs to bear the burden of defendants' expenses incurred in this process. The court also reset the pretrial conference for August 22, 2013 and a trial date of November 18, 2013. The Company intends to defend this litigation vigorously.

On September 24, 2010, NovAtel, Inc., a Canadian company ("NovAtel Canada") filed a trademark infringement lawsuit entitled *NovAtel, Inc. v. Novatel Wireless Technologies, Ltd., et al.*, Action No. 1001-14265 in the Court of Queens Bench of Alberta Canada, Judicial District of Calgary. The Statement of Claim alleges that Novatel Wireless Technologies, Ltd., Novatel Wireless Solutions, Inc. and Novatel Wireless, Inc., or collectively, the Company, are infringing NovAtel Canada's purported rights in the "Novatel" trademark in breach of a settlement agreement between NovAtel Canada and the Company. The Company intends to defend this litigation vigorously.

### **Item 4. Mine Safety Disclosures**

None.



**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Common Stock Data**

Shares of our common stock are quoted and traded on The Nasdaq Global Select Market under the symbol "NVTL." The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by The Nasdaq Global Select Market.

	<u>High (\$)</u>	<u>Low (\$)</u>
<b>2012</b>		
First quarter	3.69	2.85
Second quarter	3.37	1.95
Third quarter	2.68	1.79
Fourth quarter	2.02	1.17
<b>2011</b>		
First quarter	10.20	5.00
Second quarter	6.29	4.77
Third quarter	5.74	2.97
Fourth quarter	4.42	2.51

**Number of Stockholders of Record**

Our outstanding capital stock consists of a single class of common stock. As of February 25, 2013, there were approximately 47 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

**Dividends**

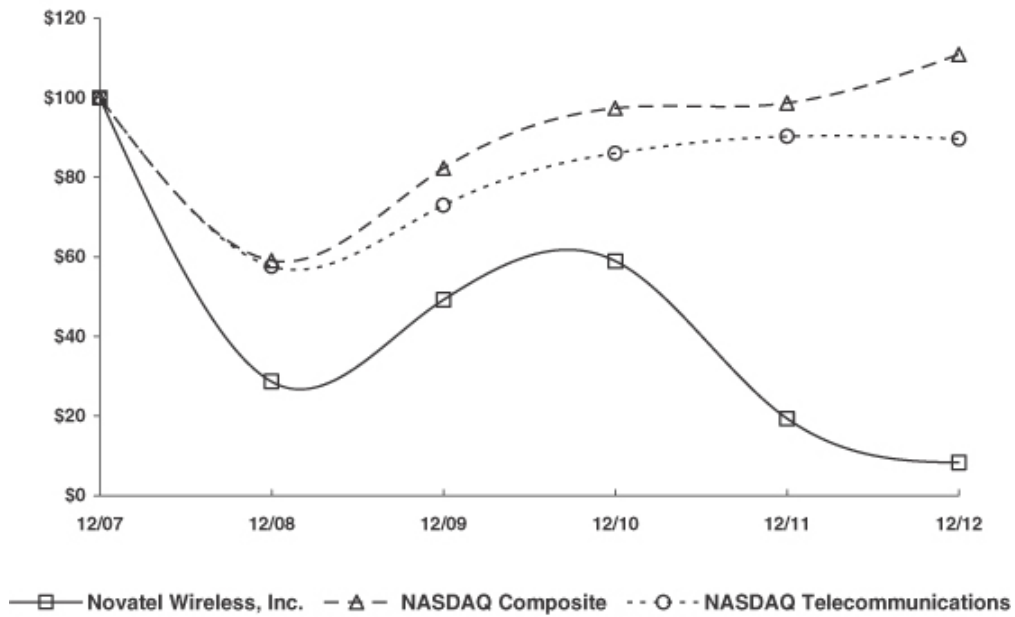
We have never declared or paid cash dividends on any shares of our capital stock. We currently intend to retain all available funds for use in the operation and development of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant.

**Performance Graph**

The following graph compares the cumulative total stockholder return on the Company's common stock between December 31, 2007 and December 31, 2012 with the cumulative total return of (i) the Nasdaq Stock Market (U.S.) Index or the Nasdaq Composite Index, and (ii) the Nasdaq Telecommunications Index, or the Nasdaq Telecom Index, over the same period. This graph assumes the investment of \$100.00 on December 31, 2007 in the common stock of the Company, the Nasdaq Composite Index and the Nasdaq Telecom Index and assumes the reinvestment of any dividends. The stockholder return shown on the graph below should not be considered indicative of future stockholder returns and the Company will not make or endorse any predictions as to future stockholder returns.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Novatel Wireless, Inc., the NASDAQ Composite Index,  
and the NASDAQ Telecommunications Index



\*\$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	Cumulative Total Return					
	12/07	12/08	12/09	12/10	12/11	12/12
<b>Novatel Wireless, Inc.</b>	<b>100.00</b>	<b>28.64</b>	<b>49.20</b>	<b>58.95</b>	<b>19.32</b>	<b>8.21</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>59.03</b>	<b>82.25</b>	<b>97.32</b>	<b>98.63</b>	<b>110.78</b>
<b>NASDAQ Telecommunications</b>	<b>100.00</b>	<b>57.58</b>	<b>72.97</b>	<b>86.05</b>	<b>90.30</b>	<b>89.62</b>

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**Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report. The selected consolidated statements of operations data presented below for each of the years ended December 31, 2012, 2011, and 2010, and the consolidated balance sheet data at December 31, 2012 and 2011 are derived from our consolidated financial statements included elsewhere in this report. The selected consolidated statements of operations data for the years ended December 31, 2009 and 2008 and consolidated balance sheet data at December 31, 2010, 2009, and 2008 are derived from the audited consolidated financial statements not included in this report.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
(in thousands, except per share data)					
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 344,288	\$ 402,862	\$ 338,942	\$ 337,422	\$ 320,973
Cost of net revenues	271,845	318,270	272,648	249,764	252,231
Gross profit	72,443	84,592	66,294	87,658	68,742
Operating costs and expenses:					
Research and development	60,422	61,392	48,906	44,892	34,740
Sales and marketing	27,501	29,830	20,978	19,857	18,195
General and administrative	22,668	21,600	21,233	20,159	21,550
Goodwill and intangible assets impairment	49,521	3,277	0	0	0
Amortization of purchased intangible assets	1,074	2,220	179	0	0
Total operating costs and expenses	161,186	118,319	91,296	84,908	74,485
Operating income (loss)	(88,743)	(33,727)	(25,002)	2,750	(5,743)
Interest and other income (expense), net	88	(668)	(555)	1,689	3,553
Income (loss) before income taxes	(88,655)	(34,395)	(25,557)	4,439	(2,190)
Income tax expense (benefit)	611	(9,503)	7,893	527	(947)
Net income (loss)	\$ (89,266)	\$ (24,892)	\$ (33,450)	\$ 3,912	\$ (1,243)
Net income (loss) per common share:					
Basic	\$ (2.72)	\$ (0.78)	\$ (1.06)	\$ 0.13	\$ (0.04)
Diluted	\$ (2.72)	\$ (0.78)	\$ (1.06)	\$ 0.13	\$ (0.04)
Weighted average shares outstanding:					
Basic	32,852	32,043	31,494	30,648	31,159
Diluted	32,852	32,043	31,494	31,224	31,159
<b>December 31,</b>					
	2012	2011	2010	2009	2008
(in thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents and marketable securities	\$ 55,309	\$ 88,831	\$ 97,826	\$ 176,044	\$ 143,231
Working capital	67,199	81,113	87,174	149,468	173,153
Total assets	161,531	249,179	302,108	277,394	257,478
Stockholders’ equity	85,447	166,025	185,403	211,155	197,962
Long-term liabilities	2,552	4,080	12,886	15,543	15,663

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of our consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. This report contains certain forward-looking statements relating to future events or our future financial performance. These statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in this report. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to by law. For a discussion of the important risks related to our business and future operating performance, see the discussion under the caption "Item 1A. Risk Factors" and under the caption "Factors Which May Influence Future Results of Operations" below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.*

**Overview and Background**

We are a provider of intelligent wireless solutions for the worldwide mobile communications market. Our broad range of products principally includes intelligent mobile hotspots, USB modems, embedded PCI and wireless PC-card modems, and communications and applications software. In addition, our Enfora division provides asset-management solutions utilizing intelligent platforms, customized service-delivery software, and machine-to-machine, or M2M, communications devices.

Our products currently operate on every major cellular wireless technology platform. Our mobile hotspots, embedded modules, and modems provide subscribers with secure and convenient high-speed access to corporate, public and personal information through the Internet and enterprise networks. Our M2M products enable devices to communicate with each other and with server- or cloud-based application infrastructure.

Our mobile-hotspot and modem customer base is comprised of wireless operators, including AT&T, Sprint, and Verizon Wireless; laptop PC and other original equipment manufacturers, or OEMs, including Dell and Hewlett-Packard; as well as distributors and various companies in other vertical markets. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers of medical devices and geographical-location devices and providers of security systems. We have strategic relationships with several of these customers for technology development and marketing.

We sell our wireless broadband solutions primarily to wireless operators either directly or through strategic relationships, as well as to OEM partners and distributors located worldwide. Most of our mobile-computing product sales to wireless operators and OEM partners are sold directly by our sales force, or to a lesser degree, through distributors. We sell our M2M solutions primarily to enterprises in the following industries: transportation; energy and industrial automation; security and safety; and medical monitoring. We sell our M2M solutions through our direct sales force and through distributors.

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

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control, and fulfillment. We have agreements with Inventec Appliances Corporation, or IAC; Hon Hai Precision Industry co., LTD; and Benchmark Electronics for the

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

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

*Net Revenues.* We believe that our future net revenues will be influenced largely by the speed and breadth of the demand for wireless access to data through the use of next generation networks including demand for 3G and 4G products, 3G and 4G data access services, particularly in North America, Europe and Asia; customer acceptance for our new products that address these markets, including our MiFi line of Intelligent Mobile Hotspots; and our ability to meet customer demand. Factors that could potentially affect customer demand for our products include the following:

- economic environment and related market conditions;
- increased competition from other wireless data modem suppliers as well as suppliers of emerging devices that contain a wireless data access feature;
- demand for broadband access services and networks;
- rate of change to new products;
- timing of deployment of 4G networks by wireless operators;
- decreased demand for EV-DO and HSPA products; and
- changes in technologies.

We anticipate introducing additional products during the next twelve months, including 4G broadband-access products, M2M solutions and software applications and platforms. We continue to develop and maintain strategic relationships with wireless and computing industry leaders like QUALCOMM, Sprint, Verizon Wireless, AT&T, Texas Instruments, 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.

As a result of the extremely competitive market for wireless devices, we have experienced significant downward pressure on the average selling prices of our products. This pressure has the potential to materially adversely affect our results of operations and financial condition in future periods and we cannot predict the magnitude or timing of future reductions in the average selling prices of our products.

*Cost of Net Revenues.* All costs associated with our contract manufacturers, as well as distribution, fulfillment and repair services are included in our cost of net revenues. Cost of net revenues also includes warranty costs, amortization of intangible assets, royalties, operations overhead, costs associated with the Company's cancellation of purchase orders, costs related to outside services and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above.

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

Our operating costs consist of four primary categories: research and development costs; sales and marketing; general and administrative costs; and amortization of purchased intangibles.

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Research and development are at the core of our ability to produce innovative, leading-edge products. This category consists primarily of engineers and technicians who design and test our highly complex products. As we work to expand our portfolio of products and remain competitive, it may be necessary to increase our research and development costs in the future.

Sales and marketing expense consists primarily of our sales force and product-marketing professionals. In order to maintain strong sales relationships, we provide co-marketing, trade show support, product training and demo units for merchandising. We are also engaged in a wide variety of activities, such as awareness and lead generation programs as well as product marketing. Other marketing initiatives include public relations, seminars and co-branding with partners.

General and administrative expenses include primarily corporate functions such as accounting, human resources, professional legal fees, administrative support, and professional fees. This category also includes the expenses needed to operate as a publicly-traded company, including Sarbanes-Oxley compliance, SEC filings, stock-exchange fees, and investor-relations expense. Although general and administrative expenses have been relatively stable and are not directly related to revenue levels, certain expenses such as litigation settlements and provisions for bad debts may impact future general and administrative expenses.

Amortization of purchased intangibles includes the amortization of customer relationships, covenant-not-to-compete agreements and trade name intangible assets purchased through the acquisition of Enfora.

We also subject our intangible assets and goodwill to impairment assessments when required which can result in charges when impairment occurs.

As part of our business strategy, we review, and intend to continue to review, acquisition opportunities that we believe would be advantageous or complementary to the development of our business. If we make any acquisitions, we may incur substantial expenditures in conjunction with the acquisition process and the subsequent assimilation of any acquired business, products, technologies or personnel.

### **Merger & Acquisition Activities**

#### *Acquisition of Enfora*

On November 30, 2010, the Company completed its acquisition of Enfora, a provider of intelligent asset-management solutions utilizing wireless technology and M2M communications. The acquisition of Enfora diversifies the Company's customer base and product lines into adjacent markets and advances the Company's strategy of providing intelligent devices to more end markets—enterprise, consumer and vertical applications. Enfora's results of operations and estimated fair value of assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition.

Under the terms of the acquisition agreement, the Company paid cash consideration of \$64.5 million and additional cash consideration of \$13.0 million in exchange for an agreed upon amount of Enfora working capital. The Company also agreed to pay additional cash consideration, or contingent consideration, of up to \$6.0 million based on the operating results of Enfora for the 15 month period from October 1, 2010 to December 31, 2011. At December 31, 2010, the estimated fair value of this contingent consideration at the acquisition date was \$0.9 million, resulting in total estimated cash to be paid of \$78.4 million. During the quarter ended March 31, 2011, the Company revised its estimate of contingent consideration to \$0 and accordingly reflected this change as a benefit to general and administrative expenses for the quarter ended March 31, 2011. At December 31, 2011, the operating results necessary to receive payment of the contingent consideration were not achieved.

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### *Cinterion*

In June 2010, the Company submitted a bid to purchase certain assets of Cinterion Wireless Modules, a company in the cellular machine-to-machine communications industry. The Company was not the successful bidder at the conclusion of the process on June 28, 2010.

In June 2010, the Company borrowed \$30.0 million, net of \$2.2 million in lender fees, under a bridge loan facility in connection with its bid. In accordance with bidding procedures, during June 2010, the Company deposited into escrow an amount in Euros equal to its bid price using cash and cash equivalents, proceeds from the sale of marketable securities, and borrowings under the \$30.0 million bridge loan facility. The escrowed funds are reflected as a deposit of restricted funds in the accompanying consolidated statement of cash flows for the year ended December 31, 2010. The escrowed funds were returned to the Company in July 2010.

While the Company's Euro funds were held in escrow, the Company engaged in hedging transactions to address foreign currency risk at a cost of \$1.2 million, which amount was recorded in other income (expense), net, in the consolidated statement of operations during the year ended December 31, 2010.

During the second quarter ended June 30, 2010, the Company recorded a foreign currency gain of \$2.9 million, which was recorded in other income (expense), net, in connection with the conversion of its Euro-denominated escrowed funds into U.S. dollars following completion of the auction on June 28, 2010.

Pursuant to authoritative accounting guidance, the \$2.2 million in lender fees on the \$30.0 million bridge loan facility were recorded as a discount to amounts outstanding under the facility and amortized over the stated term of the facility which was scheduled to mature on September 8, 2010. During June 2010, the Company also incurred \$660,000 in professional fees attributable to the bridge facility, which were capitalized and amortized over the stated term of the facility. During the second quarter ended June 30, 2010, the Company recognized \$687,000 in interest expense related to this facility, which primarily consisted of the amortization of lender and professional fees.

In connection with its bid, the Company estimated that during the second quarter of 2010, it had incurred \$2.0 million in legal, advisory and professional fees unrelated to the bridge loan facility, which were recorded as accrued expenses and classified as general and administrative expenses in the consolidated statement of operations. During the third quarter of 2010, the Company reduced its estimate of professional fees by approximately \$700,000 based upon information we received during the third quarter of 2010 that indicated the reduction to the original estimated liability was appropriate.

In July 2010, the Company repaid all amounts outstanding under the bridge loan facility.

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**Results of Operations**

The following table sets forth our consolidated statements of operations expressed as a percentage of net revenues for the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
	(as a percent of net revenues)		
Net revenues	100.0%	100.0%	100.0%
Cost of net revenues	79.0	79.0	80.4
Gross margin	21.0	21.0	19.6
Operating costs and expenses:			
Research and development	17.5	15.2	14.4
Sales and marketing	8.0	7.4	6.2
General and administrative	6.6	5.4	6.3
Goodwill and intangible assets impairment	14.4	0.8	0.0
Amortization of purchased intangible assets	0.3	0.6	0.1
Total operating costs and expenses	46.8	29.4	27.0
Operating loss	(25.8)	(8.4)	(7.4)
Interest income (expense), net	0.1	0.1	(0.7)
Other income (expense), net	(0.1)	(0.3)	0.6
Loss before income taxes	(25.8)	(8.6)	(7.5)
Income tax expense (benefit)	0.2	(2.4)	2.3
Net loss	(25.9)%	(6.2)%	(9.8)%

**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

**Net revenues.** Net revenues were approximately \$344.3 million during 2012, a decrease of approximately \$58.6 million or 14.5% compared to 2011.

The following table summarizes net revenues by reportable segment and product categories during the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Net revenues by reportable segment:		
Mobile Computing Products	\$312,508	\$358,106
M2M Products and Solutions	31,780	44,756
Total	\$344,288	\$402,862
	Year Ended December 31,	
	2012	2011
Net revenues by product categories:		
Mobile Broadband Devices	\$287,572	\$336,730
Embedded Solutions	29,960	39,793
Asset Management Solutions & Services	26,756	26,339
Total	\$344,288	\$402,862



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**Mobile Computing Products.** Net revenues from our Mobile Computing Products segment for the year ended December 31, 2012 were \$312.5 million, a decrease of \$45.6 million or 12.7% compared to the same period in 2011. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by increased market competition at our largest customer.

**M2M Products and Solutions.** Net revenues from our M2M Products and Solutions segment for the year ended December 31, 2012 were \$31.8 million, a decrease of \$13.0 million compared with \$44.8 million in net revenues for the previous year. The decrease is primarily due to the reduced sales volume and pricing of our 2G GPRS M2M modules in the North American market as it transitions away from 2G GSM networks, and the loss of one of our larger customers for the M2M segment. We continue to develop CDMA and 3G GSM modules and integrated solutions to address this market. We launched a CDMA module in the fourth quarter of 2012 and expect to launch other products in 2013.

**Product Categories.** We have categorized the combined product portfolios of the mobile computing and M2M businesses into three categories (1) Mobile Broadband Devices, (2) Embedded Solutions and (3) Asset Management Solutions and Services. These categories were established due to the different markets and sales channels served. We believe this product categorization facilitates the analysis of our operating trends and enhances our segment disclosures.

The Mobile Broadband Devices category includes all external data modems including MiFi intelligent hotspots, USB modems and PC cards. These devices are sold primarily through wireless operator enterprise and retail channels, telecom equipment distributors and consumer retail chains.

Embedded Solutions products include wireless-broadband modules and related software and services sold to manufacturers of laptop computers, tablets, and other wireless computer devices. This product category also includes M2M modules sold to manufacturers of various asset tracking and monitoring products. Our products are sold directly to OEMs or through distributor channels.

Asset Management Solutions and Services are mobile intelligent wireless broadband terminal devices and communication management software, or CMS, that transmit information about the assets into which these products are integrated. These hardware and software products can be bundled or sold separately. The CMS software activates the terminal device onto the wireless network and manages its functionality.

Net revenues from our Mobile Broadband Devices category for the year ended December 31, 2012 were \$287.6 million, a decrease of \$49.2 million or 14.6% compared to the same period in 2011. The decrease is primarily attributable to increased market competition at our largest customer.

The Embedded Solutions category accounted for \$30.0 million, or 8.7% of total net revenues for the year ended December 31, 2012, a decrease of \$9.8 million compared to the same period in 2011. This included \$13.7 million in sales of M2M modules and \$16.3 million of embedded modules for OEM computing devices.

Net revenues from Asset Management Solutions & Services were \$26.8 million and accounted for approximately 7.8% of total net revenues for the year ended December 31, 2012, an increase of \$ 417,000 compared to the same period in 2011. These sales were predominantly comprised of integrated product hardware sales. Sales of CMS software were not significant for the years ended December 31, 2012 and 2011.

**Cost of net revenues.** Cost of net revenues for the year ended December 31, 2012 was approximately \$271.8 million, or 79.0% of net revenues, as compared to approximately \$318.3 million, or 79.0% of net revenues in 2011. The cost of net revenues as a percentage of net revenues remained flat compared to the same period in 2011. The reduction of average sales prices of 4G products in our Mobile Computing Products segment compared to the same period in 2011 was offset by lower amortization costs associated with purchased intangible assets. Cost of net revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

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

**Gross profit.** Gross profit for the year ended December 31, 2012 was approximately \$72.4 million, or 21.0% of net revenues, as compared to approximately \$84.6 million, or 21.0% of net revenues in 2011. The gross profit percentage remained flat as compared to the same period in 2011. We expect that our gross profit percentage will continue to fluctuate from quarter to quarter depending on product mix, competitive selling prices, our ability to reduce product costs and changes in unit volume.

**Research and development expenses.** Research and development expenses for the year ended December 31, 2012 were approximately \$60.4 million, or 17.5% of net revenues, compared to approximately \$61.4 million, or 15.2% of net revenues in 2011. Research and development expenses for the year ended December 31, 2012 were lower as compared to the same period in 2011 due to reduced labor cost attributed to headcount reductions, lower software amortization costs, and lower engineering build materials and outside testing services. This decrease was partially offset by an increase in share based compensation expenses primarily related to the termination of our 2000 Employee Stock Purchase Plan in the fourth quarter of 2012.

We believe that focused investments in research and development are critical to our future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to our core business strategy. As such, we expect to make further investments in research and development to remain competitive.

Research and development expenses as a percentage of net revenues are expected to fluctuate in future periods depending on the amount of revenue recognized, and potential variation in the costs associated with the development of our products, including the number and complexity of the products under development and the progress of the development activities with respect to those products. We may increase our investment in research and development to continue to provide innovative products and services.

**Sales and marketing expenses.** Sales and marketing expenses for the year ended December 31, 2012 were approximately \$27.5 million, or 8.0% of net revenues, compared to approximately \$29.8 million or 7.4% of net revenues in 2011. The dollar decrease was due primarily to lower labor cost as a result of reductions in headcount and decreased cooperative advertising and joint marketing expenses compared to the same period in 2011.

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

**General and administrative expenses.** General and administrative expenses for the year ended December 31, 2012 were approximately \$22.7 million, or 6.6% of net revenues, compared to approximately \$21.6 million, or 5.4% of net revenues in 2011. The increase was due primarily to legal expenses related to IP defense and litigation settlements, and an increase in bad debt reserve compared to the same period in 2011.

**Goodwill and intangible assets impairments.** During the first and third quarters of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices and forecasted sales volumes, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis. Based on the fair value tests performed during the first quarter of 2012, the Company recorded a pre-tax goodwill impairment charge of \$6.5 million and a purchased intangible asset charge of \$22.8 million. Based on the fair value tests performed during the third quarter of 2012, the Company recorded a

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preliminary pre-tax goodwill impairment charge of \$13.2 million and a preliminary purchased intangible asset charge of \$7.3 million. During the fourth quarter of 2012, the Company completed the third quarter impairment analysis and reduced the purchased intangible asset impairment by \$300,000. During the third quarter of 2011, we performed an interim assessment of impairment for goodwill and recorded an impairment charge of \$3.5 million. During the fourth quarter of 2011, we completed the impairment analysis and reduced the impairment by \$237,000.

**Amortization of purchased intangible assets.** The amortization of purchased intangible assets for the year ended December 31, 2012 was approximately \$1.1 million, compared to approximately \$2.2 million in 2011. The decrease in amortization expense was due to the lower net asset value of the intangible assets resulting from impairment charges in the first and third quarters of 2012.

**Interest income, net.** Interest income, net, for the year ended December 31, 2012 was \$291,000 as compared to \$384,000 for the same period in 2011. Our net interest income during 2012 and 2011 was primarily related to interest earned on our marketable securities.

**Other expense, net.** Other expense, net for the year ended December 31, 2012 was \$203,000 as compared to \$1.1 million for the same period in 2011. The net other expenses for 2011 were primarily related to foreign currency losses on South Korean Won denominated trade payables, foreign exchange currency losses on our foreign denominated bank accounts and trade receivables, and other-than-temporary loss recognized on our marketable equity securities.

**Income tax expense (benefit).** Income tax expense was approximately \$611,000 for fiscal 2012, compared to a benefit of \$9.5 million in 2011. The difference between the federal and state statutory combined benefit rate of 35% and our effective tax rate for 2012 is primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2012, and a \$0.4 million expense related to an increase in the Company's valuation allowance on the Canadian-based deferred tax assets. The income tax benefit for 2011 was primarily due to an \$11.8 million income tax benefit related to the recognition of uncertain tax positions. U.S.-based deferred tax assets generated in 2011 resulting from the Company's operating losses did not result in a net tax benefit due to an offsetting full valuation allowance on the deferred tax assets.

**Net loss.** For the year ended December 31, 2012, we reported a net loss of approximately \$89.3 million, as compared to net loss of approximately \$24.9 million in 2011. Net income was significantly impacted due to the impairment charges recognized in 2012.

### **Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

**Net revenues.** Net revenues were approximately \$402.9 million during 2011, an increase of approximately \$63.9 million or 18.9% compared to 2010.

The following table summarizes net revenues by reportable segment and product categories during the years ended December 31, 2011 and 2010 (in thousands):

	Year Ended December 31,	
	2011	2010
Net revenues by reportable segment:		
Mobile Computing Products	\$ 358,106	\$ 332,464
M2M Products and Solutions	44,756	6,478
Total	<u>\$ 402,862</u>	<u>\$ 338,942</u>

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	Year Ended December 31,	
	2011	2010
Net revenues by product categories:		
Mobile Broadband Devices	\$ 336,730	\$ 324,740
Embedded Solutions	39,793	7,724
Asset Management Solutions & Services	26,339	6,478
Total	<u>\$ 402,862</u>	<u>\$ 338,942</u>

*Mobile Computing Products.* Net revenues from our Mobile Computing Products segment for the year ended December 31, 2011 were \$358.1 million, an increase of \$25.6 million or 7.7% compared to the same period in 2010. The increase was primarily attributable to new product rollouts of our next generation 4G MiFi Intelligent Mobile Hotspot.

*M2M Products and Solutions.* Net revenues from our M2M Products and Solutions segment for the year ended December 31, 2011 were \$44.8 million, an increase of \$38.3 million compared with \$6.5 million in revenues for the previous year. Our acquisition of Enfora occurred during the fourth quarter of 2010 and we recognized revenues from the date of acquisition.

Net revenues from M2M Products and Solutions during 2011 were also constrained by supply disruptions that affected a component manufacturer in Japan and our contract manufacturer in Thailand due to natural disasters in those countries in 2011.

Net revenues from our Mobile Broadband Devices category for the year ended December 31, 2011 were \$336.7 million, an increase of \$12.0 million or 3.7% compared to the same period in 2010. The increase in net revenues was primarily driven by higher sales of our next generation 4G MiFi products.

The Embedded Solutions category accounted for \$39.8 million, or 9.9% of total net revenues for the year ended December 31, 2011, an increase of \$32.1 million compared to the same period in 2010. This included \$22.2 million in sales of M2M modules and \$17.6 million of embedded modules for OEM computing devices.

Net revenues from Asset Management Solutions & Services were \$26.3 million and accounted for approximately 6.5% of total net revenues for the year ended December 31, 2011, an increase of \$19.9 million compared to the same period in 2010. These sales were predominantly comprised of integrated product hardware sales. Sales of CMS software were not significant for the year ended December 31, 2011. The increase in net revenues in Embedded Solutions and Asset Management Solutions and Services compared to the same period in 2010 were related to the Enfora acquisition and increased sales to OEM customers in the Mobile Computing Products segment.

*Cost of net revenues.* Cost of net revenues for the year ended December 31, 2011 was approximately \$318.3 million, or 79.0% of net revenues, as compared to approximately \$272.6 million, or 80.4% of net revenues in 2010. The primary driver of the dollar increase in cost of net revenues was the increase in units sold compared to the same period in 2010. Cost of net revenues as a percentage of net revenues decreased compared to the same period last year due to higher margins on sales of 4G MiFi devices.

Cost of net revenues also included approximately \$39.9 million in 2011 from our M2M Products and Solutions segment, including amortization costs of \$4.1 million related to purchased intangibles and a fair value inventory valuation increase of \$1.8 million in connection with our Enfora acquisition.

*Gross profit.* Gross profit for the year ended December 31, 2011 was approximately \$84.6 million, or 21.0% of net revenues, as compared to approximately \$66.3 million, or 19.6% of net revenues in 2010. The increase was primarily attributable to the increase in net revenues as discussed above.

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**Research and development expenses.** Research and development expenses for the year ended December 31, 2011 were approximately \$61.4 million, or 15.2% of net revenues, compared to approximately \$48.9 million, or 14.4% of net revenues in 2010. This increase was primarily due to an increase in salaries and related expenses due to the acquisition of Enfora, and an increase in product testing and certification costs in the current year to support expanded research and development activities.

Research and development expenses included approximately \$8.5 million in 2011 from our M2M Products and Solutions segment, compared to \$837,000 in 2010.

**Sales and marketing expenses.** Sales and marketing expenses for the year ended December 31, 2011 were approximately \$29.8 million, or 7.4% of net revenues, compared to approximately \$21.0 million or 6.2% of net revenues in 2010. The increase was due primarily to an increase in salaries and related expenses due to the acquisition of Enfora, an increase in travel and related expenses, and an increase in consulting and marketing expenses to support marketing efforts for our various product launches in 2011.

Sales and marketing expenses also included approximately \$8.2 million in 2011 from our M2M Products and Solutions segment related to our Enfora acquisition, compared to \$825,000 in 2010.

**General and administrative expenses.** General and administrative expenses for the year ended December 31, 2011 were approximately \$21.6 million, or 5.4% of net revenues, compared to approximately \$21.2 million, or 6.3% of net revenues in 2010. Although general and administrative expenses remained relatively flat in dollar spending for the year ended December 31, 2011 compared to the same period in 2010, general and administrative expenses decreased as a percentage of net revenues due to the increase in net revenues in 2011 as compared to 2010.

General and administrative expenses also included approximately \$2.7 million in 2011 from our M2M Products and Solutions segment, compared to \$350,000 in 2010.

**Amortization of purchased intangible assets.** The increase in amortization expense for the year ended December 31, 2011 was due to the full year 2011 amortization of purchased intangible assets from the Enfora acquisition completed during the fourth quarter of 2010.

**Goodwill impairment.** During the third quarter of 2011, we performed an interim assessment of impairment for goodwill and recorded an impairment charge of \$3.5 million. During the fourth quarter of 2011, we completed the impairment analysis and reduced the impairment by \$237,000. As a result of this assessment, we recorded a goodwill impairment of \$3.3 million related to the M2M reporting unit for the year ended December 31, 2011.

**Interest income (expense), net.** Interest income (expense), net, for the year ended December 31, 2011 was approximately \$384,000 of income, net as compared to net interest expense of approximately \$2.5 million in 2010. Our net interest income during 2011 is primarily related to interest earned on our marketable securities. Our net interest expense during 2010 is primarily related to interest charges, and debt issuance costs associated with our bridge loan facility in connection with our bid acquisition to acquire Cinterion.

**Other income (expense), net.** Other income (expense), net, for the year ended December 31, 2011 decreased by approximately \$3.0 million, to approximately \$1.1 million of net expense, compared to approximately \$2.0 million of other income, net in 2010. The net other expenses for 2011 were related to foreign currency losses on South Korean Won denominated trade payables, foreign exchange currency losses on our foreign denominated bank accounts and trade receivables, and other-than-temporary loss recognized on our marketable equity securities. The other income, net for 2010 was primarily driven by a \$2.9 million foreign exchange gain realized upon conversion of the Euro-denominated bid funds into U.S. dollars in July 2010 at the conclusion of the bidding process for Cinterion. The gain was offset by \$1.2 million in premiums paid for protective put options

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we utilized to hedge our Euro exposure during the bidding process for Cinterion in the second quarter of 2010. These puts expired unexercised on June 25, 2010.

**Income tax expense (benefit).** Income tax benefit was approximately \$9.5 million for fiscal 2011, compared to an expense of \$7.9 million in 2010. The company's annual effective tax benefit rate in 2011 was 28%. The difference between the federal and state statutory combined benefit rate of 36% and our effective tax benefit rate for 2011 is primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2011, a \$1.4 million expense related to an increase in the Company's valuation allowance on the Canadian-based deferred tax assets and an \$11.8 million income tax benefit related to uncertain tax positions. During 2010, the Company had income tax expense of \$7.9 million, predominantly relating to the full valuation allowance incurred against the Company's U.S. based deferred tax assets created in years prior to 2010.

**Net loss.** For the year ended December 31, 2011, we reported a net loss of approximately \$24.9 million, as compared to net loss of approximately \$33.4 million in 2010. As discussed above, the increase in gross profit was exceeded by an increase in operating expenses, a full year of amortization from acquired intangibles and the impairment of goodwill. However, the Company recorded a \$9.5 million benefit in income taxes during 2011 as compared to a \$7.9 income tax expense in 2010.

### **Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities and cash generated from operations.

To address short term liquidity requirements resulting from working capital changes the Company entered into a margin credit facility with a bank in 2011. The use of this margin credit facility allows the Company to meet short-term cash requirements and avoid selling cash equivalents and marketable securities. Borrowings under this facility are collateralized by Company cash and cash equivalents and marketable securities on deposit at the bank. During the three months ended September 30, 2011, the Company borrowed approximately \$12.0 million and repaid the entire amount during the same period. During the three months ended September 30, 2012, the Company borrowed \$5.0 million and repaid the entire amount during the same period. During three months ended December 31, 2012, the Company borrowed \$9.0 million against the facility and repaid the entire amount during the same period. The Company had no outstanding borrowings under this facility at December 31, 2012, and the Company's borrowing limit at December 31, 2012 under the credit facility was \$6.8 million.

In September 2009, we filed a shelf registration statement with the Securities and Exchange Commission, or the SEC, that will allow us to sell up to \$125 million of equity, debt or other securities described in the registration statement in one or more offerings by us from time to time. As set forth in the shelf registration statement, the net proceeds from the sale of our securities may be used for general corporate purposes, including working capital, capital expenditures and acquisitions. As of the date of this report, we had not issued any securities under this registration statement.

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### *Working Capital, Cash and Cash Equivalents and Marketable Securities*

The following table presents working capital, cash and cash equivalents and marketable securities:

	Year Ended December 31, (in thousands)		
	2012	2011	Increase / (Decrease)
Working capital	<u>\$67,199</u>	<u>\$81,113</u>	<u>\$ (13,914)</u>
Cash and cash equivalents <sup>(1)</sup>	\$16,044	\$47,069	\$(31,025)
Short-term marketable securities <sup>(1)</sup>	38,064	28,267	9,797
Long-term marketable securities	1,201	13,495	(12,294)
Total cash and cash equivalents and marketable securities	<u>\$55,309</u>	<u>\$88,831</u>	<u>\$(33,522)</u>

(1) Included in working capital.

Our decrease in working capital as of December 31, 2012 compared to the prior year was primarily due to losses incurred and capital expenditures in 2012.

As of December 31, 2012, our cash, cash equivalents and marketable securities decreased \$33.5 million as compared to December 31, 2011, primarily due to \$29.9 million of cash used in operating activities and capital expenditures of \$4.6 million. See the discussion of market risk in Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*.

### *Historical Cash Flows*

The following table summarizes our consolidated statements of cash flows for the periods indicated:

	Year Ended December 31, (in thousands)	
	2012	2011
Net cash used in operating activities	\$ (29,879)	\$ (1,531)
Net cash provided by (used in) investing activities	(2,203)	31,659
Net cash provided by (used in) financing activities	1,120	(305)
Effect of exchange rates on cash and cash equivalents	(63)	(129)
Net increase (decrease) in cash and cash equivalents	(31,025)	29,694
Cash and cash equivalents, beginning of period	47,069	17,375
Cash and cash equivalents, end of period	<u>\$ 16,044</u>	<u>\$ 47,069</u>

**Operating activities.** Net cash used in operating activities was \$29.9 million for 2012 compared to \$1.5 million of net cash used in 2011. Net cash used in operating activities for the year ended December 31, 2012 was primarily attributable to the loss incurred in 2012 and the unfavorable working capital impacts of a \$10.4 million reduction in accounts payable and a \$6.2 million increase in accounts receivable. The unfavorable working capital impacts during the year ended December 31, 2012 were partially offset by non-cash charges including depreciation and amortization, goodwill and intangible assets impairment and share-based compensation. During 2011, the difference between our net loss of \$24.9 million and our net cash used in operating activities of \$1.5 million was primarily due to the favorable impact of non-cash charges, including depreciation, amortization and share-based compensation, partially offset by our non-cash tax benefit.

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**Investing activities.** Net cash used in investing activities for 2012 was approximately \$2.2 million compared to \$31.7 million provided by investing activities in 2011. The net cash used in 2012 was primarily related to purchases of property and equipment of \$4.6 million, partially offset by the net sales and maturities of our marketable securities of \$2.5 million. The net cash provided by investing activities in 2011 was primarily related to the net sales and maturities of our marketable securities of \$37.9 million, partially offset by purchases of property and equipment of \$6.0 million.

**Financing activities.** Net cash provided by financing activities for 2012 was \$1.1 million, compared to net cash used in financing activities of \$305,000 for 2011. Net cash provided by financing activities in 2012 was primarily related to proceeds from stock option exercises and stock purchases through our employee stock purchase plan. Net financing activities for 2012 also included cash borrowings and repayment of \$5.0 million and \$9.0 million from our credit facility during the third and fourth quarters of 2012, respectively. Net cash used in financing activities in 2011 was primarily due to net taxes paid on vested restricted stock units, and payments of capital lease obligations. Net financing activities for 2011 also included cash borrowings and repayment of \$12.0 million from our credit facility during the third quarter of 2011.

### *Contractual Obligations and Commercial Commitments*

The following table summarizes our contractual obligations and commercial commitments at December 31, 2012, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Fiscal Year					Total
	2013	2014	2015	2016	2017	
Operating leases	\$ 3,613	\$ 3,664	\$ 2,930	\$ 2,899	\$ 356	\$ 13,462
Committed purchase orders	103,273	0	0	0	0	103,273
Total contractual obligations	<u>\$ 106,886</u>	<u>\$ 3,664</u>	<u>\$ 2,930</u>	<u>\$ 2,899</u>	<u>\$ 356</u>	<u>\$ 116,735</u>

Our liability for uncertain tax benefits, including interest, as of December 31, 2012 was approximately \$367,000, compared to approximately \$413,000 as of December 31, 2011. The decrease was primarily due to the expiration of the applicable statutes of limitations for certain tax years. Our tax liability for uncertain tax benefits is not included in our table of contractual obligations and commercial commitments. We do not believe that we will pay such amount within one year from December 31, 2012; however, we cannot reasonably estimate the timing of future payments with respect to this liability.

### *Other Liquidity Needs*

We expect to incur ongoing professional fees and expenses to defend litigation filed against us or related to our products, which litigation is discussed in Note 11 to our consolidated financial statements included in this report. These costs cannot be estimated at this time.

During the year ending December 31, 2013, we plan to incur approximately \$5.4 million for discretionary capital expenditures, including the acquisition of additional software licenses.

We believe our cash resources from cash and cash equivalents and marketable securities, together with anticipated cash flows from operations will be sufficient to meet our working capital needs for the next twelve months.

Our liquidity could be impaired if there is any interruption in our business operations, a material failure to satisfy our contractual commitments or a failure to generate revenue from new or existing products.



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We may raise additional funds to accelerate development of new and existing services and products, to respond to competitive pressures or to acquire complementary products, businesses or technologies. There can be no assurance that any required additional financing will be available on terms favorable to us, or at all. If additional funds are raised by the issuance of equity securities, our shareholders could experience dilution of their ownership interests and securities issued may have rights senior to those of the holders of our common stock. If additional funds are raised by the issuance of debt securities, we may be subject to certain limitations on our operations. If adequate funds are not available or not available on acceptable terms, we may be unable to take advantage of acquisition opportunities, develop or enhance products or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are material to our results of operations, financial conditions or liquidity.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ from these estimates. Critical accounting policies and significant estimates include revenue recognition, allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets including acquired intangibles and goodwill resulting from the acquisition of Enfora, valuation of contingent consideration, provision for warranty costs, litigation, income taxes, foreign exchange forward contracts, and share-based compensation expense.

*Revenue Recognition.* The Company's revenue is principally generated from the sale of wireless modems to wireless operators, OEM customers and value added resellers and distributors. In addition, the Company generates revenue from the sale of asset-management solutions utilizing wireless technology and M2M communication devices to transportation and industrial companies, medical device manufacturers and security system providers. Revenue from product sales is generally recognized upon the later of transfer of title or delivery of the product to the customer. Where the transfer of title or risk of loss is contingent on the customer's acceptance of the product, we will not recognize revenue until both title and risk of loss have transferred to the customer. We record deferred revenue for cash payments received from customers in advance of when revenue recognition criteria are met. We have granted price protection to certain customers in accordance with the provisions of the respective contracts and track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. We estimate the amount of price protection for current period product sales utilizing historical experience and information regarding customer inventory levels. To date, we have not incurred material price protection obligations. Revenues from sales to certain customers are subject to cooperative advertising allowances. Cooperative advertising allowances are recorded as an operating expense to the extent that the advertising benefit is separable from the revenue transaction and the fair value of that advertising benefit is determinable. To the extent that such allowances either do not provide a separable benefit to us, or the fair value of the advertising benefit cannot be reliably estimated, such amounts are recorded as a reduction of revenue. We establish reserves for estimated product returns allowances in the period in which revenue is recognized. In estimating future product returns, we consider various factors, including our stated return policies and practices and historical trends.

Predominantly all of the revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. The Company records revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations, such as warranty

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obligations. The Company considers the four basic revenue recognition criteria discussed under Staff Accounting Bulletin #104 when assessing appropriate revenue recognition as follows:

- Criterion #1 — Persuasive evidence of an arrangement must exist;
- Criterion #2 — Delivery has occurred;
- Criterion #3 — The Company's price to the buyer must be fixed or determinable; and,
- Criterion #4 — Collectibility is reasonably assured.

Under ASU 2009-13, in multiple element arrangements, the total consideration received from customers must be allocated to the elements based on a relative selling price. The accounting guidance establishes a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendors specific objective evidence (VSOE), (ii) third party evidence (TPE), and (iii) best estimate of selling price (ESP). Because the Company has neither VSOE nor TPE, revenue has been based on the Company's ESP. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of the sale provided all other revenue recognition criteria have been met. Amounts allocated to other deliverables based upon ESP are recognized in the period the revenue recognition criteria have been met.

Our process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Our prices are determined based upon cost to produce our products, expected order quantities and acceptance in the marketplace. In addition, when developing ESPs for products we may consider other factors as appropriate including the pricing of competitive alternatives if they exist, and product-specific business objectives.

We account for multiple element arrangements that primarily consist of software licenses and post contract support (PCS) by recognizing revenue for such arrangements ratably over the term of the PCS as we have not established VSOE for the PCS element.

For the years ended December 31, 2012, 2011, and 2010, we have not recorded any significant revenues from multiple element or software arrangements.

*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.

*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 or losses on inventory purchase commitments depend on various items, including factors related to customer demand, 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.

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*Valuation of Acquired Intangible Assets.* In determining the Enfora purchase price allocation, the Company considered, among other factors, its intention to use the acquired assets and the historical and estimated future demand for Enfora products and services. The estimated fair value of intangible assets was based upon the income approach. The income approach relies on an estimation of the present value of the future monetary benefits expected to flow to the owner of an asset during its remaining economic life. This approach requires a projection of the cash flow that the asset is expected to generate in the future. The projected cash flow is discounted to its present value using a rate of return, or discount rate that accounts for the time value of money and the degree of risks inherent in the asset. The expected future cash flow that is projected should include all of the economic benefits attributable to the asset, including the tax savings associated with the amortization of the intangible asset value over the tax life of the asset. The income approach may take the form of a “relief from royalty” methodology, a cost savings methodology, a “with and without” methodology, or excess earnings methodology, depending on the specific asset under consideration.

The relief-from-royalty method was used to value the trade name acquired from Enfora. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used was based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing trade name acquired were as follows: royalty rate of 2%, discount rate of 20.5%, tax rate of 40% and an economic life of approximately 10.0 years.

The developed technologies, customer relationships and backlog were valued using a form of the income approach known as the multi-period excess earnings method. Inherent in the multi-period excess earnings method is the recognition that, in most cases, all of the assets of the business, both tangible and intangible, contribute to the generation of the cash flow of the business and the net cash flows attributable to the subject asset must recognize the support of the other assets which contribute to the realization of the cash flows. The contributory asset charges are based on the fair value of the contributory assets and either pre-tax or after-tax cash flows are assessed charges representing “returns on” the contributory assets. A contributory asset charge for the use of the technology was assessed on pre-tax cash flows, while contributory asset charges for the use of the working capital, fixed assets, and assembled work force have been deducted from the after-tax cash flow in each year to determine the net future cash flow attributable to the relationships. This future cash flow was then discounted using an estimated required rate of return for the asset to determine the present value of the future cash flows attributable to the asset. The key assumptions used in valuing the developed technologies acquired were as follows: discount rate of 18.5%, tax rate of 40% and estimated average economic life of 5-10 years. The key assumptions used in valuing the customer relationships acquired are as follows: discount rate of 19.5%, tax rate of 40% and estimated average economic life of 10 years. The key assumptions used in valuing the backlog acquired are as follows: discount rate of 14.5%, tax rate of 40% and estimated average economic life of 5 months.

The covenant-not-to-compete agreements were valued using the “with or without” method. The “with or without” method measures the value of an asset as the difference between two scenarios. One scenario measures the value of a business “with” the asset. The other scenario measures the value “without” the asset. The method treats the difference between the two scenarios (with certain valuation adjustments) as the value of the asset. The key assumptions used in valuing the covenant not to compete agreements were as follows: discount rate of 20.5% and estimated average economic life of 1-2 years.

*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.

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Our assessment includes comparing the carrying amounts of intangible and long-lived assets to their associated undiscounted expected future cash flows, which are determined using an expected 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 two to four years. As most of these assets are associated with technology or trade conditions that may change rapidly; such changes could have an immediate impact on our impairment analysis.

During the first and third quarters of 2012, based on actual operating results, and reductions in management's then estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to updated views of competitive pressures impacting average selling prices, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis during the respective impacted quarters.

The Company performed fair value tests with the assistance of third party independent appraisals, for each of the Company's purchased intangible assets. The existing trade name acquired was valued using royalty rates ranging from 1% to 2% and discount rates ranging from 23.0% to 24.0%. The developed technologies were valued using discount rates ranging from 20.0% to 21.0%. The backlog was valued using discount rates ranging from 17.0% to 18.0%. Customer relationships were valued using discount rates ranging from 21.0% to 22.0%. All key assumptions assumed tax rates of 40%, and the assets were assumed to have economic lives ranging from 6 months to 10 years depending on the asset.

*Goodwill.* Our goodwill resulted from the acquisition of Enfora (M2M Products and Solutions) in the fourth quarter of 2010. In accordance with the (FASB) Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other* ("ASC Topic 350"), we reviewed goodwill for impairment at least annually at the beginning of the fourth quarter of each year, and more frequently when events or changes in circumstances occurred that indicated a potential reduction in the fair value of the reporting unit below its carrying value.

ASC Topic 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge.

In order to perform the annual goodwill impairment analysis, we are required to estimate the fair value of our M2M Products reporting unit. The fair value is calculated as though the M2M Products and Solutions reporting unit were to be sold in its entirety in an orderly transaction between market participants, using an estimate of fair value based on a blended sum resulting from the use of two valuation methods. First, we use the guideline public company method utilizing a multiple of the reporting unit's revenue. Second, we perform a discounted cash flow analysis using forward looking projections of an estimate of our future operating results. These approaches use significant estimates and assumptions, including the size and timing of product deployments by our customers and related projections and timing of future cash flows, discount rates reflecting

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the risk inherent in future cash flows, perpetual growth rates, stage of products in development, determination of appropriate market comparables and determination of whether a premium or discount should be applied to comparables. The resultant estimated fair value of our M2M Products and Solutions reporting unit is compared to the net book value of the reporting unit to assess whether any impairment exists.

*Contingent Consideration.* Contingent consideration is recorded at the acquisition date estimated fair value of the contingent payment for all acquisitions. The fair value of the contingent consideration is remeasured at each reporting period with any adjustments in fair value included in the Company's consolidated statement of operations.

*Provision for 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 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 over the contractual warranty period, 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. Depending on the quality of our product design and manufacturing, actual product failure rates or actual warranty costs could be materially greater than our estimates, which could harm our financial condition and results of operations.

*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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that some portion of the deferred tax asset will not be realized. We evaluate deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance against our deferred tax assets which could result in a decrease in our effective tax rate and an adverse impact on operating results. We will continue to evaluate the level of valuation allowance required based on the remaining deferred tax assets.

The American Taxpayer Relief Act of 2012, which reinstated the United States federal research and development tax credit retroactively from January 1, 2012 through December 31, 2013, was not enacted into law until the first quarter of 2013. Therefore, the expected tax benefit resulting from such reinstatement for 2012 will not be reflected in the Company's estimated annual effective tax rate until 2013.

The Company recognizes the impact of uncertain income tax positions on the income tax return 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. Uncertain tax positions are recognized in the first subsequent financial reporting period in which that threshold is met or from changes in circumstances such as the expiration of applicable statutes of limitations.

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*Litigation.* The Company is currently involved in certain legal proceedings. The Company will record a loss when the Company determines information available prior to the issuance of the financial statements indicates the loss is both probable and estimable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records the minimum estimated liability related to the claim. As additional information becomes available, the Company assesses the potential liability related to the Company's pending litigation and revises its estimates, if necessary. The Company's policy is to expense litigation costs as incurred.

*Share-based Compensation Expense.* We have stock incentive plans under which incentive stock options and restricted stock units have been granted to employees and non-employee members of our Board of Directors. We also had an employee stock purchase plan for all eligible employees. Share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, are recognized in the financial statements based upon their respective grant date fair values.

We estimate the fair value of stock option awards and stock purchase rights on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is principally recognized as expense ratably over the requisite service periods. We have estimated the fair value of stock options and stock purchase rights as of the date of grant or assumption using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of our stock price. We evaluate the assumptions used to value stock options and stock purchase rights on a quarterly basis. Although the Black-Scholes model is an acceptable model, the fair values generated by the model may not be indicative of the actual fair values of our equity awards, as it does not consider other factors important to those awards to employees, such as continued employment, periodic vesting requirements and limited transferability.

Compensation cost associated with grants of restricted stock units are measured at fair value, which has historically been the closing price of the Company's stock on the date of the grant.

### **Item 7A. 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 debt securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. At December 31, 2012, we had \$55.3 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 our \$16.0 million in cash equivalents at December 31, 2012, as these consisted of money market funds with the value of all of our cash equivalents determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets.

At December 31, 2012, substantially all of our marketable securities are invested in fixed income products. As such, our investments in fixed-rate instruments carry a degree of interest rate risk. The market value of fixed-rate securities may be adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates decline. Due in part to these factors, our future investment market values and income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt investments is judged to be other-than-temporary. Using a model that estimates the aggregate yield to maturity of our investment portfolio, we estimate that 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, our \$39.3 million in marketable securities by approximately \$393,000.

However, because any debt securities we hold are classified as available-for-sale (within the meaning of ASC Topic 320), no gains or losses are realized in the income statement due to changes in interest rates unless

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such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax.

We do not utilize derivative instruments or other financial contracts to manage our exposure to changes in interest rates in our investment portfolio.

### **Credit Risk**

We maintain our cash and cash equivalents and our marketable debt securities, which include various security holdings, types and maturities, with a number of financial institutions. As of the date of this report, we have not identified any significant credit risk associated with any of the financial institutions that maintain our portfolio of cash and cash equivalents and our marketable securities. However, our ability to support our working capital needs depends, in part, on our available cash, cash equivalents, and marketable securities. As a result, any significant decrease in the value of our investments may materially adversely impact our ability to support our working capital needs.

We place our cash investments in instruments that meet credit quality standards specified in our investment policy guidelines at the time the investments are made. At December 31, 2012, we have cash and cash equivalents of \$16.0 million. Of this \$16.0 million, \$12.5 million is held in cash demand deposits and \$3.5 million in cash equivalents was held in money market investments and U.S. Treasury securities. Money market funds attempt to maintain a net asset value, or NAV, of \$1 per unit of investment. Should the underlying investments held by these money market funds suffer significant losses to market value due to interest rate changes or perceived counterparty risk, the NAV of these money market funds may suffer declines below the targeted \$1 NAV. We hold money market funds that target a balance of investment return and preservation of invested capital through diversified holdings. As such, we do not believe we currently have significant exposure to NAV declines for our money market holdings.

At December 31, 2012, we had \$39.3 million invested in our portfolio of marketable securities. Our investment policy guidelines limit the amount of credit exposure to any one issue, issuer or type of instrument. The fair value of our marketable debt securities at December 31, 2012 was determined based on "Level 2" inputs, which were derived based on quoted prices for identical or similar assets, which had few transactions near the measurement period (see Note 3 to our consolidated financial statements).

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

We generate Euro-denominated accounts receivable from sales to customers that are members of the European Union. During the year ended December 31, 2012, Euro-denominated revenue was approximately \$1.0 million which represents less than 1% of our total net revenues compared to less than 1% in the same period last year. Although we are exposed to market risk arising from changes in foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar, as Euro-denominated revenue is not considered significant, we did not enter into any foreign exchange contracts during the year ended December 31, 2012. If our net revenues increase in the foreseeable future, we may enter into foreign exchange contracts to mitigate this risk. These forward currency foreign exchange contracts would cover a portion, generally 50% to 80%, but may cover up to 100%, of our Euro-based financial assets.

At December 31, 2012, we had no outstanding forward contracts. During the year ended December 31, 2012, we recorded approximately \$5,000 in unrealized foreign currency gains related to our outstanding Euro-denominated accounts receivable balances. Both the unrealized gain on the outstanding forward contracts and the unrealized gains on outstanding Euro-denominated receivables were recorded in other income (expense), net in our consolidated statement of operations.

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Assuming a translation of our Euro-denominated revenue for the year ended December 31, 2012 at an average Euro-to-U.S. Dollar exchange rate of \$1.29 and a uniform ten percent strengthening or weakening of this exchange rate, we estimate that income before income taxes for the year ended December 31, 2012 would increase or decrease, respectively, by approximately \$100,000. This analysis does not give effect to any forward currency foreign exchange contracts that may be used to hedge foreign currency risk.

Actual gains and losses in the future may differ materially from the hypothetical gains and losses discussed above based on fluctuations in interest and foreign currency exchange rates and our actual exposure and hedging transactions.

Our sales to non-European Union countries are typically denominated in U.S. Dollars. Competitive conditions in the markets in which we operate may limit our ability to increase prices in the event of adverse changes in currency exchange rates. Sales of these products are affected by the value of the U.S. Dollar relative to other currencies, and in particular, the Euro. Any long-term strengthening of the U.S. Dollar could depress the demand for these U.S. manufactured products, reduce sales, or cause us to reduce per unit selling prices.

### **Item 8. *Financial Statements and Supplementary Data***

The index to our consolidated financial statements and the Report of Independent Registered Public Accounting Firm appears in Part IV of this report.

### **Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

### **Item 9A. *Controls and Procedures***

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance 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 our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC rules, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012, the end of the period covered by this report. 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 December 31, 2012.

#### **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 our principal financial and accounting officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited our internal control over financial reporting as of December 31, 2012, as stated in their report which is included herein.

**Item 9B. Other Information**

None

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Novatel Wireless, Inc.:

We have audited Novatel Wireless Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Novatel Wireless, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Novatel Wireless, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Novatel Wireless, Inc. and our report dated March 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California  
March 1, 2013

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

(a) *Identification of Directors.* The information under the caption “Election of Directors” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

(b) *Identification of Executive Officers.* The information under the caption “Executive Officers” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

(d) *Code of Ethics.* We have adopted a Code of Business Conduct and Ethics which, together with the policies referred to therein, is applicable to all of our directors, officers and employees. The Code of Business Conduct and Ethics is intended to cover all areas of professional conduct, including conflicts of interest, disclosure obligations, insider trading and confidential information, as well as compliance with all laws, rules and regulations applicable to our business. We encourage all employees, officers and directors to promptly report any violations of any of our policies. The Code of Business Conduct and Ethics is posted on our website at [www.novatelwireless.com](http://www.novatelwireless.com) in the Investor tab under “Corporate Governance.” In the event that a substantive amendment to, or a waiver from, a provision of the Code of Business Conduct and Ethics that applies to our principal executive officer or principal financial and accounting officer is necessary, we intend to post such information on our website.

(e) *Audit Committee.* The information under the caption “The Board, Its Committees and Its Compensation—Audit Committee” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 11. Executive Compensation**

The information under the headings “Executive Compensation,” “The Board, Its Committees and Its Compensation—Director Compensation,” “Compensation Discussion and Analysis” and “Compensation Committee Report” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information under the headings “Security Ownership of Management and Certain Beneficial Owners” and “Equity Compensation Plan Information” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information under the headings “Review and Approval of Transactions with Related Parties” and “The Board, Its Committees and Its Compensation—Director Independence” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information under the heading “Independent Public Accountants” appearing in the Proxy Statement to be filed for the 2013 Annual Meeting of Stockholders is incorporated herein by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules****(a) 1. Index to consolidated financial statements**

See Index to consolidated financial statements on page F-1.

**2. Index to financial statement schedules**

The following financial statement schedules for the years ended December 31, 2012, 2011, and 2010 should be read in conjunction with the consolidated financial statements, and related notes thereto.

<u>Schedule</u>	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts	F-35

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the consolidated financial statements or related notes thereto.

**(b) Exhibits**

The following Exhibits are filed as part of, or incorporated by reference into this report:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
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 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 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	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).
3.5	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).
3.6	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).
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 July 28, 2000, as amended).

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<u>Exhibit Number</u>	<u>Description</u>
4.2	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).
4.3	Registration Rights Agreement, dated as of March 12, 2003, 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).
4.4	Registration Rights Agreement, dated as of January 13, 2004, 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).
10.1*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.2*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.3*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.4*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.5*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.6*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.7*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.8*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2, 2011).
10.9*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.10*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.11*	Form of Indemnification Agreement by and between the Company and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009, filed November 2, 2009).

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<u>Exhibit Number</u>	<u>Description</u>
10.12*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.13*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.14*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed May 2, 2011).
10.15*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.16*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010).
10.17	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.18	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
21**	Subsidiaries of Novatel Wireless, Inc.
23.1**	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.

\* Management contract, compensatory plan or arrangement

\*\* Filed herewith



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Novatel Wireless, Inc.

We have audited the accompanying consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule for each of the three years in the period ended December 31, 2012 listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novatel Wireless, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for each of the three years in the period ended December 31, 2012, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Novatel Wireless, Inc.'s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California  
March 1, 2013

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

	<u>As of December 31,</u>	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,044	\$ 47,069
Marketable securities	38,064	28,267
Accounts receivable, net of allowance for doubtful accounts of \$627 in 2012 and \$245 in 2011	42,652	36,849
Inventories	39,016	42,279
Deferred tax assets, net	126	2,011
Prepaid expenses and other	4,829	3,712
<b>Total current assets</b>	<u>140,731</u>	<u>160,187</u>
Property and equipment, net of accumulated depreciation of \$59,702 in 2012 and \$59,217 in 2011	15,229	18,496
Marketable securities	1,201	13,495
Intangible assets, net of accumulated amortization of \$11,951 in 2012 and \$10,899 in 2011	3,163	35,702
Goodwill	0	19,772
Deferred tax assets, net	584	1,023
Other assets	623	504
<b>Total assets</b>	<u>\$ 161,531</u>	<u>\$ 249,179</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 45,732	\$ 54,030
Accrued expenses	27,800	25,044
<b>Total current liabilities</b>	<u>73,532</u>	<u>79,074</u>
Other long-term liabilities	2,552	4,080
<b>Total liabilities</b>	<u>76,084</u>	<u>83,154</u>
Stockholders' equity:		
Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding	0	0
Common stock, par value \$0.001; 50,000 shares authorized, 33,655 and 32,262 shares issued and outstanding at December 31, 2012 and 2011, respectively	34	32
Additional paid-in capital	438,477	429,813
Accumulated other comprehensive income (loss)	14	(8)
Accumulated deficit	<u>(328,078)</u>	<u>(238,812)</u>
<b>Total stockholders' equity</b>	<u>110,447</u>	<u>191,025</u>
Treasury stock at cost; 2,436 common shares at December 31, 2012 and 2011	<u>(25,000)</u>	<u>(25,000)</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 161,531</u>	<u>\$ 249,179</u>

See accompanying notes to consolidated financial statements

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net revenues	\$344,288	\$402,862	\$338,942
Cost of net revenues	271,845	318,270	272,648
Gross profit	<u>72,443</u>	<u>84,592</u>	<u>66,294</u>
Operating costs and expenses:			
Research and development	60,422	61,392	48,906
Sales and marketing	27,501	29,830	20,978
General and administrative	22,668	21,600	21,233
Goodwill and intangible assets impairment	49,521	3,277	0
Amortization of purchased intangible assets	1,074	2,220	179
Total operating costs and expenses	<u>161,186</u>	<u>118,319</u>	<u>91,296</u>
Operating loss	(88,743)	(33,727)	(25,002)
Other income (expense):			
Interest income (expense), net	291	384	(2,518)
Other income (expense), net	(203)	(1,052)	1,963
Loss before income taxes	<u>(88,655)</u>	<u>(34,395)</u>	<u>(25,557)</u>
Income tax provision (benefit)	611	(9,503)	7,893
Net loss	<u>\$ (89,266)</u>	<u>\$ (24,892)</u>	<u>\$ (33,450)</u>
Per share data:			
Net loss per share:			
Basic and diluted	<u>\$ (2.72)</u>	<u>\$ (0.78)</u>	<u>\$ (1.06)</u>
Weighted average shares used in computation of basic and diluted net loss per share:			
Basic and diluted	<u>32,852</u>	<u>32,043</u>	<u>31,494</u>

See accompanying notes to consolidated financial statements

**NOVATEL WIRELESS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in thousands)**

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net loss	\$(89,266)	\$(24,892)	\$(33,450)
Unrealized gain (loss) on cash equivalents and marketable securities, net of tax	22	(29)	6
Total comprehensive loss	<u>\$(89,244)</u>	<u>\$(24,921)</u>	<u>\$(33,444)</u>

See accompanying notes to consolidated financial statements

**NOVATEL WIRELESS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2009	31,092	\$ 31	\$416,579	\$(25,000)	\$(180,470)	\$ 15	\$ 211,155
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	760	1	1,490	0	0	0	1,491
Net tax effect from stock options exercised	0	0	(270)	0	0	0	(270)
Share-based compensation	0	0	6,471	0	0	0	6,471
Net loss	0	0	0	0	(33,450)	0	(33,450)
Other comprehensive income	0	0	0	0	0	6	6
Balance, December 31, 2010	31,852	32	424,270	(25,000)	(213,920)	21	185,403
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	410	0	504	0	0	0	504
Taxes withheld on net settled vesting of restricted stock units	0	0	(700)	0	0	0	(700)
Net tax effect from stock options exercised	0	0	(244)	0	0	0	(244)
Share-based compensation	0	0	5,983	0	0	0	5,983
Net loss	0	0	0	0	(24,892)	0	(24,892)
Other comprehensive loss	0	0	0	0	0	(29)	(29)
Balance, December 31, 2011	32,262	32	429,813	(25,000)	(238,812)	(8)	166,025
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	1,393	2	1,597	0	0	0	1,599
Taxes withheld on net settled vesting of restricted stock units	0	0	(433)	0	0	0	(433)
Share-based compensation	0	0	7,500	0	0	0	7,500
Net loss	0	0	0	0	(89,266)	0	(89,266)
Other comprehensive income	0	0	0	0	0	22	22
Balance, December 31, 2012	<u>33,655</u>	<u>\$ 34</u>	<u>\$438,477</u>	<u>\$(25,000)</u>	<u>\$(328,078)</u>	<u>\$ 14</u>	<u>\$ 85,447</u>

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net loss	\$(89,266)	\$(24,892)	\$ (33,450)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization of debt issuance costs	0	0	541
Loan fees recognized on extinguishment of debt	0	0	2,370
Depreciation and amortization	12,337	17,868	11,711
Loss on goodwill and purchased intangible assets impairment	49,521	3,277	0
Impairment loss on equipment and software license intangible assets	100	203	167
Provision for bad debts	439	40	141
Net impairment loss on marketable securities	39	346	0
Inventory provision	2,843	689	1,874
Share-based compensation expense	7,500	5,983	6,471
Excess tax benefits from equity based compensation	0	0	(112)
Non-cash income tax expense (benefit)	462	(9,185)	7,766
Changes in assets and liabilities:			
Accounts receivable	(6,242)	26,437	(19,963)
Inventories	420	122	(9,527)
Prepaid expenses and other assets	(1,237)	3,661	(2,461)
Accounts payable	(10,433)	(24,293)	46,020
Accrued expenses, income taxes, and other	3,638	(1,787)	(5,337)
Net cash provided by (used in) operating activities	<u>(29,879)</u>	<u>(1,531)</u>	<u>6,211</u>
Cash flows from investing activities:			
Purchases of property and equipment	(4,579)	(5,987)	(10,785)
Acquisition of business, net of cash acquired	0	0	(72,247)
Purchases of intangible assets	(104)	(284)	(110)
Purchases of marketable securities	(44,216)	(36,992)	(178,712)
Marketable securities maturities / sales	46,696	74,922	174,286
Net cash provided by (used in) investing activities	<u>(2,203)</u>	<u>31,659</u>	<u>(87,568)</u>
Cash flows from financing activities:			
Proceeds from the issuance of short-term debt, net of issuance costs	14,000	12,000	27,415
Principal repayments of short-term debt	(14,000)	(12,000)	(30,000)
Principal payments under capital lease obligations	(46)	(109)	(134)
Proceeds from stock option exercises and ESPP net of taxes paid on vested restricted stock units	1,166	(196)	1,491
Excess tax benefits from stock options exercised	0	0	112
Deposit of restricted funds	0	0	(188,890)
Remittance from restricted funds	0	0	188,890
Net cash provided by (used in) financing activities	<u>1,120</u>	<u>(305)</u>	<u>(1,116)</u>
Effect of exchange rates on cash and cash equivalents	(63)	(129)	(177)
Net increase (decrease) in cash and cash equivalents	<u>(31,025)</u>	<u>29,694</u>	<u>(82,650)</u>
Cash and cash equivalents, beginning of period	47,069	17,375	100,025
Cash and cash equivalents, end of period	<u>\$ 16,044</u>	<u>\$ 47,069</u>	<u>\$ 17,375</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 17	\$ 8	\$ 181
Income taxes	\$ 104	\$ 112	\$ 299
Supplemental disclosures of non-cash investing activities:			
Building rent incentives to fund leasehold improvements	\$ 0	\$ 1,869	\$ 0
Supplemental disclosures of non-cash financing activities:			
Marketable equity securities received in settlement of note receivable	\$ 0	\$ 386	\$ 0
Accrued debt issuance costs	\$ 0	\$ 0	\$ 326

See accompanying notes to consolidated financial statements.

**NOVATEL WIRELESS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business and Significant Accounting Policies**

Novatel Wireless, Inc. (the “Company,” “our” or “we”) is a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products principally includes intelligent mobile hotspots, USB modems, embedded PCI and wireless PC-card modems, and communications and applications software. In addition, through our acquisition of Enfora, Inc. (“Enfora”) on November 30, 2010, we provide asset-management solutions utilizing wireless technology and machine-to-machine (“M2M”) communications devices.

*Principles of Consolidation*

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

*Use of Estimates*

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

Difficult global economic conditions, tight credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in these estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates, particularly those related to the condition of the economy.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist of demand deposits, US Treasury securities, and money market funds. Cash and cash equivalents are recorded at market value, which approximates cost. Gains and losses associated with the Company’s foreign currency denominated demand deposits are recorded as a component of other income (expense).

*Allowance for Doubtful Accounts Receivable*

The Company provides an allowance for its accounts receivable for estimated losses that may result from its customers’ inability to pay. The Company determines 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, the Company reviews its customers’ credit-worthiness periodically based on credit scores generated by independent credit reporting services, its experience with its customers and the economic condition of its customers’ industries. Material differences may result in the amount and timing of expense for any period if the Company were to make different judgments or utilize different estimates.

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### *Marketable Securities*

Marketable securities predominantly consist of highly liquid debt investments with a maturity of greater than three months when purchased. The Company holds an insignificant amount of marketable equity securities. All of the Company's marketable debt securities are treated as "available-for-sale." While it is the Company's intent to hold its debt securities until maturity, the Company may sell certain securities for cash flow purposes. Thus, the Company's marketable debt securities are classified as available-for-sale and are carried on the balance sheet at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method. The Company determines the fair value of its financial assets and liabilities by reference to the hierarchy of inputs which consists of three levels: Level 1 fair values are valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All securities whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheet. All other securities are classified as "long-term" on the consolidated balance sheet.

### *Inventories and Provision for Excess and Obsolete Inventory*

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipping and handling costs are classified as a component of cost of net revenues in the consolidated statements of operations. The Company reviews the components of its inventory and its inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by the Company or its customers that vary from its 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.

The Company believes that, when made, the estimates used in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for the Company's inventory is substantially less than its estimates, inventory write-downs may be required, which could have a material adverse effect on its consolidated financial statements.

### *Property and Equipment*

Property and equipment are initially stated at cost and depreciated using the straight-line method. Test equipment, computer equipment, purchased software, furniture, and fixtures and product tooling are depreciated over lives ranging from eighteen months to five years and leasehold improvements are depreciated over the shorter of the related remaining lease period or useful life. Amortization of assets held under capital leases is included in depreciation expense.

Expenditures for repairs and maintenance are expensed as incurred. Expenditures for major renewals and betterments that extend the useful lives of existing property and equipment are capitalized and depreciated. Upon retirement or disposition of property and equipment, any resulting gain or loss is recognized in the consolidated statements of operations.

### *Intangible Assets*

Intangible assets include purchased intangible assets acquired from Enfora and the costs of non-exclusive and perpetual worldwide software technology licenses. These costs are amortized on an accelerated basis or on a



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straight-line basis over the estimated useful lives of the assets, depending on the anticipated utilization of the asset. The majority of intangible assets relate to the developed technologies and trade name resulting from the acquisition of Enfora. Developed technologies are amortized on a straight-line basis over two years. Trade name is amortized on a straight-line basis over four years.

### *Long-Lived Assets*

The Company periodically evaluates the carrying value of the unamortized balances of its long-lived assets, including property and equipment and intangible assets, to determine whether impairment of these assets has occurred or whether a revision to the related amortization periods should be made. When the carrying value of an asset exceeds the associated undiscounted expected future cash flows, it is considered to be impaired and is written down to fair value. Fair value is determined based on an evaluation of the assets associated undiscounted future cash flows or appraised value. This evaluation is based on management's projections of the undiscounted future cash flows associated with each class of asset. If management's evaluation indicates that the carrying values of these assets are impaired, such impairment is recognized by a reduction of the applicable asset carrying value to its estimated fair value and the impairment is expensed as a part of continuing operations.

### *Goodwill*

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill is allocated as of the date of the business combination to the reporting units that are expected to benefit from the synergies of the business combination. Goodwill is considered to be impaired if the Company determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds its estimated fair value. The Company performs its annual goodwill impairment test each year at the beginning of the fourth quarter, or more frequently if events or circumstances indicate that the carrying value of goodwill exceeds its fair value. The Company recorded \$19.8 million, \$3.3 million, and \$0 of goodwill impairment losses during the years ended December 31, 2012, 2011, and 2010, respectively.

### *Contingent Consideration*

Contingent consideration is recorded at the acquisition date estimated fair value for all acquisitions. The fair value of the contingent consideration is remeasured at each reporting period with any adjustments in fair value included in the Company's consolidated statement of operations.

### *Revenue Recognition*

The Company's revenue is principally generated from the sale of wireless modems to wireless operators, OEM customers and value added resellers and distributors. In addition, the Company generates revenue from the sale of asset-management solutions utilizing wireless technology and M2M communication devices predominantly to transportation and industrial companies, medical device manufacturers and security system providers. Revenue from product sales is generally recognized upon the later of transfer of title or delivery of the product to the customer. Where the transfer of title or risk of loss is contingent on the customer's acceptance of the product, we will not recognize revenue until both title and risk of loss have transferred to the customer. We record deferred revenue for cash payments received from customers in advance of when revenue recognition criteria are met. We have granted price protection to certain customers in accordance with the provisions of the respective contracts and track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. We estimate the amount of price protection for current period product sales utilizing historical experience and information regarding customer inventory levels. To date, we have not incurred material price protection obligations. Revenues from sales to certain customers are subject to cooperative advertising allowances. Cooperative advertising allowances are recorded as an operating expense to the extent that the advertising benefit is separable from the revenue transaction and the fair value of that advertising benefit is determinable. To the extent that such allowances either do not provide a separable benefit

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to us, or the fair value of the advertising benefit cannot be reliably estimated, such amounts are recorded as a reduction of revenue. We establish reserves for estimated product returns allowances in the period in which revenue is recognized. In estimating future product returns, we consider various factors, including our stated return policies and practices and historical trends.

Predominantly all of our revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. The Company records revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations such as warranty obligations. The Company considers the four basic revenue recognition criteria discussed under Staff Accounting Bulletin #104 when assessing appropriate revenue recognition as follows:

- Criterion #1—Persuasive evidence of an arrangement must exist;
- Criterion #2—Delivery has occurred;
- Criterion #3—The Company's price to the buyer must be fixed or determinable; and,
- Criterion #4—Collectibility is reasonably assured.

For multiple element arrangements, total consideration received from customers is allocated to the elements. This may include hardware and non essential software elements, based on a relative selling price. The accounting guidance establishes a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendors specific objective evidence (VSOE), (ii) third party evidence (TPE), and (iii) best estimate of selling price (ESP). Because the Company has neither VSOE nor TPE, revenue has been based on the Company's ESP. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of the sale provided all other revenue recognition criteria have been met. Amounts allocated to other deliverables based upon ESP are recognized in the period the revenue recognition criteria have been met.

Our process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Our prices are determined based upon cost to produce our products, expected order quantities and acceptance in the marketplace. In addition, when developing ESPs for products we may consider other factors as appropriate including the pricing of competitive alternatives if they exist, and product-specific business objectives.

We account for nonessential software licenses and related post contract support (PCS) under multiple element arrangements by recognizing revenue for such arrangements ratably over the term of the PCS as we have not established VSOE for the PCS element.

For the years ended December 31, 2012, 2011, and 2010, we have not recorded any significant revenues from multiple element or software arrangements.

### *Research and Development Costs*

Research and development costs are expensed as incurred.

### *Warranty Costs*

The Company accrues 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. The Company's 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 its future warranty obligations the Company considers various factors, including the historical frequency and volume of claims, and the cost to replace or repair products under warranty. The warranty provision for its products is determined by using a financial model to estimate future warranty costs. The Company's financial model takes into consideration actual product failure rates; estimated replacement, repair or

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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.

### *Income Taxes*

The Company recognizes 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. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. If the Company is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to increase its valuation allowance against its deferred tax assets which could result in an increase in the Company's effective tax rate and an adverse impact on operating results. The Company will continue to evaluate the necessity of the valuation allowance based on the remaining deferred tax assets.

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return 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. Uncertain tax positions are recognized in the first subsequent financial reporting period in which that threshold is met or from changes in circumstances such as the expiration of applicable statutes of limitations.

### *Derivatives and Hedging*

At times, the Company will enter into derivative financial instruments, consisting solely of foreign currency forward exchange contracts. The purpose of these derivative instruments is to hedge the Company's economic exposure associated with accounts receivable and cash balances denominated in Euros. The Company's forward contracts do not qualify as accounting hedges. As a result, the Company marks-to-market the forward contracts and includes unrealized gains and losses in the current period as a component of other income (expense) in the consolidated statements of operations.

### *Litigation*

The Company is currently involved in certain legal proceedings. The Company will record a loss when the Company determines information available prior to the issuance of the financial statements indicates the loss is both probable and estimable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records the minimum estimated liability related to the claim. As additional information becomes available, the Company assesses the potential liability related to the Company's pending litigation and revises its estimates, if necessary. The Company's policy is to expense litigation costs as incurred.

### *Share-Based Compensation*

The Company has granted stock options to employees and restricted stock units. The Company also has an employee stock purchase plan ("ESPP") for eligible employees. The Company measures the compensation cost

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associated with all share-based payments based on grant date fair values. The fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of our stock options and stock purchase rights. The Black-Scholes model is considered an acceptable model but the fair values generated by it may not be indicative of the actual fair values of our equity awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements as well as limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected term, risk-free interest rate and expected dividends.

For grants of stock options, the Company uses a blend of historical and implied volatility for traded options on its stock in order to estimate the expected volatility assumption required in the Black-Scholes model. The Company's use of a blended volatility estimate in computing the expected volatility assumption for stock options is based on its belief that while that implied volatility is representative of expected future volatility, the historical volatility over the expected term of the award is also an indicator of expected future volatility. Due to the short duration of employee stock purchase rights under our ESPP, the Company utilizes historical volatility in order to estimate the expected volatility assumption of the Black-Scholes model.

The expected term of stock options granted is estimated using the average of the vesting date, the contractual term and historical experience. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options and employee stock purchase rights. The dividend yield assumption is based on the Company's history and expectation of no dividend payouts. The Company estimates forfeitures at the time of grant and revises these estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates its forfeiture rate assumption for all types of share based compensation awards based historical forfeiture rates related to each category of award.

Compensation cost associated with grants of restricted stock units are measured at fair value, which has historically been the closing price of the Company's stock on the date of grant.

The Company recognizes share-based compensation expense using the straight-line method for awards that contain only service conditions. For awards that contain performance conditions, the Company recognizes the share-based compensation expense on a straight-line basis for each vesting tranche.

The Company evaluates the assumptions used to value stock awards on a quarterly basis. If factors change and the Company employs different assumptions, share-based compensation expense may differ significantly from what it has recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. To the extent that the Company grants additional equity securities to employees or it assumes unvested securities in connection with any acquisitions, its share-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions.

### *Computation of Net Income (Loss) Per Share*

The Company computes basic and diluted per share data for all periods for which a statement of operations is presented. Basic net income (loss) per share excludes dilution and is computed by dividing the net income (loss) by the weighted-average number of shares that were outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to acquire common stock were exercised or converted into common stock. Potential dilutive securities are excluded from the diluted EPS computation in loss periods as their effect would be anti-dilutive.

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### *Fair Value of Financial Instruments*

The Company's fair value measurements relate to its cash equivalents, marketable debt securities, and marketable equity securities, which are classified pursuant to authoritative guidance for fair value measurements. The Company places its cash equivalents and marketable debt securities in instruments that meet credit quality standards, as specified in its investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument.

Our financial instruments consist principally of cash and cash equivalents, short-term and long-term marketable securities, and short-term and long-term debt. The Company's cash and cash equivalents consist of its investment in money market securities and treasury bills. The Company's marketable securities consist primarily of government agency securities, municipal bonds, time deposits and investment-grade corporate bonds. From time to time, the Company may utilize foreign exchange forward contracts. These contracts are valued using pricing models that take into account the currency rates as of the balance sheet date.

### *Comprehensive Income (Loss)*

Comprehensive income (loss) consists of net earnings and unrealized gains and losses on available-for-sale securities.

### *Recent Accounting Pronouncements*

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08 "*Intangibles-Goodwill and Other (Topic 350) — Testing Goodwill for Impairment.*" ASU 2011-08 amends the previous guidance under Topic 350 which required an entity to test goodwill for impairment, on at least an annual basis, by performing the two-step goodwill impairment test described in Topic 350. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having likelihood of more than 50 percent. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company has adopted ASU 2011-08 for our financial statement results beginning January 1, 2012 and there was no material impact on the consolidated financial statements upon adoption.

In June 2011, the FASB issued ASU No. 2011-05 "*Comprehensive Income (Topic 220) — Presentation of Comprehensive Income.*" ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has adopted ASU 2011-05 and has presented comprehensive income (loss) separately in the consolidated statements of comprehensive income (loss) for the years ended 2012, 2011, and 2010.

## **2. Merger and Acquisition Activities in Prior Years**

### **Enfora**

On November 30, 2010, the Company completed the acquisition of Enfora. The acquisition of Enfora diversifies the Company's customer base and product lines into adjacent markets and advances the Company's strategy of providing intelligent devices to all end markets—enterprise, consumer and vertical applications.

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Enfora's results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning November 30, 2010. The revenue and operating results contributed by Enfora for the years ended December 31, 2012, 2011 and 2010 are disclosed in our Segment Information and Concentrations of Risk footnote (see Note 12). Acquisition costs related to the merger of Enfora of \$1.9 million were recorded and classified as general and administrative expenses in the consolidated statement of operations during the year ended December 31, 2010.

### *Acquisition consideration*

Under the terms of the acquisition agreement, the Company paid cash consideration of \$64.5 million and additional cash consideration of \$13.0 million in exchange for an agreed upon amount of Enfora working capital. The Company also agreed to pay additional cash consideration ("contingent consideration") of up to \$6.0 million based on the operating results of Enfora for the 15 month period from October 1, 2010 to December 31, 2011. The estimated fair value of this contingent consideration at the acquisition date was \$0.9 million, resulting in total estimated cash to be paid of \$78.4 million. During the quarter ended March 31, 2011, the Company revised its estimate of contingent consideration to \$0 and reflected this change as a benefit to general and administrative expenses for the quarter ended March 31, 2011. There were no changes in the fair value of the contingent consideration recorded in the nine months ended December 31, 2011 as the operating results necessary to receive payment of the contingent consideration were not achieved.

### *Fair Value of Assets Acquired and Liabilities Assumed*

The Company accounted for the transaction using the acquisition method and, accordingly, estimated the fair value of the tangible and intangible assets acquired and liabilities assumed. During the third quarter of 2011, the Company made a \$0.3 million adjustment to increase Enfora net deferred tax assets, with a corresponding dollar amount decrease to goodwill, based on completed studies of available tax benefits existing as of the date of acquisition. The total purchase price is summarized below (in thousands):

Cash and cash equivalents	\$ 4,600
Accounts receivables	7,448
Inventories	10,469
Property and equipment	1,597
Prepaid expenses and other assets	304
Accounts payable, accrued expenses and deferred taxes	(12,220)
Intangible assets	42,520
Goodwill	23,661
Purchase price	<u>\$ 78,379</u>

### **Cinterion**

In June 2010, the Company submitted a bid to purchase certain assets of Cinterion, a company in the cellular M2M communications industry, in connection with an insolvency proceeding. The Company was not the successful bidder at the conclusion of the process on June 28, 2010. In connection with the bid, the Company borrowed \$30.0 million under a bridge loan facility in June 2010 which was subsequently repaid in July 2010. The Company recognized \$3.1 million of debt issuance costs related to the bridge loan facility. This amount was recorded as interest expense in the consolidated statement of operations for the year ended December 31, 2010. The Company also realized \$1.7 million of foreign currency gain, net of hedging transaction costs, to address foreign currency risk also related to the bid. This amount was recorded in other income in the consolidated statement of operations during the year ended December 31, 2010. The Company also incurred \$1.3 million in

legal, advisory and professional fees related to the acquisition bid, which were recorded and classified as general and administrative expenses in the consolidated statement of operations during the year ended December 31, 2010.

### **3. Fair Value Measurement of Assets and Liabilities**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model.

We classify our inputs to measure fair value using a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The categorization of financial instruments within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

*Level 1:* Pricing inputs are based on quoted market prices for identical assets or liabilities in active markets (e.g., NYSE). Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2:* Pricing inputs include benchmark yields, trade data, reported trades and broker dealer quotes, two-sided markets and industry & economic events, yield to maturity, Municipal Securities Rule Making Board reported trades and vendor trading platform data. Level 2 includes those financial instruments that are valued using various pricing services and broker pricing information including Electronic Communication Networks and broker feeds.

*Level 3:* Pricing inputs include significant inputs that are generally less observable from objective sources, including the Company's own assumptions.

At December 31, 2012, the Company did not have any securities in the Level 3 category. The Company reviews the fair value hierarchy classification on a quarterly basis. We validate the quoted market prices provided by our primary pricing service by comparing their assessment of the fair values of our investments by using a third party investment manager. The third party investment manager uses similar techniques to our primary pricing service to derive the pricing describe above. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

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The following table summarizes the Company's financial instruments measured at fair value on a recurring basis in accordance with the authoritative guidance for fair value measurements as of December 31, 2012 (in thousands):

<u>Description</u>	<u>Balance as of December 31, 2012</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Assets:</b>			
Cash equivalents			
Money market funds	\$ 47	\$ 47	\$ 0
US Treasury securities	3,429	0	3,429
<b>Total cash equivalents</b>	<b>3,476</b>	<b>47</b>	<b>3,429</b>
Short-term marketable securities:			
Available-for-sale:			
Government agency securities	3,266	0	3,266
Municipal bonds	11,260	0	11,260
Certificates of deposit	6,205	0	6,205
Corporate debentures / bonds	17,333	0	17,333
<b>Total short-term marketable securities</b>	<b>38,064</b>	<b>0</b>	<b>38,064</b>
Long-term marketable securities:			
Available-for-sale:			
Certificates of deposit	1,201	0	1,201
<b>Total long-term marketable securities</b>	<b>1,201</b>	<b>0</b>	<b>1,201</b>
<b>Total financial assets</b>	<b>\$ 42,741</b>	<b>\$ 47</b>	<b>\$42,694</b>

The following table summarizes the Company's financial instruments measured at fair value on a recurring basis in accordance with the authoritative guidance for fair value measurements as of December 31, 2011 (in thousands):

<u>Description</u>	<u>Balance as of December 31, 2011</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Assets:</b>			
Cash equivalents			
Money market funds	\$ 25,137	\$25,137	\$ 0
US Treasury securities	5,784	0	5,784
<b>Total cash equivalents</b>	<b>30,921</b>	<b>25,137</b>	<b>5,784</b>
Short-term marketable securities:			
Available-for-sale:			
Government agency securities	6,912	0	6,912
Municipal bonds	8,384	0	8,384
Certificates of deposit	4,321	0	4,321
Corporate debentures / bonds	8,612	0	8,612
Marketable equity securities	38	38	0
<b>Total short-term marketable securities</b>	<b>28,267</b>	<b>38</b>	<b>28,229</b>
Long-term marketable securities:			
Available-for-sale:			
Government agency securities	3,738	0	3,738
Municipal bonds	5,969	0	5,969
Certificates of deposit	3,788	0	3,788
<b>Total long-term marketable securities</b>	<b>13,495</b>	<b>0</b>	<b>13,495</b>
<b>Total financial assets</b>	<b>\$ 72,683</b>	<b>\$25,175</b>	<b>\$47,508</b>



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There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2012 and 2011. All of our long-term marketable debt securities had maturities of between one and two years in duration at December 31, 2012.

The table below presents Level 3 activity for our contingent consideration liability for the twelve months ended December 31, 2011 (in thousands):

<u>Contingent consideration liability</u>	<u>Level 3</u>
Beginning balance at January 1, 2011	<u>\$(880)</u>
Adjustments	<u>880</u>
Ending balance at December 31, 2011	<u>\$ 0</u>

As of December 31, 2012 and 2011, the Company had no outstanding foreign currency exchange forward contracts.

For the years ended December 31, 2012, 2011 and 2010, the Company recorded gains of \$0, \$8,000, \$38,000, respectively, on its Euro-denominated foreign exchange forward contracts. During the years ended December 31, 2012, 2011 and 2010, the Company recorded foreign currency gains and losses on foreign currency denominated transactions of approximately \$51,000 loss, \$836,000 loss, \$1.7 million gain, respectively. The loss during the year ended December 31, 2012 primarily related to foreign currency losses on foreign currency denominated bank accounts. The loss during the year ended December 31, 2011 primarily related to foreign currency losses on South Korean won denominated trade payables. The gains during the year ended December 31, 2010 primarily relate to a \$2.9 million foreign currency gain realized on the liquidation of the Company's cash holdings in Euros at the conclusion of the insolvency proceeding for the sale of Cinterion net of \$1.2 million in expense to enter into several Euro-denominated put options to hedge the foreign currency risk associated with its cash holdings in Euros related to the Cinterion bid process. These put options expired unexercised on June 25, 2010.

All recorded gains and losses on foreign exchange transactions are recorded in other income (expense), net, within the consolidated statements of operations.

#### 4. Financial Statement Details

##### *Marketable Securities*

The Company's portfolio of available-for-sale securities by contractual maturity consists of the following (in thousands):

<u>December 31, 2012</u>	<u>Maturity in Years</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>Available-for-sale:</b>					
Government agency securities	1 or less	\$ 3,265	\$ 1	\$ 0	\$ 3,266
Municipal bonds	1 or less	11,246	14	0	11,260
Certificates of deposit	1 or less	6,200	5	0	6,205
Corporate debentures / bonds	1 or less	17,330	3	0	17,333
Total short-term marketable securities		<u>38,041</u>	<u>23</u>	<u>0</u>	<u>38,064</u>
<b>Available-for-sale:</b>					
Certificates of deposit	1 to 2	1,200	1	0	1,201
Total long-term marketable securities		<u>1,200</u>	<u>1</u>	<u>0</u>	<u>1,201</u>
		<u>\$ 39,241</u>	<u>\$ 24</u>	<u>\$ 0</u>	<u>\$ 39,265</u>

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<u>December 31, 2011</u>	<u>Maturity in Years</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>Available-for-sale:</b>					
Government agency securities	1 or less	\$ 6,913	\$ 0	\$ (1)	\$ 6,912
Municipal bonds	1 or less	8,390	0	(6)	8,384
Certificates of deposit	1 or less	4,319	2	0	4,321
Corporate debentures / bonds	1 or less	8,615	0	(3)	8,612
Marketable equity securities	1 or less	38	0	0	38
Total short-term marketable securities		<u>28,275</u>	<u>2</u>	<u>(10)</u>	<u>28,267</u>
<b>Available-for-sale:</b>					
Government agency securities	1 to 2	3,734	4	0	3,738
Municipal bonds	1 to 2	5,967	2	0	5,969
Certificates of deposit	1 to 2	3,797	0	(9)	3,788
Total long-term marketable securities		<u>13,498</u>	<u>6</u>	<u>(9)</u>	<u>13,495</u>
		<u>\$ 41,773</u>	<u>\$ 8</u>	<u>\$ (19)</u>	<u>\$ 41,762</u>

The Company's available-for-sale securities are carried on the consolidated balance sheet at fair market value with the related unrealized gains and losses included in accumulated other comprehensive (loss) income on the consolidated balance sheet, which is a separate component of stockholders' equity. Realized gains and losses on the sale of available-for-sale marketable securities are determined using the specific-identification method.

At December 31, 2012 and 2011, the Company recorded net unrealized gains of \$14,000, net of taxes, and net unrealized loss of \$8,000, respectively. The Company's net unrealized gains (loss) is the result of market conditions affecting its fixed-income debt securities, which are included in accumulated other comprehensive (loss) income on the consolidated balance sheet for the periods then ended.

As of December 31, 2011, the Company's investment portfolio included \$385,000 of marketable equity securities at original cost, with a fair value of \$38,000. During the years ended December 31, 2012 and 2011, the Company recorded an other-than-temporary loss of \$38,000 and \$347,000, respectively, within other income (expense), net in the consolidated statement of operations.

### *Inventories*

Inventories consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Finished goods	\$26,776	\$35,211
Raw materials and components	12,240	7,068
	<u>\$39,016</u>	<u>\$42,279</u>

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### *Property and Equipment*

Property and equipment consists of the following (in thousands):

	December 31,	
	2012	2011
Test equipment	\$ 53,368	\$ 52,311
Computer equipment and purchased software	12,310	13,766
Product tooling	2,232	3,768
Furniture and fixtures	2,219	2,240
Leasehold improvements	4,802	5,628
	74,931	77,713
Less—accumulated depreciation and amortization	(59,702)	(59,217)
	<u>\$ 15,229</u>	<u>\$ 18,496</u>

For the years ended December 31, 2012, 2011 and 2010, the Company recorded \$100,000, \$70,000 and \$167,000, respectively, in its cost of net revenues as a result of its impairment analysis of property and equipment.

Depreciation and amortization expense relating to property and equipment was \$9.4 million, \$11.1 million and \$10.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

### *Accrued Expenses*

Accrued expenses consist of the following (in thousands):

	December 31,	
	2012	2011
Royalties	\$ 4,349	\$ 5,861
Payroll and related expenses	7,788	8,706
Product warranty	2,329	1,525
Market development funds and price protection	2,147	1,750
Deferred rent	573	1,135
Professional fees	1,549	1,213
Deferred revenue	4,630	1,060
Other	4,435	3,794
	<u>\$27,800</u>	<u>\$25,044</u>

### *Accrued Warranty Obligations*

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

	2012	2011
Warranty liability at beginning of period	\$ 1,525	\$ 2,279
Additions charged to operations	6,261	2,642
Deductions from liability	(5,457)	(3,396)
Warranty liability at end of period	<u>\$ 2,329</u>	<u>\$ 1,525</u>

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### 5. Intangible Assets

The Company's amortizable purchased intangible assets resulting from its acquisition of Enfora are composed of (in thousands):

	Years ended December 31,						
	2012				2011		
	Gross	Accumulated Amortization	Impairment	Net	Gross	Accumulated Amortization	Net
Developed technologies	\$26,000	\$ (5,786)	\$ (19,547)	\$ 667	\$26,000	\$ (4,163)	\$21,837
Trade name	12,800	(2,147)	(8,582)	2,071	12,800	(1,387)	11,413
Other	3,720	(1,923)	(1,620)	177	3,720	(1,609)	2,111
Total amortizable purchased intangible assets	<u>\$42,520</u>	<u>\$ (9,856)</u>	<u>\$ (29,749)</u>	<u>\$2,915</u>	<u>\$42,520</u>	<u>\$ (7,159)</u>	<u>\$35,361</u>

The following table presents details of the amortization of purchased intangible assets of Enfora included in the cost of net revenues and operating costs and expenses categories (in thousands):

	Years ended December 31,	
	2012	2011
Cost of net revenues	\$ 1,623	\$ 4,102
General and administrative expenses	1,074	2,220
Total amortization expense	<u>\$ 2,697</u>	<u>\$ 6,322</u>

The following table presents details of the amortization of existing amortizable purchased intangible assets of Enfora that is currently estimated to be expensed in the future (in thousands):

<u>Fiscal year:</u>	<u>Amount</u>
2013	\$ 896
2014	895
2015	562
2016	562
Total	<u>\$2,915</u>

Additionally, at December 31, 2012 and 2011, the Company had net acquired software licenses of \$248,000 and \$341,000, respectively, net of accumulated amortization of \$2.1 million and \$3.7 million, respectively. The acquired software licenses represent rights to use certain software necessary for the development and commercial sale of the Company's products.

The Company monitors its intangible and long-lived asset balances and conducts formal tests when impairment indicators are present (see Note 6 for a discussion of the impairment indicators). During the quarter ended March 31, 2012, the Company recorded an impairment loss of \$22.8 million related to a decrease in the estimated fair values of the purchased intangible assets fair values. At September 30, 2012, the Company recorded a further preliminary impairment loss of \$7.3 million related to the continued decrease in the estimated fair values of the purchased intangible assets. During the fourth quarter of 2012, the Company completed the impairment analysis and reduced the third quarter impairment by \$300,000. The Company recorded \$133,000 of impairment loss related to acquired software licenses during the year ended December 31, 2011. There was no impairment loss recorded for the year ended December 31, 2010.

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Amortization expense relating to acquired software licenses was \$196,000, \$422,000 and \$744,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense related to licenses obtained for research purposes is recorded within research and development expense in the consolidated statements of operations. Amortization expense related to licenses obtained for commercial products is recorded in cost of net revenues in the consolidated statements of operations.

At December 31, 2012, the weighted average remaining useful life of the Company's long-lived intangible assets including acquired software licenses is 3.0 years.

### 6. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	M2M Products and Solutions	
	2012	2011
Balance at January 1,	\$ 19,772	\$ 22,258
Goodwill acquisition price adjustments, net of tax	0	791
Goodwill impairment during the period	(19,772)	(3,277)
Balance at December 31,	<u>\$ 0</u>	<u>\$ 19,772</u>

During the third quarter of 2012, the first quarter of 2012 and the third quarter of 2011, based on actual operating results, and reductions in management's then estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to updated views of competitive pressures impacting average selling prices, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis during the respective impacted quarters.

Based upon fair value tests performed with the assistance of third party independent appraisals, during the third quarter of 2012, the first quarter of 2012 and the third quarter of 2011, the Company recorded pre-tax goodwill impairment charges of \$13.2 million, \$6.5 million and \$3.3 million, respectively.

The Company used the third party independent appraisal report from the third quarter of 2012 to assist it with its annual impairment analysis.

### 7. Earnings Per Share

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

For the years ended December 31, 2012, 2011 and 2010, basic and diluted weighted-average common shares outstanding were 32,852,000, 32,043,000 and 31,494,000, respectively.

Weighted average options, restricted stock units and ESPP shares to acquire a total of 5,793,000 shares, 4,657,000 shares and 3,675,000 shares of common stock for the years ended December 31, 2012, 2011 and 2010, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

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### 8. Stockholders' Equity

#### *Preferred Stock*

The Company has a total of 2,000,000 shares of Series A and Series B preferred stock authorized for issuance at a par value of \$0.001 per share. No preferred shares are currently issued or outstanding.

#### *Common Shares Reserved for Future Issuance*

The Company has reserved shares of common stock for possible future issuance as of December 31, 2012 and 2011 as follows (in thousands):

	Shares	
	2012	2011
Stock options outstanding under the 2009 Omnibus Incentive Compensation Plan and previous plans	4,282	4,481
Restricted stock units outstanding	1,662	1,289
Future grants of awards under the 2009 Omnibus Incentive Compensation Plan	702	1,493
Shares available under the Employee Stock Purchase Plan	0	1,087
Total shares of common stock reserved for issuance	<u>6,646</u>	<u>8,350</u>

### 9. Stock Incentive and Employee Stock Purchase Plans

During the year ended December 31, 2012, the Company granted awards under the 2009 Omnibus Incentive Compensation Plan (the "2009 Plan"). The Compensation Committee of the Board of Directors administers the plan.

Under the 2009 Plan, a maximum of 2.5 million shares of common stock may be issued upon the exercise of stock options, in the form of restricted stock, or in settlement of restricted stock units or other awards, including awards with alternative vesting schedules such as performance-based criteria.

For the years ended December 31, 2012, 2011 and 2010, the following table presents total share-based compensation expense in each functional line item on our consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Cost of revenues	\$ 747	\$ 579	\$ 645
Research and development	3,042	2,088	2,368
Sales and marketing	1,403	1,254	1,164
General and administrative	2,308	2,062	2,294
Totals	<u>\$7,500</u>	<u>\$5,983</u>	<u>\$6,471</u>

The per share fair values of stock options granted under the 2009 Plan and rights granted under the ESPP have been estimated with the following assumptions.

	Employee Stock Options			Employee Stock Purchase Rights		
	2012	2011	2010	2012	2011	2010
Expected dividend yield:	0%	0%	0%	0%	0%	0%
Risk-free interest rate:	0.9%	1.2%	2.2%	0.2%	0.2%	0.5%
Volatility:	63%	69%	53%	68%	63%	60%
Expected term (in years):	6.0	6.0	5.8	1.3	1.1	1.3

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### *Stock Options*

The Compensation Committee of the Board of Directors determines eligibility, vesting schedules and exercise prices for options granted. Options granted under the 2009 Plan and previous plans generally have a term of ten years, and in the case of new hires, generally vest and become exercisable at the rate of 25% after one year and ratably on a monthly basis over a period of 36 months thereafter. Subsequent option grants to existing employees generally vest and become exercisable over a period of 36 months measured from the date of grant.

A summary of stock option activity for the year ended December 31, 2012 is presented below (dollars and shares in thousands, except per share data):

	<u>Stock Options Outstanding</u>	<u>Weighted Average Exercise Price Per Option</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding December 31, 2011	4,481	\$ 10.58		
Granted	176	\$ 3.44		
Exercised	0	\$ 0.00		
Cancelled	(375)	\$ 10.99		
Balance December 31, 2012	<u>4,282</u>	\$ 10.25	4.27	\$ 0
Options Exercisable, December 31, 2012	<u>3,839</u>	\$ 10.80	3.90	\$ 0

The total intrinsic value of options exercised to purchase common stock during the years ended December 31, 2012, 2011 and 2010 was approximately \$0, \$28,000 and \$364,000, respectively. As of December 31, 2012, total unrecognized share-based compensation cost related to unvested stock options was \$1.4 million, which is expected to be recognized over a weighted average period of approximately 1.6 years. The total fair value of option awards recognized as expense during the years ended December 31, 2012, 2011 and 2010 was approximately \$1.7 million, \$2.7 million and \$3.5 million, respectively. The weighted average fair value of option awards granted during years ended December 31, 2012, 2011 and 2010 was \$1.97, \$3.40 and \$3.62, respectively.

### *Restricted Stock Units*

The Company may issue restricted stock units (“RSUs”) that, upon satisfaction of vesting conditions, allow for employees and non-employee directors to receive common stock. Issuances of such awards reduce common stock available under the 2009 Plan for stock incentive awards. The Company measures compensation cost associated with grants of RSUs at fair value, which is generally the closing price of the Company’s stock on the date of grant.

During 2012, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 1,015,638 RSUs at fair values ranging from \$1.28 per share to \$3.58 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company’s common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately \$3.4 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

During 2011, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 903,214 RSUs at fair values ranging from \$3.06 per share to \$9.71 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company’s common

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stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately \$4.9 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

During 2010, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 620,236 RSUs, including 235,900 RSUs to Enfora employees in connection with the acquisition (the “Enfora RSUs”), at fair values ranging from \$6.95 per share to \$9.76 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. However, one-fourth of the shares underlying each grant of the Enfora RSUs become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company’s common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately \$5.0 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

A summary of restricted stock unit activity for the year ended December 31, 2012 is presented below (shares in thousands):

	<u>Shares</u>
Non-vested at December 31, 2011	1,289
Granted	1,016
Vested	(461)
Forfeited	(182)
Non-vested at December 31, 2012	<u>1,662</u>

As of December 31, 2012, there was \$6.2 million of unrecognized compensation expense related to non-vested RSUs. That expense is expected to be recognized over a weighted average period of 1.6 years. The total fair value of RSUs recognized as expense during the years ended December 31, 2012, 2011 and 2010 was \$3.4 million, \$2.6 million and \$1.7 million, respectively.

### **2000 Employee Stock Purchase Plan**

The Company’s 2000 Employee Stock Purchase Plan (the “ESPP”) permits eligible employees of the Company to purchase newly issued shares of common stock, at a price equal to 85% of the lower of the fair market value on (i) the first day of the offering period or (ii) the last day of each six-month purchase period, through payroll deductions of up to 10% of their annual cash compensation.

During the years ended December 31, 2012, 2011 and 2010, the Company issued 1,086,837 shares, 163,142 shares and 514,540 shares, respectively, under the ESPP. During the years ended December 31, 2012, 2011 and 2010, the Company received \$1.6 million, \$470,000 and \$1.7 million, respectively, in cash through employee withholdings.

On November 4, 2010, the Company announced the termination of the ESPP as of November 15, 2010 due to a lack of available shares. The cancellation of the awards was accounted for as a repurchase for no consideration. The previously unrecognized compensation cost as of November 15, 2010 of \$316,000 was fully expensed in the fourth quarter of 2010. The Company reinstated the ESPP program effective as of September 8, 2011. The reinstated ESPP authorized the Company to issue 1,250,111 shares of common stock for purchase by eligible employees.

On October 22, 2012, the Company announced the termination of the ESPP as of November 15, 2012 due to a lack of available shares. The cancellation of the awards was accounted for as a repurchase for no consideration. The previously unrecognized compensation cost as of November 15, 2012 of \$1.0 million was fully expensed in the fourth quarter of 2012.



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The total fair value of ESPP awards recognized as expense during the years ended December 31, 2012, 2011 and 2010 was \$1.4 million, \$707,000 and \$994,000, respectively.

### 10. Income Taxes

Total income taxes for the years ended December 31, 2012, 2011 and 2010 were allocated as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
To income	\$611	\$(9,503)	\$7,893
To stockholders' equity	10	240	277
Total income taxes	<u>\$621</u>	<u>\$(9,263)</u>	<u>\$8,170</u>

Income (loss) before taxes for the years ended December 31, 2012, 2011 and 2010 is comprised of the following (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Domestic	\$(88,945)	\$(36,091)	\$(27,091)
Foreign	290	1,696	1,534
Income (loss) before taxes	<u>\$(88,655)</u>	<u>\$(34,395)</u>	<u>\$(25,557)</u>

The provision (benefit) for income taxes for the years ended December 31, 2012, 2011 and 2010 is comprised of the following (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Current:			
Federal	\$ 0	\$(10,786)	\$(3,602)
State	29	0	11
Foreign	74	84	43
Total Current	<u>103</u>	<u>(10,702)</u>	<u>(3,548)</u>
Deferred:			
Federal	14	(114)	9,882
State	0	0	789
Foreign	494	1,313	770
Total Deferred	<u>508</u>	<u>1,199</u>	<u>11,441</u>
Provision (benefit) for income taxes	<u>\$611</u>	<u>\$(9,503)</u>	<u>\$7,893</u>

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The Company's deferred tax assets consist of the following (in thousands):

	December 31,	
	2012	2011
Deferred tax assets:		
Accrued expenses	\$ 6,271	\$ 4,941
Inventory obsolescence provision	1,992	1,647
Depreciation and amortization	6,680	4,626
Deferred rent	892	409
Net operating loss and tax credit carryforwards	42,994	32,569
Stock-based compensation	6,069	5,662
Unrecognized tax benefits	613	439
Deferred tax assets	<u>65,511</u>	<u>50,293</u>
Deferred tax liabilities:		
Amortization of acquired intangibles	(1,016)	(12,777)
Net deferred tax assets	64,495	37,516
Valuation allowance	(63,881)	(36,395)
Net deferred tax assets	<u>\$ 614</u>	<u>\$ 1,121</u>

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

The Company assesses whether a valuation allowance should be recorded against its deferred tax assets based on the consideration of all available evidence, using a "more likely than not" realization standard. The four sources of taxable income that must be considered in determining whether deferred tax assets will be realized are: (1) future reversals of existing taxable temporary differences (i.e., offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the applicable tax law; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

After a review of the four sources of taxable income described above and after being in a three year cumulative loss position at the end of 2010, the Company recognized a full valuation allowance of \$14.8 million related to its U.S.-based deferred taxes created prior to 2010, and recognized a full valuation allowance of \$3.1 million related to its U.S.-based deferred tax assets created in 2010.

During 2011 and 2012, the Company recognized full valuation allowances of \$14.6 million and \$27.5 million, related to its U.S.-based and Canadian deferred tax assets created in those respective years. As a result, no net income tax benefits resulted in the Company's statements for operations from the operating losses created during those years.

At December 31, 2012, the deferred tax asset valuation allowance consisted of \$58.9 million relating to the Company's domestic deferred tax assets and \$5.0 million related to the Company's Canadian deferred tax assets. At December 31, 2011, the valuation allowance consisted of \$32.1 million relating to the Company's domestic deferred tax assets and \$4.3 million related to the Company's Canadian deferred tax assets.

The net unreserved portion of the Company's remaining deferred tax assets of \$614,000 at December 31, 2012 primarily related to research and development tax credits associated with the Company's Canadian subsidiary.

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The provision (benefit) for income taxes reconciles to the amount computed by applying the statutory federal income tax rate of 34% in 2012, 2011 and 2010 to income before provision for income taxes as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Federal tax benefit, at statutory rate	\$ (30,142)	\$ (11,694)	\$ (8,690)
State benefit, net of federal benefit	(757)	(733)	(509)
Change in valuation allowance—current year	27,486	14,612	7,888
Change in valuation allowance—prior year deferreds	0	0	14,840
Tax expense/(benefit) from business combination	0	909	(4,838)
Research and development credits	(856)	(1,731)	(2,044)
Share-based compensation	1,616	526	917
Merger fees	0	0	674
Uncertain tax positions	(46)	(11,809)	322
Goodwill impairment	3,700	596	0
Other	(390)	(179)	(667)
	<u>\$ 611</u>	<u>\$ (9,503)</u>	<u>\$ 7,893</u>

At December 31, 2012, the Company has U.S. federal net operating loss carryforwards of approximately \$91.2 million. Federal net operating loss carryforwards expire at various dates from 2026 through 2032. The Company has California net operating loss carryforwards of approximately \$26.4 million, which expire at various dates from 2014 through 2033. The Company has California research and development tax credit carryforwards of approximately \$6.1 million. The California tax credits have no expiration date. The Company also has federal research and development tax credit carryforwards of approximately \$3.0 million. The federal tax credits expire at various dates from 2027 through 2031.

It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes on United States income taxes which may become payable if undistributed earnings of the foreign subsidiary were paid as dividends to the Company.

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return 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. During the years ended December 31, 2012 and 2011, the Company recognized approximately \$50,000 and \$9.5 million, respectively, of income tax benefit plus \$5,000 and \$2.3 million, respectively, of associated interest due to expiration of the applicable statutes of limitations applicable to certain tax years. As of December 31, 2012 and 2011, the total liability for unrecognized tax benefits was \$0.4 million and \$0.4 million, respectively, and is included in other long-term liabilities.

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

	<u>Amount</u>
Unrecognized tax benefits balance at December 31, 2009	\$41,135
Increases related to current and prior year tax positions	251
Settlements and lapses in statutes of limitations	0
Unrecognized tax benefits balance at December 31, 2010	41,386
Increases related to current and prior year tax positions	899
Settlements and lapses in statutes of limitations	(9,490)
Unrecognized tax benefits balance at December 31, 2011	32,795
Increases related to current and prior year tax positions	475
Settlements and lapses in statutes of limitations	(50)
Unrecognized tax benefits balance at December 31, 2012	<u>\$33,220</u>

Included in the balances of unrecognized tax benefits at December 31, 2012 are \$0.1 million of tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2012 and 2011, the Company recorded approximately \$0.2 million and \$0.2 million, respectively, of accrued interest related to uncertain tax positions.

In the fourth quarter of 2013, the Company expects to release \$71,000 of its liability for unrecognized tax benefits due to the expiration of the statute of limitations applicable to the 2008 taxable year.

The Company and its subsidiaries file U.S., state, and foreign income tax returns in jurisdictions with various statutes of limitations. The California Franchise Tax Board is currently conducting an examination of the Company's California income tax returns for 2006 and 2007. The Company is also subject to various federal income tax examinations for the 2003 through 2011 calendar years due to the availability of net operating loss carryforwards. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years. However, because audit outcomes and the timing of audit settlements are subject to significant uncertainty, the Company's current estimate of the total amounts of unrecognized tax benefits could increase or decrease for all open years.

## **11. Commitments and Contingencies**

### *Capital Leases*

The Company did not purchase equipment under capital leases during the year ended December 31, 2012 or 2011. At December 31, 2012 and 2011, assets held under capital leases had a net book value of \$0 and \$52,000, respectively, net of accumulated amortization of \$510,000 and \$458,000, respectively. The present value of the net minimum lease payments as of December 31, 2012 is \$0.

### *Operating Leases*

The Company leases its office space and certain equipment under non-cancelable operating leases with various terms through 2017. The minimum annual rent on the Company's office space is subject to increases based on stated rental adjustment terms, property taxes and operating costs and contains rent concessions. For financial reporting purposes, rent expense is recognized on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as deferred rent. Rental expense under operating leases in 2012, 2011 and 2010 was \$4.5 million, \$4.7 million and \$3.5 million, respectively. The Company's office space lease contains incentives in the form of reimbursement from the landlord for a portion of the costs of leasehold improvements incurred by the Company which are recorded to rent expense on a straight-line basis over the term of the lease.

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The minimum future lease payments under non-cancelable operating leases as of December 31, 2012 are as follows (in thousands):

<u>For the Period Ending December 31,</u>	<u>Amount</u>
2013	\$ 3,613
2014	3,664
2015	2,930
2016	2,899
2017	356
Total minimum lease payments	<u>\$13,462</u>

### *Committed Purchase Orders*

The Company has entered into purchase commitments totaling approximately \$103.3 million with certain contract manufacturers under which the Company has committed to buy a minimum amount of designated products between January 2013 and December 2013. In certain of these agreements, the Company may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

### *Management Retention Agreements*

During 2004 and 2005, the Company entered into management retention agreements with certain of the Company's executive officers. The agreements entitle those employees to enumerated severance benefits if, within the one year period immediately following a change of control (as defined in the agreement) or at the direction of an acquirer in anticipation of such an event, the Company terminates the employee's employment other than for cause or disability or the employee terminates his or her employment for good reason. These severance benefits would include a lump sum payment of three times the sum of the employee's annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, accelerated vesting of the employee's stock incentive awards, a tax equalization payment to eliminate the effects of any applicable excise tax and financial planning and outplacement services.

In November 2007, the Company entered into an employment agreement with the Company's Chief Executive Officer, with an initial term of three years. Under the agreement, Mr. Leparulo will continue to serve as Chairman of the Board and as the Company's most senior officer. The agreement entitles Mr. Leparulo to enumerated severance benefits under various circumstances if Mr. Leparulo's employment with the Company is terminated. These enumerated severance benefits vary according to whether (a) Mr. Leparulo's employment with the Company is terminated within the one year period immediately following a change in control (as defined in the agreement) or at the direction of an acquirer in anticipation of such an event; (b) the Company terminates his employment other than for cause or he terminates his employment for good reason; or (c) the Company terminates his employment for cause or he terminates his employment for other than good reason. Depending on the cause of the employment termination, the enumerated severance benefits include a lump sum payment ranging from one to three years annual base salary then in effect, an additional lump sum bonus payment representing certain multiples of his targeted bonus, and varying periods of ongoing employee benefits including health care and outplacement services.

During 2010, the Company entered into management retention agreements with certain of the Company's executive officers. The agreements entitle those employees to enumerated severance benefits if, within the two year period immediately following a change of control (as defined in the agreement), the Company terminates the employee's employment other than for cause or disability or the employee terminates his or her employment for good reason. These severance benefits would include a lump sum payment of three times the sum of the employee's annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, accelerated vesting of the employee's stock incentive awards and financial planning and outplacement services. The agreements do not provide for any additional payments by the Company for excise or other taxes.

*Legal Matters and Indemnification*

The Company is, from time to time, party to various legal proceedings arising in the ordinary course of business. For example, the Company is currently named as a defendant or co-defendant in a number of patent infringement lawsuits in the U.S. and is indirectly participating in other U.S. patent infringement actions pursuant to its contractual indemnification obligations to certain customers. Based on evaluation of these matters and discussions with Company's intellectual property litigation 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 its consolidated results of operations or financial condition.

On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California on behalf of persons who allegedly purchased our stock between February 5, 2007 and August 19, 2008. On December 11, 2008, these lawsuits were consolidated into a single action entitled *Backe v. Novatel Wireless, Inc., et al.*, Case No. 08-CV-01689-H (RBB) (Consolidated with Case No. 08-CV-01714-H (RBB)) (U.S.D.C., S.D. Cal.). In May 2010, the district court re-captioned the case *In re Novatel Wireless Securities Litigation*. The plaintiffs filed the consolidated complaint on behalf of persons who allegedly purchased our stock between February 27, 2007 and November 10, 2008. The consolidated complaint names the Company and certain of our current and former officers as defendants. The consolidated complaint alleges generally that we issued materially false and misleading statements during the relevant time period regarding the strength of our products and market share, our financial results and our internal controls. The plaintiffs are seeking an unspecified amount of damages and costs. The court has denied defendants' motions to dismiss. In May 2010, the court entered an order granting the plaintiffs' motion for class certification and certified a class of purchasers of Company common stock between February 27, 2007 and September 15, 2008. On February 14, 2011, following extensive discovery, the Company filed a motion for summary judgment on all of plaintiffs' claims. A trial date had been set for May 10, 2011. On March 15, 2011, the case was reassigned to a new district judge, the Honorable Anthony J. Battaglia. Following the reassignment, the court vacated the trial date pending the court's consideration of dispositive motions. Oral argument on the motion for summary judgment was heard by the court on June 17, 2011. On November 23, 2011, the court issued an order granting in part and denying in part the motion for summary judgment. On July 9, 2012, the court vacated the pretrial conference date. On December 14, 2012, the court issued an order denying defendants' motion to exclude the testimony of plaintiffs' loss causation expert. The court set a pretrial conference for March 8, 2013 and a trial date of June 3, 2013. On February 7, 2013, the court reconsidered its December 14, 2012 order and granted defendants' motion to exclude plaintiffs' expert on loss causation. The court, however, gave plaintiffs the opportunity to provide a new report from the expert seeking to cure the deficiencies in the expert's testimony. The court provided a schedule for the cure process and ordered plaintiffs to bear the burden of defendants' expenses incurred in this process. The court also reset the pretrial conference for August 22, 2013 and a trial date of November 18, 2013. The Company intends to defend this litigation vigorously. At this time, there can be no assurance as to the ultimate outcome of this litigation. We have not recorded any significant accruals for contingent liabilities associated with this matter based on our belief that a liability, while possible, is not probable. Further, any possible range of loss cannot be estimated at this time.

In the normal course of business, the Company periodically enters into agreements that require the Company to indemnify and defend its customers for, among other things, claims alleging that the Company's products infringe third-party patents or other intellectual property rights. The Company's maximum exposure under these indemnification provisions cannot be estimated but the Company does not believe that there are any matters individually or collectively that would have a material adverse effect on its financial condition, results of operation or cash flows.

The Company has accrued \$645,000 as of December 31, 2012 related to our best estimate of potential settlements on legal and indemnification matters for which we have deemed the outcome to be probable.

*Credit Facility*

The Company has a credit facility with a bank to allow margin borrowings based on the Company's investments in cash equivalents and marketable securities held with the bank. This facility is collateralized by the Company's cash equivalents and marketable securities held with the bank. Borrowings under the facility incur an interest rate at the bank's base rate plus 1%. This margin account facility provides the Company with the flexibility to access cash for short periods of time and avoids the need to sell marketable securities for these short-term requirements. At December 31, 2012, the Company had approximately \$20.1 million in cash equivalents and marketable securities held at this bank, and the Company's borrowing limit at December 31, 2012 under the credit facility was \$6.8 million. Any monies borrowed and interest incurred are payable on demand, and there is no express expiration date to the credit facility. During three months ended September 30, 2011, the Company borrowed \$12.0 million and repaid the entire amount during the same period. During the three months ended September 30, 2012, the Company borrowed \$5.0 million and repaid the entire amount during the same period. During three months ended December 31, 2012, the Company borrowed \$9.0 million against the facility and repaid the entire amount during the same period. As of December 31, 2012, the Company had no outstanding borrowings under the credit facility.

**12. Segment Information and Concentrations of Risk***Segment Information*

The Company operates in the wireless broadband technology industry and senior management makes decisions about allocating resources based on the following reportable segments:

Mobile Computing Products segment—includes our MiFi products, USB and PC-card modems and Embedded Modules that enable data transmission and services via cellular wireless networks. All products within the segment represent a single product family.

M2M Products and Solutions segment was established as a result of our acquisition of Enfora in 2010. It includes our intelligent asset-management solutions utilizing cellular wireless technology, and M2M communication devices, and embedded modules that enable M2M data transmission and services via cellular wireless networks.

Segment net revenues and segment operating income (loss) represent the primary financial measures used by senior management to assess performance and include the net revenues, cost of net revenues, sales and other operating expenses for which management is held accountable. Segment operating expenses include sales and marketing, research and development, general and administration, and amortization expenses that are directly related to individual segments. Segment earnings (loss) also includes acquisition-related costs, purchase price amortization, impairment charges, restructuring and integration costs.

The table below presents net revenues from external customers, operating income (loss) and identifiable assets for our reportable segments (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net revenues:			
Mobile Computing Products	\$312,508	\$358,106	\$332,464
M2M Products and Solutions	31,780	44,756	6,478
Total	<u>\$344,288</u>	<u>\$402,862</u>	<u>\$338,942</u>
Operating income (loss) :			
Mobile Computing Products	\$ (22,924)	\$ (13,764)	\$ (23,027)
M2M Products and Solutions	(65,819)	(19,963)	(1,975)
Total	<u>\$ (88,743)</u>	<u>\$ (33,727)</u>	<u>\$ (25,002)</u>

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	Year Ended December 31,	
	2012	2011
Identifiable assets:		
Mobile Computing Products	\$ 141,045	\$ 181,180
M2M Products and Solutions	20,486	67,999
Total	<u>\$ 161,531</u>	<u>\$ 249,179</u>

The Company has operations in the United States, Canada, Europe, Latin America and Asia. The following table details the geographic concentration of the Company's assets in the United States, Canada, Europe, Latin America and Asia (in thousands):

	Year Ended December 31,	
	2012	2011
United States	\$ 157,661	\$ 243,030
Canada	2,836	4,764
Europe, Latin America and Asia	1,034	1,385
	<u>\$ 161,531</u>	<u>\$ 249,179</u>

The following table details the Company's concentration of net revenues by geographic region based on shipping destination:

	Year Ended December 31,		
	2012	2011	2010
United States and Canada	93.1%	93.5%	95.0%
Latin America	2.4	0.0	0.0
Europe, Middle East and Africa	4.1	4.0	4.7
Asia and Australia	0.4	2.5	0.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### *Concentrations of Risk*

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

A significant portion of the Company's net revenues come from a small number of customers. One customer accounted for 57.5% of 2012 net revenues. Two customers accounted for 50.8% and 13.1% of 2011 net revenues. Two customers accounted for 55.7% and 21.8% of 2010 net revenues. All significant customers are included in the Company's Mobile Computing Products segment.

A significant portion of the Company's accounts receivables comes from a small number of customers. At December 31, 2012, the Company had three customers who accounted for 20.7%, 18.5% and 11.5% of total accounts receivable. At December 31, 2011, the Company had two customers who accounted for 46.5% and 19.8% of total accounts receivable.

The Company outsources its manufacturing to several third-party manufacturers. If they 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 net revenues and results of operations.



[Table of Contents](#)**13. Retirement Savings Plan**

The Company has a defined contribution 401(K) retirement savings plan (the "Plan"). Substantially all of the Company's U.S. employees are eligible to participate in the Plan after meeting certain minimum age and service requirements. Employees may make discretionary contributions to the Plan subject to Internal Revenue Service limitations. Employer matching contributions under the plan amounted to approximately \$1.2 million, \$1.1 million and \$1.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. Employer matching contributions vest over a two-year period. The Company has a registered retirement savings plan for its Canadian employees. Substantially all of the Company's Canadian employees are eligible to participate in this plan. Employees make discretionary contributions to the plan subject to local limitations. Employer contributions to the Canadian plan amounted to approximately \$232,000, \$280,000 and \$236,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

**14. Quarterly Financial Information (Unaudited)**

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2012 and 2011.

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share amounts)			
<b>2012:</b>				
Net revenues	\$ 100,150	\$ 102,446	\$ 71,017	\$ 70,675
Gross profit	20,988	23,251	14,646	13,558
Net loss applicable to common stockholders	(37,921)	(4,500)	(31,933)	(14,912)
Basic and diluted net loss per common share	(1.17)	(0.14)	(0.97)	(0.44)
<b>2011:</b>				
Net revenues	\$ 61,784	\$ 118,021	\$ 113,263	\$ 109,794
Gross profit	5,994	26,182	26,690	25,726
Net loss applicable to common stockholders	(22,088)	(3,898)	4,498	(3,404)
Basic and diluted net loss per common share	(0.69)	(0.12)	0.14	(0.11)

## SCHEDULE II

## NOVATEL WIRELESS, INC.

**Valuation and Qualifying Accounts**  
**For the Years Ended December 31, 2012, 2011 and 2010 (in thousands):**

	<u>Balance At Beginning of Year</u>	<u>Additions Charged to Operations</u>	<u>Deductions From Reserves</u>	<u>Balance At End of Year</u>
<b>Allowance for Doubtful Accounts:</b>				
December 31, 2012	\$ 245	\$ 439	\$ 57	\$ 627
December 31, 2011	228	41	24	245
December 31, 2010	741	141	654	228
<b>Warranty:</b>				
December 31, 2012	1,525	6,261	5,457	2,329
December 31, 2011	2,279	2,642	3,396	1,525
December 31, 2010	3,039	1,350	2,110	2,279
<b>Deferred Tax Asset Valuation Allowance:</b>				
December 31, 2012	36,395	27,486	0	63,881
December 31, 2011	21,783	14,612	0	36,395
December 31, 2010	3,897	22,724	4,838	21,783
<b>Sales Returns Allowance:</b>				
December 31, 2012	545	497	131	911
December 31, 2011	346	911	712	545
December 31, 2010	303	188	145	346

**EXHIBIT INDEX**

The following Exhibits are filed as part of, or incorporated by reference into, this Report on Form 10-K:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
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 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 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	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).
3.5	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).
3.6	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).
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 July 28, 2000, as amended).
4.2	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).
4.3	Registration Rights Agreement, dated as of March 12, 2003, 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).
4.4	Registration Rights Agreement, dated as of January 13, 2004, 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).
10.1*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.2*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.3*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).

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<u>Exhibit Number</u>	<u>Description</u>
10.4*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.5*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.6*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.7*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.8*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2 2011).
10.9*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.10*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.11*	Form of Indemnification Agreement by and between the Company and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009, filed November 2, 2009).
10.12*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.13*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.14*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed May 2, 2011).
10.15*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.16*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010).
10.17	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.18	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
21**	Subsidiaries of Novatel Wireless, Inc.
23.1**	Consent of Independent Registered Public Accounting Firm.

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<u>Exhibit Number</u>	<u>Description</u>
24	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.

\* Management contract, compensatory plan, or arrangement

\*\* Filed herewith

**List of Subsidiaries**

<b>Subsidiaries of Novatel Wireless, Inc.</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>	<b>Name Under Which Subsidiary Does Business</b>
Novatel Wireless Technologies, Ltd.	Alberta, Canada	Novatel Wireless Technologies, Ltd.
Enfora, Inc.	Delaware	Enfora, Inc.
Novatel Wireless Solutions, Inc.	Delaware	Novatel Wireless Solutions, Inc.

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statement (Form S-8 No. 333-176490) pertaining to the Amended and Restated 2000 Employee Stock Purchase Plan;
- 2) Registration Statement (Form S-8 No. 333-176489) pertaining to the 2009 Omnibus Incentive Compensation Plan;
- 3) Registration Statement (Form S-8 No. 333-163033) pertaining to the 2009 Omnibus Incentive Compensation Plan;
- 4) Registration Statement (Form S-8 No. 333-163032) pertaining to 2000 Employee Stock Purchase Plan;
- 5) Registration Statement (Form S-8 No. 333-145482) pertaining to 2000 Stock Incentive Plan and 2000 Employee Stock Purchase Plan;
- 6) Registration Statement (Form S-8 No. 333-53692) pertaining to 2000 Stock Incentive Plan, 2000 Employee Stock Purchase Plan and 1997 Stock Incentive Plan;
- 7) Registration Statement (Form S-3 No. 333-162020) and related prospectus pertaining to the registration of \$125,000,000 of debt securities, common stock, preferred stock, subscription rights, depositary shares, warrants, purchase contracts and units;

of our reports dated March 1, 2013, with respect to the consolidated financial statements and schedule of Novatel Wireless, Inc., and the effectiveness of internal control over financial reporting of Novatel Wireless, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

San Diego, California  
March 1, 2013

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

I, Peter Leparulo, certify that:

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

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

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

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

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

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

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

Date: March 1, 2013

/s/ PETER LEPARULO

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Chairman and Chief Executive Officer



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

I, Kenneth Leddon, certify that:

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

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

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

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

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

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

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

Date: March 1, 2013

/s/ KENNETH LEDDON

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Senior Vice President and Chief Financial Officer

**CERTIFICATIONS**

In connection of this Annual report on Form 10-K of Novatel Wireless, Inc. (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter Leparulo, Chairman and Chief Executive Officer of the Company, 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. Section 1350) that, to the best of his knowledge:

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

Date: March 1, 2013

/s/ PETER LEPARULO

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**Peter Leparulo**  
Chairman and Chief Executive Officer

**CERTIFICATIONS**

In connection of this Annual report on Form 10-K of Novatel Wireless, Inc. (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth Leddon, Senior Vice President and Chief Financial Officer of the Company, 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. Section 1350) that, to the best of his knowledge:

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

Date: March 1, 2013

/s/ KENNETH LEDDON

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**Kenneth Leddon**  
Senior Vice President and Chief Financial Officer