

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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2010

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

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**NOVATEL WIRELESS, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

**92121**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (858) 812-3400**

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 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.

Large accelerated filer ☐

Accelerated filer ☒

Non-Accelerated filer ☐  
(Do not check if a smaller  
reporting company)

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 number of shares of the registrant's common stock outstanding as of May 6, 2010 was 31,256,790.

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

### **Forward-Looking Statements**

This report contains forward-looking statements 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:

- the impact of uncertain global economic conditions on the demand for our products;
- our ability to compete in the market for wireless broadband data access products;
- our ability to introduce and sell new products that comply with evolving industry standards, including 3G and emerging 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 outcome of pending or future litigation, including the current class action securities litigation and intellectual property litigation;
- 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 manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development of our products;
- risks associated with doing business abroad, including foreign currency risks; 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 our Annual Report on Form 10-K for the year ended December 31, 2009. 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.

### **Trademarks**

“Novatel Wireless”, the Novatel Wireless logo, “MiFi”, “MiFi Intelligent Mobile Hotspot”, “MobiLink”, “Ovation,” “Expedite”, “MiFi.Freedom.My Way”, “Conversa”, “TotalMobileInternet”, “NovaSpeed”, “NovaCore” and “NovaDrive” are trademarks of Novatel Wireless, Inc. Other trademarks, trade names or service marks used in this report are the property of their respective owners.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

|                                                                                                                                                                  | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                                                                                                                  | <b>Unaudited</b>          |                              |
| <b>ASSETS</b>                                                                                                                                                    |                           |                              |
| Current assets:                                                                                                                                                  |                           |                              |
| Cash and cash equivalents                                                                                                                                        | \$ 86,064                 | \$ 100,025                   |
| Marketable securities                                                                                                                                            | 53,415                    | 27,664                       |
| Accounts receivable, net of allowance for doubtful accounts of \$63 at March 31, 2010 and \$741 at December 31, 2009                                             | 33,464                    | 36,299                       |
| Inventories                                                                                                                                                      | 19,081                    | 24,973                       |
| Deferred tax assets, net                                                                                                                                         | 6,453                     | 6,465                        |
| Prepaid expenses and other                                                                                                                                       | 5,858                     | 4,738                        |
| Total current assets                                                                                                                                             | <u>204,335</u>            | <u>200,164</u>               |
| Property and equipment, net of accumulated depreciation of \$42,679 at March 31, 2010 and \$40,279 at December 31, 2009                                          | 14,677                    | 14,911                       |
| Marketable securities                                                                                                                                            | 45,093                    | 48,355                       |
| Intangible assets, net of accumulated amortization of \$2,694 at March 31, 2010 and \$2,441 at December 31, 2009                                                 | 1,335                     | 1,513                        |
| Deferred tax assets, net                                                                                                                                         | 16,781                    | 17,248                       |
| Other assets                                                                                                                                                     | 134                       | 316                          |
| Total assets                                                                                                                                                     | <u>\$ 282,355</u>         | <u>\$ 282,507</u>            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                      |                           |                              |
| Current liabilities:                                                                                                                                             |                           |                              |
| Accounts payable                                                                                                                                                 | \$ 26,633                 | \$ 27,460                    |
| Accrued expenses                                                                                                                                                 | 26,599                    | 23,236                       |
| Total current liabilities                                                                                                                                        | 53,232                    | 50,696                       |
| Capital lease obligations, long-term                                                                                                                             | 138                       | 184                          |
| Other long-term liabilities                                                                                                                                      | 20,670                    | 20,472                       |
| Total liabilities                                                                                                                                                | <u>74,040</u>             | <u>71,352</u>                |
| Stockholders' equity:                                                                                                                                            |                           |                              |
| Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding                                                                                 | —                         | —                            |
| Common stock, par value \$0.001; 50,000 shares authorized, 31,254 and 31,092 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively | 31                        | 31                           |
| Additional paid-in capital                                                                                                                                       | 417,107                   | 416,579                      |
| Accumulated other comprehensive income                                                                                                                           | 36                        | 15                           |
| Accumulated deficit                                                                                                                                              | (183,859)                 | (180,470)                    |
|                                                                                                                                                                  | 233,315                   | 236,155                      |
| Treasury stock at cost; 2,436 common shares at March 31, 2010 and December 31, 2009, respectively                                                                | <u>(25,000)</u>           | <u>(25,000)</u>              |
| Total stockholders' equity                                                                                                                                       | <u>208,315</u>            | <u>211,155</u>               |
| Total liabilities and stockholders' equity                                                                                                                       | <u>\$ 282,355</u>         | <u>\$ 282,507</u>            |

See accompanying notes to unaudited consolidated financial statements.

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

|                                                                                      | Three Months Ended<br>March 31, |                   |
|--------------------------------------------------------------------------------------|---------------------------------|-------------------|
|                                                                                      | 2010                            | 2009              |
| Net revenues                                                                         | \$72,239                        | \$70,393          |
| Cost of revenues                                                                     | 54,470                          | 54,337            |
| Gross profit                                                                         | 17,769                          | 16,056            |
| Operating costs and expenses:                                                        |                                 |                   |
| Research and development                                                             | 11,342                          | 11,003            |
| Sales and marketing                                                                  | 6,744                           | 4,505             |
| General and administrative                                                           | 4,373                           | 4,468             |
| Total operating costs and expenses                                                   | 22,459                          | 19,976            |
| Operating loss                                                                       | (4,690)                         | (3,920)           |
| Other income (expense):                                                              |                                 |                   |
| Interest income, net                                                                 | 198                             | 481               |
| Other expense, net                                                                   | (139)                           | (84)              |
| Loss before income taxes                                                             | (4,631)                         | (3,523)           |
| Income tax benefit                                                                   | (1,242)                         | (1,060)           |
| Net loss                                                                             | <u>\$ (3,389)</u>               | <u>\$ (2,463)</u> |
| Per share data:                                                                      |                                 |                   |
| Net loss per share:                                                                  |                                 |                   |
| Basic                                                                                | <u>\$ (0.11)</u>                | <u>\$ (0.08)</u>  |
| Diluted                                                                              | <u>\$ (0.11)</u>                | <u>\$ (0.08)</u>  |
| Weighted average shares used in computation of basic and diluted net loss per share: |                                 |                   |
| Basic                                                                                | <u>31,185</u>                   | <u>30,387</u>     |
| Diluted                                                                              | <u>31,185</u>                   | <u>30,387</u>     |

See accompanying notes to unaudited consolidated financial statements.

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

|                                                                                           | Three Months Ended<br>March 31, |            |
|-------------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                           | 2010                            | 2009       |
| Cash flows from operating activities:                                                     |                                 |            |
| Net loss                                                                                  | \$ (3,389)                      | \$ (2,463) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                 |            |
| Depreciation and amortization                                                             | 2,653                           | 3,646      |
| Provision for bad debts                                                                   | (116)                           | 114        |
| Inventory provision                                                                       | 487                             | 124        |
| Share-based compensation expense                                                          | 1,393                           | 1,525      |
| Excess tax benefits from equity based compensation                                        | (88)                            | (16)       |
| Non-cash income tax expense                                                               | 677                             | 484        |
| Changes in assets and liabilities:                                                        |                                 |            |
| Accounts receivable                                                                       | 2,951                           | (17,402)   |
| Inventories                                                                               | 5,438                           | (3,809)    |
| Prepaid expenses and other assets                                                         | (1,293)                         | 177        |
| Accounts payable                                                                          | (2,036)                         | 9,751      |
| Accrued expenses, income taxes, and other                                                 | 3,242                           | (1,234)    |
| Net cash provided by (used in) operating activities                                       | 9,919                           | (9,103)    |
| Cash flows from investing activities:                                                     |                                 |            |
| Purchases of property and equipment                                                       | (806)                           | (572)      |
| Purchases of securities                                                                   | (55,882)                        | (41,475)   |
| Securities maturities/sales                                                               | 33,414                          | 25,448     |
| Net cash used in investing activities                                                     | (23,274)                        | (16,599)   |
| Cash flows from financing activities:                                                     |                                 |            |
| Principal payments under capital lease obligations                                        | (48)                            | (62)       |
| Taxes paid on vested restricted stock units net of proceeds from stock option exercises   | (598)                           | 12         |
| Excess tax benefits from equity based compensation                                        | 88                              | 16         |
| Net cash used in financing activities                                                     | (558)                           | (34)       |
| Effect of exchange rates on cash and cash equivalents                                     | (48)                            | (360)      |
| Net decrease in cash and cash equivalents                                                 | (13,961)                        | (26,096)   |
| Cash and cash equivalents, beginning of period                                            | 100,025                         | 77,733     |
| Cash and cash equivalents, end of period                                                  | \$ 86,064                       | \$ 51,637  |
| Supplemental disclosures of cash flow information:                                        |                                 |            |
| Cash paid during the year for:                                                            |                                 |            |
| Interest                                                                                  | \$ 5                            | \$ 3       |
| Income taxes                                                                              | \$ 177                          | \$ 174     |

See accompanying notes to unaudited consolidated financial statements.

**NOVATEL WIRELESS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Basis of Presentation**

The information contained herein has been prepared by Novatel Wireless, Inc. (the "Company") in accordance with the rules of the Securities and Exchange Commission. The information at March 31, 2010 and the results of the Company's operations for the three months ended March 31, 2010 and March 31, 2009 are unaudited. The consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented. These consolidated financial statements and notes hereto should be read in conjunction with the audited financial statements from which they were derived and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The accounting policies used in preparing these consolidated financial statements are the same as those described in the Company's Form 10-K with the exception of new accounting pronouncements adopted in 2010. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

*Principles of Consolidation*

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

*Use of Estimates*

The preparation of financial statements in conformity with 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, expenses and disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, royalty costs, provision for warranty costs, income taxes and share-based compensation expense.

*New Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board ("FASB") issued new revenue recognition standards for arrangements with multiple deliverables, where certain of those deliverables are non-software related. The new standards require entities to initially use management's best estimate of selling price to value individual deliverables when those deliverables do not have vendor specific objective evidence ("VSOE") of fair value or when third-party evidence is not available. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards are effective for annual periods ending after June 15, 2010, however early adoption is permitted. In accordance with the transition provisions of the revised standards, the Company prospectively adopted the new standards on January 1, 2010. The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued new revenue recognition standards for revenue arrangements that contain tangible products and software. These new standards change the scope of existing accounting guidance related to revenue arrangements containing software deliverables to exclude from its scope (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. These new standards are effective for annual periods ending after June 15, 2010, however early adoption is permitted. Additionally, adoption of these standards is required in the period in which the Company adopts the FASB's revised standards on revenue recognition with multiple deliverables. In accordance with the transition provisions of the revised standards, the Company prospectively adopted the new standards on January 1, 2010. The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

**2. Balance Sheet Details**

*Marketable Securities*

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

| March 31, 2010                         | Maturity in Years | Amortized Cost  | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|----------------------------------------|-------------------|-----------------|------------------------|-------------------------|----------------------|
| US Treasury and agency securities      | 1 or less         | \$23,145        | \$ 16                  | \$ (7)                  | \$23,154             |
| Municipal bonds                        | 1 or less         | 2,759           | —                      | (3)                     | 2,756                |
| Certificates of deposit                | 1 or less         | 16,368          | 38                     | —                       | 16,406               |
| Corporate debentures / bonds           | 1 or less         | 11,088          | 11                     | —                       | 11,099               |
| Total short-term marketable securities |                   | 53,360          | 65                     | (10)                    | 53,415               |
| US Treasury and agency securities      | 1 to 2            | 36,271          | 5                      | (16)                    | 36,260               |
| Municipal bonds                        | 1 to 2            | 132             | 1                      | —                       | 133                  |
| Certificates of deposit                | 1 to 2            | 5,672           | 12                     | —                       | 5,684                |
| Corporate debentures / bonds           | 1 to 2            | 3,018           | —                      | (2)                     | 3,016                |
| Total long-term marketable securities  |                   | 45,093          | 18                     | (18)                    | 45,093               |
|                                        |                   | <u>\$98,453</u> | <u>\$ 83</u>           | <u>\$ (28)</u>          | <u>\$98,508</u>      |

| December 31, 2009                      | Maturity in Years | Amortized Cost  | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|----------------------------------------|-------------------|-----------------|------------------------|-------------------------|----------------------|
| Corporate debenture/bonds              | 1 or less         | \$ 8,371        | \$ 32                  | \$ —                    | \$ 8,403             |
| Certificates of deposit                | 1 or less         | 14,755          | 13                     | (8)                     | 14,760               |
| Government agency securities           | 1 or less         | 4,500           | 1                      | —                       | 4,501                |
| Total short-term marketable securities |                   | 27,626          | 46                     | (8)                     | 27,664               |
| Corporate debenture/bonds              | 1 to 2            | 9,045           | 30                     | (8)                     | 9,067                |
| Certificates of deposit                | 1 to 2            | 10,984          | 7                      | (23)                    | 10,968               |
| Government agency securities           | 1 to 2            | 28,340          | 19                     | (39)                    | 28,320               |
| Total long-term marketable securities  |                   | 48,369          | 56                     | (70)                    | 48,355               |
|                                        |                   | <u>\$75,995</u> | <u>\$ 102</u>          | <u>\$ (78)</u>          | <u>\$76,019</u>      |

As of March 31, 2010, net unrealized gains of \$55,000, or \$36,000 net of taxes, are included in accumulated other comprehensive income on the consolidated balance sheet. The Company's net unrealized gains are the result of market conditions affecting fixed-income securities.

As of March 31, 2010, the Company did not have any investments in individual securities that have been in a continuous unrealized loss position for more than 12 months. Because the Company's general intent is to hold its investment securities to maturity, and considering the high quality of the investment securities, the Company believes that the unrealized losses at March 31, 2010 represent a temporary condition and will not result in realized losses on sale or maturity of the securities.

#### *Inventories*

Inventories consist of the following (in thousands):

|                              | March 31,<br>2010 | December 31,<br>2009 |
|------------------------------|-------------------|----------------------|
| Finished goods               | \$19,081          | \$ 24,845            |
| Raw materials and components | —                 | 128                  |
|                              | <u>\$19,081</u>   | <u>\$ 24,973</u>     |

### *Accrued Expenses*

Accrued expenses consist of the following (in thousands):

|                                              | March 31,<br>2010 | December 31,<br>2009 |
|----------------------------------------------|-------------------|----------------------|
| Royalties                                    | \$ 3,862          | \$ 4,511             |
| Payroll and related expenses                 | 10,176            | 8,229                |
| Product warranty                             | 3,150             | 3,039                |
| Market development fund and price protection | 5,709             | 1,424                |
| Deferred rent                                | 311               | 416                  |
| Professional fees                            | 596               | 1,407                |
| Other                                        | 2,795             | 4,210                |
|                                              | <u>\$26,599</u>   | <u>\$ 23,236</u>     |

For the three months ended March 31, 2010, the Company incurred \$4.6 million in costs associated with cooperative advertising programs. These costs were primarily incurred to support the Company's MiFi product. In accordance with the authoritative accounting guidance for cooperative advertising arrangements, the Company classified \$2.7 million as a reduction in net revenues and the remaining \$1.9 million within sales and marketing expense in the Consolidated Statements of Operations. The Company did not incur significant cooperative advertising costs during the three months ended March 31, 2009.

### *Accrued Warranty Obligations*

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

|                                           | Three Months Ended<br>March 31, 2010 |
|-------------------------------------------|--------------------------------------|
| Warranty liability at beginning of period | \$ 3,039                             |
| Additions charged to operations           | 818                                  |
| Deductions from liability                 | 707                                  |
| Warranty liability at end of period       | <u>\$ 3,150</u>                      |

The Company accrues warranty costs based on estimates of future warranty-related replacement, repairs or rework of products. The Company generally provides one to three years of coverage for products following the date of purchase and the Company accrues the estimated cost of warranty coverage as a component of cost of revenues 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 Company has implemented an exchange program for Canadian MiFi 2372 customers to provide a new battery and redesigned battery door that is easier to open. At March 31, 2010, the Company accrued \$450,000 in warranty costs for the estimated cost of this exchange program. This accrual includes expected costs related to the logistical activities and material costs of the exchange program. This cost has been charged to cost of revenues in the Consolidated Statement of Operations and included as a component of accrued warranty in the Consolidated Balance Sheets. The Company expects to complete the exchange program by June 30, 2010.

The Company's MiFi 2352 and MiFi 2200, which are sold primarily in the European and in United States markets, respectively, are not included in the exchange program.

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

The Company's fair value measurements primarily relate to its cash equivalents and investment portfolio, which are classified pursuant to authoritative guidance for fair value measurements. The Company places its cash equivalents and investments 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.

The Company's cash equivalents consist of its investment in money market securities and treasury bills. The Company values its investments in money market securities are based on quoted market prices in active markets (level 1 of the fair value hierarchy). The Company values its treasury bills based on broker or dealer quotations (level 2 of the fair value hierarchy).

The Company's investment portfolio consists primarily of investment-grade corporate bonds, time deposits and government and agency securities. These types of financial instruments are valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency (level 2 of the fair value hierarchy). 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 (level 2 of the fair value hierarchy).

As of March 31, 2010, the Company did not have any financial instruments without observable market values that would require a high level of judgment to determine fair value (level 3 of the fair value hierarchy).

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 March 31, 2010 (in thousands):

| Description                                   | March 31, 2010    | Level 1         | Level 2         |
|-----------------------------------------------|-------------------|-----------------|-----------------|
| <b>Assets:</b>                                |                   |                 |                 |
| Cash equivalents:                             |                   |                 |                 |
| Money market funds                            | \$ 78,920         | \$78,920        | \$ —            |
| US Treasury securities                        | 1,000             | —               | 1,000           |
| <b>Total cash equivalents</b>                 | <b>79,920</b>     | <b>78,920</b>   | <b>1,000</b>    |
| Short-term marketable securities:             |                   |                 |                 |
| US Treasury and agency securities             | 23,154            | —               | 23,154          |
| Municipal bonds                               | 2,756             | —               | 2,756           |
| Certificates of deposit                       | 16,406            | —               | 16,406          |
| Corporate debentures / bonds                  | 11,099            | —               | 11,099          |
| <b>Total short-term marketable securities</b> | <b>53,415</b>     | <b>—</b>        | <b>53,415</b>   |
| Long-term marketable securities:              |                   |                 |                 |
| US Treasury and agency securities             | 36,260            | —               | 36,260          |
| Municipal bonds                               | 133               | —               | 133             |
| Certificates of deposit                       | 5,684             | —               | 5,684           |
| Corporate debentures / bonds                  | 3,016             | —               | 3,016           |
| <b>Total long-term marketable securities</b>  | <b>45,093</b>     | <b>—</b>        | <b>45,093</b>   |
| Foreign exchange forward contracts            | 187               | —               | 187             |
| <b>Total financial assets</b>                 | <b>\$ 178,615</b> | <b>\$78,920</b> | <b>\$99,695</b> |

As of March 31, 2010, the total amount of outstanding foreign exchange forward contracts amounted to €3.6 million (\$4.9 million using the exchange rate of \$1.35 / €1.00 as of March 31, 2010). These contracts are used to hedge the Company's Euro-denominated cash and accounts receivable balances. At March 31, 2010 and December 31, 2009, the Company recorded an unrealized gain of \$187,000 and \$30,000, respectively, on its outstanding foreign currency exchange forward contracts.

For the three months ended March 31, 2010 and 2009, the Company recorded gains of \$157,000 and \$614,000, respectively, on its Euro-denominated foreign exchange forward contracts. During the three months ended March 31, 2010 and 2009, the Company recorded foreign currency losses on foreign currency denominated transactions of approximately \$295,000 and \$701,000, respectively. All recorded gains and losses on foreign exchange transactions are recorded in other (income) expense.

#### 4. Share-Based Compensation

The Company included the following amounts for share-based compensation awards in the accompanying unaudited Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009 (in thousands):

|                            | Three Months Ended<br>March 31, |                 |
|----------------------------|---------------------------------|-----------------|
|                            | 2010                            | 2009            |
| Cost of revenues           | \$ 143                          | \$ 190          |
| Research and development   | 496                             | 640             |
| Sales and marketing        | 241                             | 279             |
| General and administrative | 513                             | 416             |
| Totals                     | <u>\$ 1,393</u>                 | <u>\$ 1,525</u> |

#### 5. Segment Information and Concentrations of Risk

##### *Segment Information*

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

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

|               | March 31,<br>2010 | December 31,<br>2009 |
|---------------|-------------------|----------------------|
| United States | \$277,688         | \$ 277,054           |
| Canada        | 3,855             | 4,436                |
| Europe        | 411               | 967                  |
| Asia          | 401               | 50                   |
|               | <u>\$282,355</u>  | <u>\$ 282,507</u>    |

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

|                               | Three months ended<br>March 31, |               |
|-------------------------------|---------------------------------|---------------|
|                               | 2010                            | 2009          |
| North America                 | 92.5%                           | 91.0%         |
| Europe / Middle East / Africa | 6.5                             | 8.9           |
| Asia / Australia              | 1.0                             | 0.1           |
|                               | <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 existing 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 are derived from a small number of customers. For the three months ended March 31, 2010, sales to our two largest customers accounted for 56% and 15% of net revenues. In the same period in 2009, sales to our two largest customers accounted for 51% and 17% of net revenues. No other customer accounted for more than ten percent of total net revenues in the three months ended March 31, 2010 and 2009.

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

## **6. 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, warrants, 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.

As of March 31, 2010 and 2009, basic and diluted weighted average common shares outstanding were 31,184,917 and 30,387,414, respectively. As of March 31, 2010 and 2009, weighted-average options, RSUs, and ESPP shares to acquire a total of 4,109,926 and 4,963,127 shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

## **7. Commitments and Contingencies**

### *Legal Matters*

The Company is, from time to time, party to various legal proceedings arising in the ordinary course of business. Based on evaluation of these matters and discussions with Company's counsel, the Company believes that liabilities arising from or sums paid in settlement of these existing matters would not have a material adverse effect on 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.). 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 April 2010, the court heard the lead plaintiffs' motion for class certification, and a ruling on that motion is forthcoming. Discovery in this case is ongoing. The Company intends to defend this litigation vigorously. Due to the preliminary nature of this litigation, the Company is unable to estimate a range of exposure associated with this litigation.

On October 8, 2008, a purported shareholder, Jerry Rosenbaum, filed a derivative action in the Superior Court for the State of California, County of San Diego, against the Company, as nominal defendant, and certain of our current and former officers and directors, as defendants. Two other purported shareholders, Mark Campos and Chris Arnsdorf, separately filed substantially similar lawsuits in the same court on October 20, 2008 and November 5, 2008, respectively. On October 16, 2009, the plaintiffs filed a consolidated complaint. The consolidated complaint, Case No. 37-2008-00093576-CU-NP-CTL, alleges claims for breaches of fiduciary duties, violations of certain provisions of the California Corporations Code, unjust enrichment, and gross mismanagement. In February 2010, the court granted the defendants' motion to stay the action pending the resolution of the federal securities class action described above. The plaintiffs are seeking equitable and/or injunctive relief, restitution from the defendants, attorneys' fees and costs, and other relief. Due to the preliminary nature of this action, the Company is unable to estimate a range of exposure associated with this litigation.

On July 6, 2009, SPH America, LLC filed suit in the United States District Court for the Eastern District of Virginia against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents to which plaintiff purportedly has exclusive licensing rights. On October 9, 2009, the court granted defendants' motion to transfer the lawsuit to the U.S. District Court for the Southern District of California. Due to the preliminary nature of this action, the Company is unable to estimate a range of exposure associated with this litigation.

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On July 7, 2009, WIAV Networks, LLC filed suit in the United States District Court for the Eastern District of Texas against the Company and numerous other defendants, including original equipment manufacturers of laptops and manufacturers of wireless modems, alleging, among other things, that the defendants' manufacture, sale and/or use of certain wireless modems infringes various U.S. patents which plaintiff purportedly owns. Due to the preliminary nature of this action, the Company is unable to estimate a range of exposure associated with this litigation.

#### *Indemnification*

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.

On January 16, 2009, Datascape, Inc. filed a putative patent infringement lawsuit in the United States District Court for the Northern District of Georgia against Company customer, Sprint Spectrum, L.P. and affiliates ("Sprint") as defendants. The complaint alleges generally that the defendants have engaged in the manufacture, sale, import and/or use of products and/or processes that constitutes infringement of U.S. Patent Nos. 5,742,845, 5,905,908, 6,366,967, 6,684,269 and 6,745,259, which the plaintiff allegedly owns. The plaintiff is seeking an amount of damages no less than a reasonable royalty, treble damages, an injunction, attorney's fees and costs and additional relief as appropriate. Due to the preliminary nature of this matter, the Company is unable to estimate the range of exposure associated with this matter.

On June 18, 2009, MSTG, Inc. filed a putative patent infringement lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division, against several wireless operators and wireless device providers, including one of the Company's customers, Sprint Spectrum, L.P., as defendants. The complaint alleges generally that the defendants have engaged in the manufacture, use, importation, sale and/or offer for sale of products, services and technology employing inventions that constitute infringement of U.S. Patent Nos. 5,920,551, 6,198,936 and 6,438,113, which the plaintiff allegedly owns. The plaintiff is seeking an award of damages adequate to compensate MSTG for any infringement (together with pre-judgment interest); an award of all remedies available under 35 U.S.C. Sections 284 and 285; and a permanent injunction prohibiting further infringement and additional relief as may be awarded. The Company had been evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend its customer in this lawsuit. In April 2010, the customer notified the Company that it has determined that the Company does not currently have indemnification and defense obligations in this matter.

On July 8, 2009, Celltrace, LLC. filed a putative patent infringement lawsuit in the United States District Court for the Eastern District of Texas, Tyler Division, against several wireless operators, including Company customers, Sprint, Sprint Spectrum L.P. and Cellco Partnership d/b/a Verizon Wireless, as defendants. The complaint alleges generally that the defendants have engaged in making, using, selling, offering for sale and/or leasing certain products, services and systems in Texas that constitute infringement of U.S. Patent Nos. 6,011,976 and 7,551,933, which the plaintiff allegedly owns. The complaint also alleges that each defendant sells and/or offers for sale cellular telephone services which communicate with the defendants' cellular network that constitute infringement of the patents allegedly owned by the plaintiff. The plaintiff is seeking a reasonable royalty for the acts of infringement, adjudication of infringement, damages and costs related thereto, attorneys' fees and costs and additional relief as may be awarded. The Company is currently evaluating this matter to determine the nature and extent of any obligation to indemnify and/or defend its customers in this lawsuit. Due to the preliminary nature of this action, the Company is unable to estimate the range of exposure associated with this matter.

## 8. Comprehensive Loss

Comprehensive loss consists of the following (in thousands):

|                                                                                  | Three Months Ended<br>March 31, |                  |
|----------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                  | 2010                            | 2009             |
| Net loss                                                                         | \$(3,389)                       | \$(2,463)        |
| Unrealized gain (loss) on cash equivalents and marketable securities, net of tax | 21                              | (33)             |
| Comprehensive loss                                                               | <u>\$(3,368)</u>                | <u>\$(2,496)</u> |

## 9. Income Taxes

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 effective tax rate for the three months ended March 31, 2010 is 7% lower than the U.S. statutory rate primarily due to the Company's inability to record tax benefits for certain share based payment awards.

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. As of March 31, 2010 and December 31, 2009, the total liability for unrecognized tax benefits was \$20.7 million and \$20.5 million, respectively, and is included in other long-term liabilities. For the three months ended March 31, 2010, the Company included \$126,000 of interest expense related to uncertain tax positions in its consolidated statements of operations. The Company does not anticipate any significant increases or decreases to its unrecognized tax benefits within the next twelve months.

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 income federal tax examinations for the 1996 through 2009 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.

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

The following information should be read in conjunction with the consolidated financial statements and the accompanying notes included in Item 1 of this report, as well as the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2009 contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

### Overview and Background

We are a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of current products principally includes third generation, or 3G, intelligent mobile hotspots, communications and applications software, USB modems, and ExpressCard modems. Through the integration of our hardware and software, our products are designed to operate on a majority of the world's wireless networks and provide mobile subscribers with secure and convenient high speed access to corporate, public and personal information through the Internet and enterprise networks.

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Our strong customer relationships provide us with the opportunity to expand our market reach and sales. Most of our sales to wireless operators and original equipment manufacturers (“OEMs”) are sold directly through our sales force. To a lesser degree, we also use an indirect sales distribution model through the use of select distributors. We are continuing to drive widespread adoption of our products through increased global marketing activities, expansion of our sales team and distribution networks and continued leverage of our strategic relationships with wireless industry leaders.

We intend to continue to identify and respond to our customers’ needs by introducing new product designs for 3G and 4G next generation networks, 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 time-to-market, meeting industry standards and customer product specifications, ease of integration, cost reduction, manufacturability, quality and reliability.

We have agreements with LG Innotek and Inventec Appliances Corporation, or IAC, for the outsourced manufacturing of our products. Under our manufacturing agreements, LG Innotek and IAC provide us with services including component procurement, product manufacturing, final assembly, testing, quality control, fulfillment and delivery. 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**

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

As a result of weak economic conditions globally, we have experienced lower demand for our products, which has adversely impacted our results of operations. While general economic conditions have shown some improvement compared to the fourth quarter of 2009, market competition remains intense. As a result of this competitive pressure, demand for our products may continue to contract, which could materially adversely affect our results of operations and financial condition.

*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 Europe, North America 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;
- use of the Internet;
- 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 3G and 4G products. We continue to develop and maintain strategic relationships with wireless and computing industry leaders like Dell, QUALCOMM, Sprint PCS, Verizon Wireless, Telefonica, Virgin Mobile, Vodafone, Bell, Rogers, and major software vendors. Through these strategic relationships, we have been able to enhance our market penetration activities by leveraging the resources of our channel partners, including their access to distribution resources, increased sales opportunities and market opportunities.

*Cost of Revenues.* We currently outsource our manufacturing operations to LG Innotek and IAC. In addition, we currently outsource certain distribution, fulfillment and repair services related to our business in EMEA to Mobiltron. All costs associated with these manufacturers and Mobiltron are included in our cost of revenues. Cost of revenues also includes warranty costs, amortization of intangible licenses, royalties, operations group expenses, 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 associated with such new product development. We have in the past incurred, and expect in future periods to continue to incur, these expenses prior to recognizing net revenues from sales of these products.

### **Critical Accounting Policies and 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, 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, royalty costs, provision for warranty costs, income taxes, foreign exchange forward contracts, and share-based compensation expense. The significant accounting policies used in preparation of these consolidated financial statements for the three months ended March 31, 2010 are consistent with those discussed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 in all material respects and in Note 1 to the consolidated financial statements included in this report. The critical accounting policies and the significant judgments and estimates used in the preparation of our consolidated financial statements for the three months ended March 31, 2010 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates."

### **Results of Operations**

#### **Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009**

*Net revenues.* Net revenues for the three months ended March 31, 2010 were \$72.2 million, an increase of \$1.8 million or 2.6% compared to the same period in 2009. Net revenues in the three months ended March 31, 2010 from sales of EV-DO product driven technology amounted to \$64.3 million, an increase of \$3.6 million or 6.2% compared to the same period in 2009. The increase in EV-DO net revenues resulted from increased sales of our MiFi products, offset by a significant decline in embedded module sales during the first quarter of 2010 as compared to the same period in 2009. The decrease in our embedded module sales was due to the presence of competing products available to OEMs and the lack of significant sales to content delivery device customers. EV-DO products are primarily sold in the North American market and represented approximately 89.0% of net revenues in the three months ended March 31, 2010 compared to 86.1% in the same period in 2009.

Net revenues from sales of High Speed Packet Access ("HSPA") product driven technology amounted to \$8.0 million during the three months ended March 31, 2010, a decline of \$1.8 million or 18.0% compared to the same period in 2009. The decrease in sales of HSPA products was primarily due to intense competitive pressure in the European market, which resulted in a steep decline in net revenues as compared to the same period in 2009. HSPA products represented approximately 11.0% of net revenues in the three months ended March 31, 2010 compared to 13.9% in the same period in 2009. The decrease in HSPA net revenues was offset by the positive impact of MiFi product sales as more wireless operators in Europe began to launch the product in the first quarter of 2010. We expect similar levels of competitive pressure in the HSPA markets for the foreseeable future.

*Cost of revenues.* Cost of revenues for the three months ended March 31, 2010 was \$54.5 million, or 75.5% of net revenues, as compared to \$54.3 million, or 77.2% of net revenues, for the same period in 2009. The primary driver of the percentage decrease in cost of revenues as a percentage of net revenues compared to 2009 was a favorable sales mix that included products with higher gross margins. In the three months ended March 31, 2010, cost of revenues was negatively impacted by a \$450,000 warranty accrual related to the Company's MiFi 2372 battery and battery door exchange program. This program is discussed further in Note 2 to the Consolidated Financial Statements included in this report.

Cost of revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on the mix of products sold, competitive pricing, new product introduction costs and other factors.

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 three months ended March 31, 2010 was \$17.8 million, or 24.6% of net revenues, compared to \$16.1 million, or 22.8% of net revenues, for the same period in 2009. The increase was primarily attributable to the changes in net revenues and cost of revenues as discussed above. 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 volumes.

*Research and development expenses.* Research and development expenses for the three months ended March 31, 2010 were \$11.3 million, or 15.7% of net revenues, compared to \$11.0 million, or 15.6% of net revenues, for the same period in 2009. The increase was due primarily to higher compensation expense in the three months ended March 31, 2010 compared to the same period in

2009 to support expanded research and development and product introduction activities. We continue to 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.

In addition, research and development expenses as a percentage of net revenues are expected to fluctuate in future quarters depending on the amount of net revenues recognized, and potential variation in the costs associated with the development of the Company's products, including the number and complexity of the products under development and the progress of the development activities with respect to those products. However, we expect to maintain or 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 three months ended March 31, 2010 were \$6.7 million, or 9.3% of net revenues, compared to approximately \$4.5 million, or 6.4% of net revenues, for the same period in 2009. The increase for the three months ended March 31, 2010 compared to the same period in 2009 was due primarily to an increase in expenses related to cooperative marketing and advertising to support marketing efforts of our MiFi product.

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 three months ended March 31, 2010 were \$4.4 million, or 6.1% of net revenues, compared to \$4.5 million, or 6.3% of net revenues, for the same period in 2009. While we are closely monitoring and undertaking to control general and administrative costs, we expect these costs to be negatively impacted by legal fees incurred by the Company to defend claims described in Note 7 to our Consolidated Financial Statements included in this report.

**Interest income, net.** Interest income, net, for the three months ended March 31, 2010 was \$198,000 as compared to \$481,000 for the same period in 2009. Although our average cash and marketable securities balance increased period over period, average yields decreased.

**Other expense, net.** Other expense, net, for the three months ended March 31, 2010 was \$139,000 as compared to \$84,000 for the same period in 2009.

**Income tax benefit.** Income tax benefit for the three months ended March 31, 2010 was \$1.2 million, or 27% of our loss before taxes, as compared to an income tax benefit of \$1.1 million, or 30% of our loss before taxes, for the same period in 2009. The effective income tax benefit rate of 27% is lower than the income tax benefit rate of 30% in 2009 primarily due to the suspension of the federal research and experimentation credit as of December 31, 2009 and a valuation allowance recorded on state research and experimentation credits generated in the first quarter of 2010.

The effective tax rate for the three months ended March 31, 2010 is 7% lower than the U.S. statutory rate primarily due to the Company's inability to record tax benefits for certain share based payment awards.

**Net loss.** For the three months ended March 31, 2010, we reported a net loss of \$3.4 million, as compared to a net loss of \$2.5 million for the same period in 2009. Although net revenues and gross profit increased during the first quarter of 2010 compared to the same period last year, net income was negatively impacted by the increases in operating expenses as discussed above.

## **Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities and cash generated from operations. We do not currently have a revolving credit facility or similar loan agreement.

In September 2009, we filed a shelf registration statement with the Securities and Exchange Commission ("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 (in thousands):

|                                                           | March 31,<br>2010 | December 31,<br>2009 | Increase /<br>(Decrease) |
|-----------------------------------------------------------|-------------------|----------------------|--------------------------|
| Working capital                                           | <u>\$151,103</u>  | <u>\$ 149,468</u>    | <u>\$ 1,635</u>          |
| Cash and cash equivalents <sup>(1)</sup>                  | \$ 86,064         | \$ 100,025           | \$(13,961)               |
| Short-term marketable securities <sup>(1)</sup>           | 53,415            | 27,664               | 25,751                   |
| Long-term marketable securities                           | 45,093            | 48,355               | (3,262)                  |
| Total cash and cash equivalents and marketable securities | <u>\$184,572</u>  | <u>\$ 176,044</u>    | <u>\$ 8,528</u>          |

(1) Included in working capital.

As of March 31, 2010, our working capital increased \$1.6 million from December 31, 2009. This increase is primarily due to our reclassification of long-term marketable securities to short-term based on maturity dates.

As of March 31, 2010, cash and cash equivalents decreased \$14.0 million from December 31, 2009 primarily as a result of the purchase of marketable securities.

As of March 31, 2010, our marketable securities increased \$22.5 million primarily due to the investment of a portion of cash and cash equivalents. See the discussion of market risk included in our Annual Report on Form 10-K for the year ended December 31, 2009 in the section captioned “*Quantitative and Qualitative Disclosures About Market Risk*”.

### Historical Cash Flows

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

|                                                       | Three Months Ended<br>March 31, |                  |
|-------------------------------------------------------|---------------------------------|------------------|
|                                                       | 2010                            | 2009             |
| Net cash provided by (used in) operating activities   | \$ 9,919                        | \$ (9,103)       |
| Net cash used in investing activities                 | (23,274)                        | (16,599)         |
| Net cash used in financing activities                 | (558)                           | (34)             |
| Effect of exchange rates on cash and cash equivalents | (48)                            | (360)            |
| Net decrease in cash and cash equivalents             | (13,961)                        | (26,096)         |
| Cash and cash equivalents, beginning of period        | 100,025                         | 77,733           |
| Cash and cash equivalents, end of period              | <u>\$ 86,064</u>                | <u>\$ 51,637</u> |

**Operating activities.** Net cash provided by operating activities increased by \$19.0 million to \$9.9 million for the three months ended March 31, 2010 compared to net cash used in operating activities of \$9.1 million for the same period in 2009. The \$19.0 million increase was primarily attributable to increased sales of our products and improved margins, along with the beneficial impact of certain working capital accounts. The difference between our net loss for the three months ended March 31, 2010 of \$3.4 million and our net cash provided by operating activities of \$9.9 million is primarily due to the cash provided by working capital changes and non-cash charges including depreciation, amortization and share-based compensation. During the same period in 2009, the difference between our net loss of \$2.5 million and our net cash used in operating activities of \$9.1 million was primarily due to cash used by working capital changes, offset by the cash favorable impact of non-cash charges, including depreciation and amortization, charges for inventory losses, and share-based compensation.

**Investing activities.** Net cash used in investing activities during the three months ended March 31, 2010 was approximately \$23.3 million compared to \$16.6 million during the same period in 2009. Cash used in investing activities during the three months ended March 31, 2010 was related to net purchases of marketable securities of \$22.5 million. Cash used in investing activities during the same period in 2009 was primarily related to net purchases of marketable securities of \$16.0 million.

**Financing activities.** Net cash used in financing activities during the three months ended March 31, 2010 was \$558,000, compared to \$34,000 during the same period in 2009. Net cash used in financing activities in 2010 was primarily related to taxes paid on behalf of employees for restricted stock units which vested during the period. Proceeds from the exercise of stock options were lower in 2010 compared to 2009 due to decreased stock option exercise activity.

### Other Liquidity Needs

During the next 12 months we plan to incur \$9 million for the acquisition of property and equipment and additional software licenses. The Company expects to continue to incur professional fees and expenses primarily to defend the intellectual property litigation filed against the Company or related to its products, which litigation is discussed in Note 7 to our Consolidated Financial Statements included in this report. At March 31, 2010, the Company accrued \$450,000 in warranty costs for the estimated expenses associated with the MiFi 2372 battery exchange program. See Note 2 to the Consolidated Financial Statements included in this report. The Company expects to incur the costs of this program in the second quarter of 2010.

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

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 would 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.

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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.

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

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are interest rate risk, global credit risk and foreign currency exchange rate risk.

Since December 31, 2009, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A, "*Quantitative and Qualitative Disclosures About Market Risk*" in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

**Evaluation of Disclosure Controls and Procedures.**

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of March 31, 2010, the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting.**

There were no changes in the Company’s internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 1.      *Legal Proceedings.***

There have been no material developments in our legal proceedings since December 31, 2009. For additional information regarding the Company’s legal proceedings, see Item 3, “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 1A.     *Risk Factors.***

There have been no material changes in our risk factors from those disclosed in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

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

Not applicable.

**Item 3.      *Defaults Upon Senior Securities.***

Not applicable.

**Item 4.      *Reserved.***

**Item 5.      *Other Information.***

Not applicable.

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**Item 6.      *Exhibits.***

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                         |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1                      | Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                |
| 31.2                      | Certification of our Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                 |
| 32.1                      | Certification of our Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 10, 2010

Novatel Wireless, Inc.

By: /s/ PETER LEPARULO  
**Peter Leparulo**  
**Chairman and Chief Executive Officer**  
**(principal executive officer)**

By: /s/ KENNETH LEDDON  
Kenneth Leddon  
Senior Vice President and Chief Financial Officer  
(principal financial and accounting officer)

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

\_\_\_\_\_  
/s/ PETER LEPARULO

Peter Leparulo  
Chairman and Chief Executive Officer  
(principal executive officer)

Date: May 10, 2010

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

I, Kenneth Leddon, certify that:

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

/s/ KENNETH LEDDON

\_\_\_\_\_  
Kenneth Leddon  
Senior Vice President and Chief Financial Officer  
(principal financial and accounting officer)

Date: May 10, 2010

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO § 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q for the period ended March 31, 2010 (the "Report"), as filed by Novatel Wireless, Inc. (the "Company") with the Securities and Exchange Commission, each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: May 10, 2010

\_\_\_\_\_  
/s/ PETER LEPARULO

**Peter Leparulo**  
**Chairman and Chief Executive Officer**  
**(principal executive officer)**

\_\_\_\_\_  
/s/ KENNETH LEDDON

**Kenneth Leddon**  
**Senior Vice President and Chief Financial Officer**  
**(principal financial and accounting officer)**

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.