

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from _____ to _____.

Commission file number: 000-31659

NOVATEL WIRELESS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

86-0824673

(I.R.S. Employer
Identification No.)

9645 Scranton Road, San Diego, 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 November 5, 2013 was 34,079,214.

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:

- our ability to compete in the market for wireless broadband data access products;
- our ability to develop and timely introduce new products successfully;
- our ability to integrate the operations of Enfora and any other business, products, technologies or personnel that we may acquire in the future;
- the continuing impact of uncertain global economic conditions on the demand for our products;
- our ability to introduce and sell new products that comply with current and evolving industry standards, including 3G and 4G standards, and government regulations;
- our ability to develop and maintain strategic relationships to expand into new markets;
- our dependence on a small number of customers for a substantial portion of our revenues;
- demand for broadband wireless access to enterprise networks and the Internet;
- the marketability of our products is dependent on wireless telecommunication operators delivering acceptable wireless services;
- our ability to properly manage the growth of our business to avoid significant strains on our management and operations and disruptions to our business;
- our reliance on third parties to procure components and manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture and timely delivery of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- the outcome of pending or future litigation, including the current class action securities litigation and intellectual property litigation;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development and sale of our products;
- risks associated with doing business abroad, including foreign currency risks;
- the risk of introducing new products that could contain errors or defects;
- our ability to make focused investments in research and development; 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 or furnish to 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, 2012. 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”, “MiFi OS”, “MiFi Home”, “MobiLink”, “Ovation”, “Expedite” and “MiFi.Freedom. My Way” are trademarks of Novatel Wireless, Inc. “Enfora”, the Enfora logo, “Spider”, “Enabling Information Anywhere”, “Enabler”, “eWide” and “N4A” are trademarks of Enfora, Inc. Other trademarks, trade names or service marks used in this report are the property of their respective owners.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | <u>September 30,</u> <u>2013</u> | <u>December 31,</u> <u>2012</u> |
|--|-------------------------------------|------------------------------------|
| | Unaudited | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,138 | \$ 16,044 |
| Marketable securities | 21,991 | 38,064 |
| Restricted marketable securities | 2,441 | 0 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,633 at September 30, 2013 and \$627 at December 31, 2012 | 47,542 | 42,652 |
| Inventories | 27,025 | 39,016 |
| Deferred tax assets, net | 70 | 126 |
| Prepaid expenses and other | 7,342 | 4,829 |
| Total current assets | <u>124,549</u> | <u>140,731</u> |
| Property and equipment, net of accumulated depreciation of \$65,659 at September 30, 2013 and \$59,702 at December 31, 2012 | 11,895 | 15,229 |
| Marketable securities | 5,316 | 1,201 |
| Intangible assets, net of accumulated amortization of \$12,730 at September 30, 2013 and \$11,951 at December 31, 2012 | 2,383 | 3,163 |
| Deferred tax assets, net | 70 | 584 |
| Other assets | 280 | 623 |
| Total assets | <u>\$ 144,493</u> | <u>\$ 161,531</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,509 | \$ 45,732 |
| Accrued expenses | 27,960 | 27,800 |
| Short-term margin loan facility | 2,441 | 0 |
| Total current liabilities | <u>76,910</u> | <u>73,532</u> |
| Other long-term liabilities | 1,932 | 2,552 |
| Total liabilities | <u>78,842</u> | <u>76,084</u> |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding | 0 | 0 |
| Common stock, par value \$0.001; 50,000 shares authorized, 34,078 and 33,655 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively | 34 | 34 |
| Additional paid-in capital | 440,812 | 438,477 |
| Accumulated other comprehensive income (loss) | (10) | 14 |
| Accumulated deficit | <u>(350,185)</u> | <u>(328,078)</u> |
| Treasury stock at cost; 2,436 common shares at September 30, 2013 and December 31, 2012, respectively | 90,651 | 110,447 |
| | <u>(25,000)</u> | <u>(25,000)</u> |
| Total stockholders' equity | 65,651 | 85,447 |
| Total liabilities and stockholders' equity | <u>\$ 144,493</u> | <u>\$ 161,531</u> |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------------|------------------------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenues | \$92,673 | \$ 71,017 | \$269,718 | \$273,613 |
| Cost of net revenues | 72,290 | 56,371 | 213,463 | 214,728 |
| Gross profit | <u>20,383</u> | <u>14,646</u> | <u>56,255</u> | <u>58,885</u> |
| Operating costs and expenses: | | | | |
| Research and development | 12,438 | 14,696 | 39,267 | 44,982 |
| Sales and marketing | 5,129 | 6,267 | 16,739 | 21,255 |
| General and administrative | 5,128 | 4,825 | 19,209 | 16,061 |
| Goodwill and intangible assets impairment | 0 | 20,484 | 0 | 49,821 |
| Amortization of purchased intangible assets | 141 | 227 | 422 | 891 |
| Restructuring charges | 2,411 | 0 | 2,411 | 0 |
| Total operating costs and expenses | <u>25,247</u> | <u>46,499</u> | <u>78,048</u> | <u>133,010</u> |
| Operating loss | (4,864) | (31,853) | (21,793) | (74,125) |
| Other income (expense): | | | | |
| Interest income, net | 31 | 72 | 109 | 238 |
| Other income (expense), net | 59 | (45) | (83) | (191) |
| Loss before income taxes | (4,774) | (31,826) | (21,767) | (74,078) |
| Income tax provision | 319 | 107 | 340 | 276 |
| Net loss | <u>\$ (5,093)</u> | <u>\$ (31,933)</u> | <u>\$ (22,107)</u> | <u>\$ (74,354)</u> |
| Per share data: | | | | |
| Net loss per share: | | | | |
| Basic and diluted | <u>\$ (0.15)</u> | <u>\$ (0.97)</u> | <u>\$ (0.65)</u> | <u>\$ (2.28)</u> |
| Weighted average shares used in computation of basic and diluted net loss per share: | | | | |
| Basic and diluted | <u>34,070</u> | <u>33,074</u> | <u>33,902</u> | <u>32,683</u> |

See accompanying notes to unaudited consolidated financial statements.

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

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|--|---|-------------------|--|-------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| Net loss | \$(5,093) | \$(31,933) | \$(22,107) | \$(74,354) |
| Unrealized gain (loss) on cash equivalents and marketable securities, net of tax | 14 | 27 | (24) | 44 |
| Total comprehensive loss | <u>\$(5,079)</u> | <u>\$(31,906)</u> | <u>\$(22,131)</u> | <u>\$(74,310)</u> |

See accompanying notes to unaudited consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net loss | \$(22,107) | \$(74,354) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on sale/disposal of fixed asset | 18 | 90 |
| Depreciation and amortization | 6,774 | 9,747 |
| Impairment of goodwill and purchased intangible assets | 0 | 49,821 |
| Provision for bad debts | 1,005 | 39 |
| Net impairment loss on marketable securities | 0 | 39 |
| Inventory provision | 3,069 | 1,663 |
| Share-based compensation expense | 2,848 | 5,409 |
| Non-cash income tax expense | 266 | 194 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (5,895) | (3,460) |
| Inventories | 8,922 | 4,089 |
| Prepaid expenses and other assets | (2,169) | (1,238) |
| Accounts payable | 2,832 | (15,108) |
| Accrued expenses, income taxes, and other | 255 | 233 |
| Net cash used in operating activities | <u>(4,182)</u> | <u>(22,836)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,048) | (4,021) |
| Purchases of marketable securities | (22,238) | (31,871) |
| Marketable securities maturities / sales | 31,731 | 27,506 |
| Net cash provided by (used in) investing activities | <u>4,445</u> | <u>(8,386)</u> |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of short-term debt | 13,400 | 5,000 |
| Principal repayments of short-term debt | (10,969) | (5,000) |
| Principal payments under capital lease obligations | 0 | (46) |
| Proceeds from stock option exercises and ESPP net of taxes paid on vested restricted stock units | (515) | 583 |
| Net cash provided by financing activities | 1,916 | 537 |
| Effect of exchange rates on cash and cash equivalents | (85) | (43) |
| Net increase (decrease) in cash and cash equivalents | 2,094 | (30,728) |
| Cash and cash equivalents, beginning of period | 16,044 | 47,069 |
| Cash and cash equivalents, end of period | <u>\$ 18,138</u> | <u>\$ 16,341</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 31 | \$ 1 |
| Income taxes | \$ 59 | \$ 100 |
| Supplemental disclosures of non-cash investing activities: | | |
| Building rent incentives to fund leasehold improvements | \$ 359 | \$ 0 |

See accompanying notes to unaudited consolidated financial statements.

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

1. Basis of Presentation

The information contained herein has been prepared by Novatel Wireless, Inc. (the “Company”) in accordance with the rules of the Securities and Exchange Commission. The information at September 30, 2013 and the results of the Company’s operations for the three and nine months ended September 30, 2013 and 2012 are unaudited. The condensed 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 condensed 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, 2012. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the Company’s Form 10-K. 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 condensed 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, valuation of goodwill, litigation, provision for warranty costs, income taxes and share-based compensation expense.

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

2. Balance Sheet Details

Marketable Securities

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

| September 30, 2013 | Maturity in Years | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|------------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
| Available-for-sale: | | | | | |
| Government agency securities | 1 or less | \$ 3,352 | \$ 1 | \$ 0 | \$ 3,353 |
| Municipal bonds | 1 or less | 5,875 | 2 | 0 | 5,877 |
| Certificates of deposit | 1 or less | 5,000 | 1 | 0 | 5,001 |
| Corporate debentures / bonds | 1 or less | 10,210 | 0 | (9) | 10,201 |
| Total short-term marketable securities | | <u>24,437</u> | <u>4</u> | <u>(9)</u> | <u>24,432</u> |
| Available-for-sale: | | | | | |
| Certificates of deposit | 1 to 2 | 2,740 | 0 | 0 | 2,740 |
| Corporate debentures / bonds | 1 to 2 | 2,581 | 0 | (5) | 2,576 |
| Total long-term marketable securities | | <u>5,321</u> | <u>0</u> | <u>(5)</u> | <u>5,316</u> |
| | | <u>\$ 29,758</u> | <u>\$ 4</u> | <u>\$ (14)</u> | <u>\$ 29,748</u> |

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

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

As of September 30, 2013, the Company recorded a net unrealized loss of \$10,000. The Company's net unrealized loss is the result of market conditions affecting its fixed-income, debt and equity securities, which are included in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet for the period then ended. As of September 30, 2013 and December 31, 2012, we did not have any investments in marketable securities with a material unrealized loss position for twelve months or greater.

The Company has a credit facility with a bank to allow margin borrowings based on the Company's investments in cash equivalents and marketable securities held with the bank. This facility is collateralized by the Company's cash equivalents and marketable securities held with the bank. At September 30, 2013, the Company had approximately \$9.2 million in marketable securities held at this bank. Any monies borrowed and interest incurred are payable on demand, and there is no express expiration date to the credit facility. During the three and nine months ended September 30, 2013, the Company borrowed approximately \$3.4 million and \$13.4 million, respectively, and had outstanding borrowings of \$2.4 million under this facility at September 30, 2013. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities have been classified by the Company as restricted marketable securities on the balance sheet at September 30, 2013. At September 30, 2013 the Company had no cash equivalents held at this bank. The restricted marketable securities of \$2.4 million are included in the September 30, 2013 marketable securities presented in the table above. During October 2013, the Company borrowed \$3.5 million against the facility, which remained outstanding as of the date of this report.

Inventories

Inventories consist of the following (in thousands):

| | September 30, 2013 | December 31, 2012 |
|------------------------------|-----------------------|----------------------|
| Finished goods | \$ 18,624 | \$ 26,776 |
| Raw materials and components | 8,401 | 12,240 |
| | <u>\$ 27,025</u> | <u>\$ 39,016</u> |

Accrued Expenses

Accrued expenses consist of the following (in thousands):

| | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| Royalties | \$ 5,604 | \$ 4,349 |
| Payroll and related expenses | 5,308 | 7,788 |
| Product warranty | 2,355 | 2,329 |
| Market development funds and price protection | 1,958 | 2,147 |
| Professional fees | 2,063 | 1,549 |
| Deferred revenue | 3,514 | 4,630 |
| Restructuring | 2,119 | 0 |
| Other | 5,039 | 5,008 |
| | <u>\$ 27,960</u> | <u>\$ 27,800</u> |

Accrued Warranty Obligations

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

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|--|--|---|---|
| Warranty liability at beginning of period | \$ 2,451 | \$ 2,674 | \$ 2,329 | \$ 1,525 |
| Additions charged to operations | 722 | 849 | 4,086 | 3,579 |
| Deductions from liability | (818) | (1,042) | (4,060) | (2,623) |
| Warranty liability at end of period | <u>\$ 2,355</u> | <u>\$ 2,481</u> | <u>\$ 2,355</u> | <u>\$ 2,481</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 net revenues in the condensed 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.

3. Intangible Assets

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

| | September 30, 2013 | | | | December 31, 2012 | | | |
|---|--------------------|-----------------------------|---------------------------|----------------|-------------------|-----------------------------|---------------------------|----------------|
| | Gross | Accumulated Amortization | Accumulated Impairment | Net | Gross | Accumulated Amortization | Accumulated Impairment | Net |
| Developed technologies | \$26,000 | \$ (6,036) | \$ (19,547) | \$ 417 | \$26,000 | \$ (5,786) | \$ (19,547) | \$ 667 |
| Trade name | 12,800 | (2,536) | (8,582) | 1,682 | 12,800 | (2,147) | (8,582) | 2,071 |
| Other | 3,720 | (1,956) | (1,620) | 144 | 3,720 | (1,923) | (1,620) | 177 |
| Total amortizable purchased intangible assets | <u>\$42,520</u> | <u>\$ (10,528)</u> | <u>\$ (29,749)</u> | <u>\$2,243</u> | <u>\$42,520</u> | <u>\$ (9,856)</u> | <u>\$ (29,749)</u> | <u>\$2,915</u> |

The following table presents details of the amortization of purchased intangible assets included in the cost of net revenues and general and administrative expense categories (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|---------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of net revenues | \$ 83 | \$ 289 | \$ 250 | \$ 1,539 |
| General and administrative expenses | 141 | 227 | 422 | 891 |
| Total amortization expense | \$ 224 | \$ 516 | \$ 672 | \$ 2,430 |

During the quarter ended March 31, 2012, the Company recorded an impairment loss of \$22.8 million related to a decrease in the estimated fair values of the purchased intangible assets fair values. During the quarter ended September 30, 2012, the Company recorded a further preliminary impairment loss of \$7.3 million related to the continued decrease in the estimated fair values of the purchased intangible assets. During the fourth quarter of 2012, the Company completed the impairment analysis and reduced the third quarter impairment by \$300,000.

The following table represents details of the amortization of existing purchased intangible assets that is currently estimated to be expensed in the remainder of 2013 and thereafter (in thousands):

| <u>Fiscal year:</u> | <u>Amount</u> |
|---------------------------|----------------|
| 2013 (remaining 3 months) | \$ 224 |
| 2014 | 895 |
| 2015 | 562 |
| 2016 | 562 |
| Total | \$2,243 |

Additionally, at September 30, 2013 and December 31, 2012, the Company had \$140,000 and \$248,000, respectively, of acquired software licenses, net of accumulated amortization of \$2.2 million and \$2.1 million, respectively. The acquired software licenses represent rights to use certain software necessary for commercial sale of the Company's products.

4. Goodwill

As a result of goodwill impairment charges recorded during the twelve months ended December 31, 2012, the carrying amount of goodwill at December 31, 2012 and September 30, 2013 was zero. The carrying amount of goodwill at December 31, 2011 was \$19.8 million.

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

Based upon fair value tests performed with the assistance of third party independent appraisals, during the first and third quarters of 2012 the Company recorded pre-tax goodwill impairment charges of \$6.6 million and \$13.2 million, respectively, and a purchased intangible asset impairment charge of \$22.8 million during the first quarter of 2012.

5. Fair Value Measurement of Assets and Liabilities

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

Our financial instruments consist principally of cash and cash equivalents, and short-term and long-term marketable debt securities. The Company's cash and cash equivalents consist of its investment in money market securities and treasury bills. The Company's marketable debt securities consist primarily of government agency securities, municipal bonds, time deposits and investment-grade corporate bonds.

Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree to which the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

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

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

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

The fair value of our cash and cash equivalents were determined based on Level 1 and Level 2 inputs. The fair value of our marketable debt securities was determined based on Level 2 inputs. We do not have any securities in the Level 3 category. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within 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 September 30, 2013 (in thousands):

| <u>Description</u> | <u>September 30, 2013</u> | <u>Level 1</u> | <u>Level 2</u> |
|---|---------------------------|----------------|-----------------|
| Assets: | | | |
| Cash equivalents | | | |
| Money market funds | \$ 47 | \$ 47 | \$ 0 |
| US Treasury securities | 2,208 | 0 | 2,208 |
| Total cash equivalents | <u>2,255</u> | <u>47</u> | <u>2,208</u> |
| Short-term marketable securities: | | | |
| Available-for-sale: | | | |
| Government agency securities | 3,353 | 0 | 3,353 |
| Municipal bonds | 5,877 | 0 | 5,877 |
| Certificates of deposit | 5,001 | 0 | 5,001 |
| Corporate debentures / bonds | 10,201 | 0 | 10,201 |
| Total short-term marketable securities | <u>24,432</u> | <u>0</u> | <u>24,432</u> |
| Long-term marketable securities: | | | |
| Available-for-sale: | | | |
| Certificates of deposit | 2,740 | 0 | 2,740 |
| Corporate debentures / bonds | 2,576 | 0 | 2,576 |
| Total long-term marketable securities | <u>5,316</u> | <u>0</u> | <u>5,316</u> |
| Total financial assets | <u>\$ 32,003</u> | <u>\$ 47</u> | <u>\$31,956</u> |

See Note 2 for discussion of restricted marketable securities related to our credit facility.

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

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

6. Share-Based Compensation

The Company included the following amounts for share-based compensation awards in the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|----------|------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of net revenues (1) | \$ (7) | \$ 167 | \$ 49 | \$ 543 |
| Research and development | 329 | 645 | 908 | 2,033 |
| Sales and marketing | 215 | 334 | 618 | 1,067 |
| General and administrative | 422 | 606 | 1,273 | 1,766 |
| Totals | \$ 959 | \$ 1,752 | \$2,848 | \$5,409 |

(1) Negative expense resulted from change in the estimated forfeiture rate during the third quarter of 2013.

7. Segment Information and Concentrations of Risk

Segment Information

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by senior management for making decisions and assessing performance as the source of the Company's reportable segments.

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

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

Segment revenues and segment operating income (loss) represent the primary financial measures used by senior management to assess performance and include the net revenues, cost of net revenues, sales and other operating expenses for which management is held accountable. Segment expenses include sales and marketing, research and development, administration, and amortization expenses that are directly related to individual segments. Segment earnings (loss) also includes acquisition-related costs, purchase price amortization, restructuring, impairment and integration costs. The table below presents net revenues from external customers, operating loss and identifiable assets for our reportable segments (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------------|------------------------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenues by reportable segment: | | | | |
| Mobile Computing Products | \$84,067 | \$ 65,189 | \$240,510 | \$248,620 |
| M2M Products and Solutions | 8,606 | 5,828 | 29,208 | 24,993 |
| Total | <u>\$92,673</u> | <u>\$ 71,017</u> | <u>\$269,718</u> | <u>\$273,613</u> |
| Operating loss by reportable segment: | | | | |
| Mobile Computing Products | \$ (953) | \$ (7,513) | \$ (9,801) | \$ (11,701) |
| M2M Products and Solutions | (3,911) | (24,340) | (11,992) | (62,424) |
| Total | <u>\$ (4,864)</u> | <u>\$ (31,853)</u> | <u>\$ (21,793)</u> | <u>\$ (74,125)</u> |
| Identifiable assets by reportable segment: | | | | |
| | | | September 30, 2013 | December 31, 2012 |
| Mobile Computing Products | | | \$ 128,111 | \$ 141,045 |
| M2M Products and Solutions | | | 16,382 | 20,486 |
| Total | | | <u>\$ 144,493</u> | <u>\$ 161,531</u> |

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

| | <u>September 30,</u> <u>2013</u> | <u>December 31,</u> <u>2012</u> |
|--------------------------------|-------------------------------------|------------------------------------|
| United States | \$ 141,937 | \$ 157,661 |
| Canada | 1,489 | 2,836 |
| Europe, Latin America and Asia | 1,067 | 1,034 |
| | <u>\$ 144,493</u> | <u>\$ 161,531</u> |

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

| | <u>Three months ended</u> <u>September 30,</u> | | <u>Nine months ended</u> <u>September 30,</u> | |
|--------------------------------|---|---------------|--|---------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| United States and Canada | 96.5% | 94.0% | 95.9% | 92.7% |
| Latin America | 0.8 | 0.0 | 0.7 | 2.2 |
| Europe, Middle East and Africa | 2.4 | 5.7 | 3.2 | 4.7 |
| Asia and Australia | 0.3 | 0.3 | 0.2 | 0.4 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Concentrations of Risk

Substantially all of the Company's net revenues are derived from sales of cellular 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 September 30, 2013, sales to our largest customer accounted for 59% of net revenues. In the same period in 2012, sales to our two largest customers accounted for 57% and 10% of net revenues. For the nine months ended September 30, 2013, sales to our largest customer accounted for 61% of net revenues. In the same period in 2012, sales to our two largest customers accounted for 58% and 10% of net revenues, respectively. The Company outsources its manufacturing to several third-party contract manufacturers. If one or more of these manufacturers were to experience delays, disruptions, capacity constraints or quality control problems in 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.

8. Earnings Per Share

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

For the three and nine months ended September 30, 2013, basic and diluted weighted-average common shares outstanding were 34,070,211 and 33,902,038, respectively. During these same periods, weighted-average options and RSUs to acquire a total of 5,668,752 and 5,885,100 shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

For the three and nine months ended September 30, 2012, basic and diluted weighted-average common shares outstanding were 33,073,701 and 32,682,781, respectively. During these same periods, weighted-average options, RSUs, and ESPP shares to acquire a total of 6,068,910 and 6,164,954 shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

9. Commitments and Contingencies

Legal Matters

The Company is, from time to time, party to various legal proceedings arising in the ordinary course of business. For example, the Company is currently named as a defendant or co-defendant in a number of patent infringement lawsuits in the U.S. and is indirectly participating in other U.S. patent infringement actions pursuant to its contractual indemnification obligations to certain customers. Based on evaluation of these matters and discussions with Company's intellectual property litigation counsel, the Company believes that potential liabilities arising from or sums paid in settlement of these existing matters would not have a material adverse effect on its consolidated results of operations or financial condition.

On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California on behalf of persons who allegedly purchased our stock between February 5, 2007 and August 19, 2008. On December 11, 2008, these lawsuits were consolidated into a single action entitled *Backe v. Novatel Wireless, Inc., et al.*, Case No. 08-CV-01689-H (RBB) (Consolidated with Case No. 08-CV-01714-H (RBB)) (U.S.D.C., S.D. Cal.). In May 2010, the district court re-captioned the case *In re Novatel Wireless Securities Litigation*. The plaintiffs filed the consolidated complaint on behalf of persons who allegedly purchased our stock between February 27, 2007 and November 10, 2008. The consolidated complaint names the Company and certain of our current and former officers as defendants. The consolidated complaint alleges generally that we issued materially false and misleading statements during the relevant time period regarding the strength of our products and market share, our financial results and our internal controls. The plaintiffs are seeking an unspecified amount of damages and costs. The court has denied defendants' motions to dismiss. In May 2010, the court entered an order granting the plaintiffs' motion for class certification and certified a class of purchasers of our common stock between February 27, 2007 and September 15, 2008. On February 14, 2011, following extensive discovery, we filed a motion for summary judgment on all of plaintiffs' claims. A trial date had been set for May 10, 2011. On March 15, 2011, the case was reassigned to a new district judge, the Honorable Anthony J. Battaglia. Following the reassignment, the court vacated the trial date pending the court's consideration of dispositive motions. Oral argument on the motion for summary judgment was heard by the court on June 17, 2011. On November 23, 2011, the court issued an order granting in part and denying in part the motion for summary judgment. On July 9, 2012, the court vacated the final pretrial conference date. On December 14, 2012, the court issued an order denying defendants' motion to exclude the testimony of plaintiffs' loss causation expert. The court set a pretrial conference for March 8, 2013 and a trial date of June 3, 2013. On February 7, 2013, the court reconsidered its December 14, 2012 order and granted defendants' motion to exclude plaintiffs' expert on loss causation. The court, however, gave plaintiffs the opportunity to provide a new report from the expert seeking to cure the deficiencies in the expert's testimony. The court provided a schedule for the cure process and ordered plaintiffs to bear the burden of defendants' expenses incurred in this process. The plaintiffs moved for reconsideration of the court's February 7, 2013 order. On March 6, 2013, the court denied the plaintiffs' motion for reconsideration with respect to the plaintiffs' expert report, but granted the motion with respect to shifting the costs of the defendants' expenses. On October 25, 2013, the court denied defendants' motion to exclude plaintiffs' expert on loss causation and vacated its order that plaintiffs pay defendants' expenses incurred in redoing the expert reports. The court set the pretrial conference for November 20, 2013 and a trial date of January 6, 2014. The Company intends to defend this litigation vigorously. At this time, there can be no assurance as to the ultimate outcome of this litigation. We have not recorded any significant accruals for contingent liabilities associated with this matter based on our belief that a liability, while possible, is not probable. Further, any possible range of loss cannot be estimated at this time.

On September 24, 2010, NovAtel, Inc., a Canadian company ("NovAtel Canada") filed a trademark infringement lawsuit entitled *NovAtel, Inc. v. Novatel Wireless Technologies, Ltd., et al*, Action No. 1001-14265 in the Court of Queens Bench of Alberta Canada, Judicial District of Calgary. The Statement of Claim alleges that Novatel Wireless Technologies, Ltd., Novatel Wireless Solutions, Inc. and Novatel Wireless, Inc., or collectively, the Company, are infringing NovAtel Canada's purported rights in the "Novatel" trademark in breach of a settlement agreement between NovAtel Canada and the Company. The parties resolved all claims alleged in this matter without any payment by the Company. The matter was dismissed on March 12, 2013.

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 but the Company does not believe that there are any matters individually or collectively that would have a material adverse effect on its financial condition, results of operation or cash flows.

The Company recorded approximately \$37,000 and \$793,000 during the three and nine months ended September 30, 2013, respectively, related to settlements on legal matters.

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. A significant factor in the Company's assessment is that the Company is in a three-year historical cumulative loss position. This fact, combined with uncertain near-term market and economic conditions, reduced the Company's ability to rely on projections of future taxable income in assessing the realizability of its deferred tax assets.

After a review of the four sources of taxable income as of September 30, 2013 (as described above), the Company recognized increases in the valuation allowance related to its domestic deferred tax amounts, resulting from carryforward net operating losses generated during the three and nine months ended September 30, 2013.

The Company also recognized an increase in the valuation allowance of \$321,000 related to research and development tax credits associated with the Company's Canadian subsidiary. The Canadian subsidiary is expecting a decrease in taxable income due to the Company's recent restructuring initiatives.

The deferred tax benefits, combined with a corresponding charge to income tax expense related to increased valuation allowances of \$1.3 million and \$10.1 million for the three and nine months ended September 30, 2013, respectively, resulted in an insignificant effective income tax rate. The Company's valuation allowance was \$74.0 million on net deferred tax assets of \$74.1 million at September 30, 2013.

For the three and nine months ended September 30, 2013, the Company recorded income tax expense, including discrete items, of \$319,000 and \$340,000, respectively. These amounts vary from the income tax benefit that would be computed at the U.S. statutory rate resulting from its operating losses during those same periods primarily due to the aforementioned offsetting increases in the Company's deferred tax assets valuation allowance.

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 September 30, 2013 and December 31, 2012, the total liability for unrecognized tax benefits was \$62,000 and \$367,000, respectively, and is included in other long-term liabilities. For the three and nine months ended September 30, 2013, the Company included an insignificant amount of interest expense related to uncertain tax positions in its condensed consolidated statements of operations.

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

The Company and its subsidiaries file U.S., state, and foreign income tax returns in jurisdictions with various statutes of limitations. The California Franchise Tax Board is currently conducting an examination of the Company's California income tax returns for 2006 and 2007. The Company is also subject to various Federal income tax examinations for the 2003 through 2010 calendar years due to the availability of net operating loss carryforwards. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years. However, because audit outcomes and the timing of audit settlements are subject to significant uncertainty, the Company's current estimate of the total amounts of unrecognized tax benefits could increase or decrease for all open years.

11. Restructuring

In September 2013, the Company commenced certain restructuring initiatives including the closure of the Company's development site in Calgary, Canada, and the consolidation of certain supply chain management activities, resulting in a reduction in force of 72 employees across all functional areas of the Company. During the three and nine months ended September 30, 2013, the Company recorded restructuring charges of \$2.4 million consisting primarily of employee-related compensation charges. The restructuring charges for the three and nine months ended September 30, 2013 consisted of \$2.3 million in employee severance costs and \$138,000 in other restructuring charges. Of the \$2.4 million of restructuring charges for the three and nine months ended September 30, 2013, \$2.2 million relates to the Mobile Computing Products segment, and \$206,000 relates to the M2M Products and Solutions segment.

The following table sets forth activity in the restructuring liability for the nine months ended September 30, 2013, which is primarily comprised of employee severance costs (in thousands):

| | Employee Severance Costs | Other Restructuring Charges | Total |
|-------------------------------|--------------------------------|-----------------------------------|-----------------|
| Balance at December 31, 2012 | \$ 0 | \$ 0 | \$ 0 |
| Accruals | 2,273 | 138 | 2,411 |
| Payments | (292) | 0 | (292) |
| Balance at September 30, 2013 | <u>\$ 1,981</u> | <u>\$ 138</u> | <u>\$ 2,119</u> |

The balance of the restructuring liability at September 30, 2013 is anticipated to be fully distributed by the end of 2013. We also expect to incur additional employee severance expenses in the fourth quarter of 2013 of approximately \$0.6 million and expenses from vacating all or a portion of certain facilities in the United States, Canada and the United Kingdom in the fourth quarter of 2013 at a cost of approximately \$0.5 million, all of which relates to the Mobile Computing Products segment.

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

The following information should be read in conjunction with the condensed 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, 2012 contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview and Background

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

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

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

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

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

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control, and fulfillment. We have agreements with Inventec Appliances Corporation, or IAC; Hon Hai Precision Industry co., LTD; and Benchmark Electronics for the outsourced manufacturing of our products. Under our manufacturing agreements, contract manufacturers provide us with services including component procurement, product manufacturing, final assembly, testing, quality control, and fulfillment. In addition, we have an agreement with Mobiltron for certain distribution, fulfillment and repair services related to our business in Europe, the Middle East and Africa, or EMEA.

Factors Which May Influence Future Results of Operations

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

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

We anticipate introducing additional products during the next twelve months, including 4G broadband-access products, M2M solutions and software applications and platforms. We continue to develop and maintain strategic relationships with wireless and computing industry leaders like QUALCOMM, Sprint, Verizon Wireless, AT&T, Texas Instruments, and major software vendors. Through strategic relationships, we have been able to increase market penetration by leveraging the resources of our channel partners, including their access to distribution resources, increased sales opportunities and market opportunities.

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

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

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

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

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

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

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

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

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

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

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, valuation of goodwill, litigation, provision for warranty costs, income taxes, and share-based compensation expense.

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

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

The timing and frequency of our impairment test is based on an ongoing assessment of triggering events that could reduce the fair value of our long-lived assets below their carrying value. We monitor our intangible and long-lived asset balances and conduct formal tests on at least an annual basis or earlier when impairment indicators are present. We believe that the assumptions and estimates we used to value intangible and long-lived assets were appropriate based on the information available to management. The majority of our long-lived assets are being amortized or depreciated over two to four years. As most of these assets are associated with technology or trade conditions that may change rapidly; such changes could have an immediate impact on our impairment analysis.

Goodwill. Our goodwill resulted from the acquisition of Enfora (M2M Products and Solutions) in the fourth quarter of 2010. In accordance with the FASB Accounting Standards Codification ("ASC") Topic 350, *Intangibles — Goodwill and Other* ("ASC Topic 350"), we review goodwill for impairment at least annually at the beginning of the fourth quarter of each year, and more frequently if events or changes in circumstances occur that indicate a potential reduction in the fair value of the reporting unit below its carrying value. During the year ended December 31, 2012, impairment charges were recorded for the full remaining amount of goodwill resulting in a zero balance in goodwill at December 31, 2012.

The significant accounting policies used in preparation of these consolidated financial statements for the three and nine months ended September 30, 2013 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, 2012 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 condensed consolidated financial statements for the three and nine months ended September 30, 2013 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2012 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 September 30, 2013 Compared to Three Months Ended September 30, 2012

Net revenues. Net revenues for the three months ended September 30, 2013 were \$92.7 million, an increase of \$21.7 million or 30.5% compared to the same period in 2012.

The following table summarizes net revenues by reportable segment and net revenues by product categories during the three months ended September 30, 2013 and September 30, 2012 (in thousands):

| | Three Months Ended September 30, | |
|---|-------------------------------------|-----------------|
| | 2013 | 2012 |
| <u>Net revenues by reportable segment:</u> | | |
| Mobile Computing Products | \$84,067 | \$65,189 |
| M2M Products and Solutions | 8,606 | 5,828 |
| Total | <u>\$92,673</u> | <u>\$71,017</u> |
| <u>Net revenues by product categories:</u> | | |
| Mobile Broadband Devices | \$78,015 | \$58,275 |
| Embedded Solutions | 9,272 | 7,666 |
| Asset Management Solutions & Services | 5,386 | 5,076 |
| Total | <u>\$92,673</u> | <u>\$71,017</u> |

Mobile Computing Products. Net revenues from our Mobile Computing Products segment for the three months ended September 30, 2013 were \$84.1 million, an increase of \$18.9 million or 29.0% compared to the same period in 2012. The increase is primarily attributable to increased sales of Mobile Broadband devices to our largest customer and higher average sales prices during the quarter.

M2M Products and Solutions. Net revenues from our M2M Products and Solutions segment for the three months ended September 30, 2013 were \$8.6 million, compared with \$5.8 million for the same period last year. The increase is primarily due to increased sales of our recently launched HS3001 module.

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

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

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

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

Cost of net revenues. Cost of net revenues for the three months ended September 30, 2013 was \$72.3 million, or 78.0% of net revenues, as compared to \$56.4 million, or 79.4% of net revenues, for the same period in 2012. During the third quarter of 2013, the cost of net revenues as a percentage of net revenues decreased due to higher average sales prices during the quarter, and lower quarter over quarter purchased intangible amortization expense decreasing to \$83,000 during the quarter ended September 30, 2013 as compared to \$289,000 in the comparable quarter of 2012. The cost of net revenues as a percentage of revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

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 September 30, 2013 was \$20.4 million, or a gross margin of 22.0% of net revenues, compared to \$14.6 million, or a gross margin of 20.6% of net revenues for the same period in 2012. The gross margin increase was primarily attributable to the changes in net revenues and cost of net revenues as discussed above. We expect that our gross margin percentage will continue to fluctuate from quarter to quarter depending on revenue levels, 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 September 30, 2013 were \$12.4 million, or 13.4% of net revenues, compared to \$14.7 million, or 20.7% of net revenues, for the same period in 2012. Research and development expenses for the three months ended September 30, 2013 were lower as compared to the same period in 2012, due to reduced employee related cost attributed to headcount reductions and lower costs of outside lab testing and materials.

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

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

Sales and marketing expenses. Sales and marketing expenses for the three months ended September 30, 2013 were \$5.1 million, or 5.5% of net revenues, compared to \$6.3 million, or 8.8% of net revenues, for the same period in 2012. Sales and marketing expenses for the three months ended September 30, 2013 were lower as compared to the same period in 2012, primarily due to reduced headcount, resulting in a decrease in salaries and related expenditures, and lower outside services expenses, partially offset by an increase in market development funds.

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 September 30, 2013 were \$5.1 million, or 5.5% of net revenues, compared to \$4.8 million, or 6.8% of net revenues, for the same period in 2012. General and administrative expenses for the three months ended September 30, 2013 were higher as compared to the same period in 2012 primarily due to increased legal fees and an increase to our allowance for doubtful accounts receivable, partially offset by reduced labor cost attributed to headcount reductions and lower costs of outside services. While we are closely monitoring and working to control general and administrative costs, we expect these costs to be negatively impacted by legal fees to defend the claims described in Note 9 to our condensed consolidated financial statements included in this report. During the third quarter periods in 2013 and 2012, the Company incurred \$1.7 million and \$941,000 in professional legal expenses, respectively. The increase in legal expenses is primarily due to external legal fees related to litigation and resulting settlement agreements reached during the three months ended September 30, 2013.

Goodwill and intangible assets impairments. No impairments were recorded during the three months ended September 30, 2013. During the third quarter of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M products and solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis. Based on the fair value tests performed, the Company recorded a pre-tax goodwill impairment charge of \$13.2 million and a purchased intangible asset charge of \$7.3 million during the third quarter of 2012. During the fourth quarter of 2012, the Company completed the impairment analysis and reduced the third quarter impairment by \$300,000.

Amortization of purchased intangible assets. The amortization of purchased intangible assets for the three months ended September 30, 2013 was \$141,000, compared to \$227,000 for the same period 2012. The decrease in amortization expense for the three months ended September 30, 2013 was caused by the lower net asset value of the intangible assets resulting from impairment charges recorded during 2012.

Restructuring charges. Restructuring expenses for the three months ended September 30, 2013 were \$2.4 million, and predominantly consist of severance costs incurred in connection with the restructuring of our workforce, which commenced in September 2013.

Interest income, net. Interest income, net, for the three months ended September 30, 2013 was \$31,000 as compared to \$72,000 for the same period in 2012. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 0.39% and 0.46% in the third quarters of 2013 and 2012, respectively.

Other income (expense), net. Other income (expense), net, for the three months ended September 30, 2013 was \$59,000 of income as compared to expense of \$45,000 for the same period in 2012.

Income tax expense (benefit). Income tax expense for the three months ended September 30, 2013 was \$319,000, as compared to \$107,000 of expense for the same period in 2012. The increase is primarily due to the increase in the valuation allowance related to research and development tax credits associated with the Company's Canadian subsidiary.

The effective tax rate for the three months ended September 30, 2013 is different than the U.S. statutory rate primarily due to a valuation allowance recorded against additional tax assets generated in the third quarter of 2013.

Net loss. For the three months ended September 30, 2013, we reported a net loss of \$5.1 million, as compared to a net loss of \$31.9 million for the same period in 2012. During the third quarter of 2012, we recorded pre-tax goodwill impairment charges of \$13.2 million and a purchased intangible asset impairment charge of \$7.3 million. Our net loss was also reduced by increased gross profit offset by increased legal expenses primarily related to litigation and resulting settlement agreements.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net revenues. Net revenues for the nine months ended September 30, 2013 were \$269.7 million, a decrease of \$3.9 million or 1.4% compared to the same period in 2012.

The following table summarizes net revenues by reportable segment and net revenues by product categories during the nine months ended September 30, 2013 and September 30, 2012 (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------------|
| | 2013 | 2012 |
| <u>Net revenues by reportable segment:</u> | | |
| Mobile Computing Products | \$240,510 | \$248,620 |
| M2M Products and Solutions | 29,208 | 24,993 |
| Total | <u>\$269,718</u> | <u>\$273,613</u> |
| <u>Net revenues by product categories:</u> | | |
| Mobile Broadband Devices | \$223,754 | \$231,033 |
| Embedded Solutions | 27,475 | 22,618 |
| Asset Management Solutions & Services | 18,489 | 19,962 |
| Total | <u>\$269,718</u> | <u>\$273,613</u> |

Mobile Computing Products. Net revenues from our Mobile Computing Products segment for the nine months ended September 30, 2013 were \$240.5 million, a decrease of \$8.1 million or 3.3% compared to the same period in 2012. The decrease is primarily attributable to lower sales of Mobile Broadband devices and lower average sales prices during the period.

M2M Products and Solutions. Net revenues from our M2M Products and Solutions segment for the nine months ended September 30, 2013 were \$29.2 million, compared with \$25.0 million for the same period last year. The increase is primarily due to increased sales of our recently launched HS3001 module.

Cost of net revenues. Cost of net revenues for the nine months ended September 30, 2013 was \$213.5 million, or 79.1% of net revenues, as compared to \$214.7 million, or 78.5% of net revenues, for the same period in 2012. During the nine months ended September 30, 2013, the cost of net revenues as a percentage of net revenues increased primarily due to lower average sales prices during the period, an increase in the inventory obsolescence provision, partially offset by lower purchased intangible amortization expense decreasing to \$250,000 during the nine months ended September 30, 2013 as compared to \$1.5 million in the comparable period of 2012.

Gross profit. Gross profit for the nine months ended September 30, 2013 was \$56.3 million, or a gross margin of 20.9% of net revenues, compared to \$58.9 million, or a gross margin of 21.5% of net revenues for the same period in 2012. The gross margin decrease was primarily attributable to the changes in net revenues and cost of net revenues as discussed above.

Research and development expenses. Research and development expenses for the nine months ended September 30, 2013 were \$39.3 million, or 14.6% of net revenues, compared to \$45.0 million, or 16.4% of net revenues, for the same period in 2012. Research and development expenses for the nine months ended September 30, 2013 were lower as compared to the same period in 2012, due to reduced labor cost attributed to headcount reductions and decreased share-based compensation expense.

Sales and marketing expenses. Sales and marketing expenses for the nine months ended September 30, 2013 were \$16.7 million, or 6.2% of net revenues, compared to \$21.3 million, or 7.8% of net revenues, for the same period in 2012. Sales and marketing expenses for the nine months ended September 30, 2013 were lower as compared to the same period in 2012, primarily due to headcount reductions, resulting in a decrease in salaries and related expenditures.

General and administrative expenses. General and administrative expenses for the nine months ended September 30, 2013 were \$19.2 million, or 7.1% of net revenues, compared to \$16.1 million, or 5.9% of net revenues, for the same period in 2012. General and administrative expenses for the nine months ended September 30, 2013 were higher as compared to the same period in 2012 primarily due to increased legal fees and an increase to our allowance for doubtful accounts receivable, partially offset by reduced labor cost attributed to headcount reductions and decreased share-based compensation expense. During the nine months ended September 30, 2013 and 2012, the Company incurred \$7.0 million and \$3.7 million in professional legal expenses, respectively. During the nine months ended September 30, 2013, the Company reached settlement agreements of \$0.8 million. The increase in legal expenses is primarily due to external legal fees related to litigation and resulting settlement agreements reached during the period.

Goodwill and intangible assets impairments. No impairments were recorded during the nine months ended September 30, 2013. During the first and third quarters of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices and forecasted sales volumes, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment

analysis. Based on the fair value tests performed during the first quarter of 2012, the Company recorded a pre-tax goodwill impairment charge of \$6.6 million and a purchased intangible asset charge of \$22.8 million. Based on the fair value tests performed during the third quarter of 2012, the Company recorded a preliminary pre-tax goodwill impairment charge of \$13.2 million and a preliminary purchased intangible asset charge of \$7.3 million. During the fourth quarter of 2012, the Company completed the third quarter impairment analysis and reduced the purchased intangible asset impairment by \$300,000.

Amortization of purchased intangible assets. The amortization of purchased intangible assets for the nine months ended September 30, 2013 was \$422,000, compared to \$891,000 for the same period 2012. The decrease in amortization expense for the nine months ended September 30, 2013 was caused by the lower net asset value of the intangible assets resulting from impairment charges recorded during 2012.

Restructuring charges. Restructuring expenses for the nine months ended September 30, 2013 were \$2.4 million, and predominantly consist of severance costs incurred in connection with the restructuring of our workforce, which commenced in September 2013.

Interest income, net. Interest income, net, for the nine months ended September 30, 2013 was \$109,000 as compared to \$238,000 for the same period in 2012. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 0.47% and 0.42% in the nine months ended September 30, 2013 and 2012, respectively.

Other income (expense), net. Other income (expense), net, for the nine months ended September 30, 2013 was \$83,000 of expense as compared to \$191,000 of expense for the same period in 2012.

Income tax expense (benefit). Income tax expense for the nine months ended September 30, 2013 was \$340,000, as compared to \$276,000 of expense for the same period in 2012.

The effective tax rate for the nine months ended September 30, 2013 is different than the U.S. statutory rate primarily due to a valuation allowance recorded against additional tax assets generated in the nine months ended September 30, 2013.

Net loss. For the nine months ended September 30, 2013, we reported a net loss of \$22.1 million, as compared to a net loss of \$74.4 million for the same period in 2012. The reduction in net loss primarily resulted from no impairment being recorded during the nine months ended September 30, 2013. During the same period in 2012, we recorded pre-tax goodwill impairment charges of \$19.8 million and a purchased intangible asset impairment charge of \$30.1 million.

Liquidity and Capital Resources

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

To address short term liquidity requirements resulting from working capital changes the Company entered into a margin credit facility with a bank in 2011. The use of this margin credit facility allows the Company to meet short-term cash requirements and avoid selling cash equivalents and marketable securities. Borrowings under this facility are collateralized by Company cash and cash equivalents and marketable securities on deposit at the bank. During the three and nine months ended September 30, 2013, the Company borrowed approximately \$3.4 million and \$13.4 million, respectively, and had outstanding borrowings of \$2.4 million under this facility at September 30, 2013. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities have been classified by the Company as restricted marketable securities on the balance sheet at September 30, 2013. At September 30, 2013 the Company had no cash equivalents held at this bank. The Company's borrowing limit at September 30, 2013 under the credit facility was \$3.6 million. During October 2013, the Company borrowed \$3.5 million against the facility, which remained outstanding as of the date of this report.

Working Capital, Cash and Cash Equivalents and Marketable Securities

The following table presents working capital, cash and cash equivalents and marketable securities (in thousands):

| | September 30, 2013 <u>(unaudited)</u> | December 31, 2012 <u></u> |
|---|---|---------------------------------|
| Working capital ⁽¹⁾ | \$ 47,639 | \$ 67,199 |
| Cash and cash equivalents ⁽²⁾ | \$ 18,138 | \$ 16,044 |
| Short-term marketable securities ⁽²⁾⁽³⁾ | 21,991 | 38,064 |
| Long-term marketable securities | 5,316 | 1,201 |
| Total cash and cash equivalents and marketable securities | <u>\$ 45,445</u> | <u>\$ 55,309</u> |

(1) Working capital is defined as the excess of current assets over current liabilities.

(2) Included in working capital.

(3) Excludes restricted marketable securities.

Our working capital decreased \$19.6 million from December 31, 2012 to September 30, 2013. The decrease was primarily due to the operating loss for the nine months ended September 30, 2013 and the investment of short-term marketable securities maturities into long-term marketable securities of approximately \$4.1 million.

As of September 30, 2013, cash and cash equivalents and marketable securities decreased by \$9.9 million from December 31, 2012. The principal component of this net decrease was the cash used in our operating activities of \$4.2 million primarily attributable to the operating loss for the nine months ended September 30, 2013.

Historical Cash Flows

The following table summarizes our condensed consolidated statements of cash flows for the periods indicated (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------------|
| | 2013 | 2012 |
| Net cash used in operating activities | \$ (4,182) | \$ (22,836) |
| Net cash provided by (used in) investing activities | 4,445 | (8,386) |
| Net cash provided by financing activities | 1,916 | 537 |
| Effect of exchange rates on cash and cash equivalents | (85) | (43) |
| Net increase (decrease) in cash and cash equivalents | 2,094 | (30,728) |
| Cash and cash equivalents, beginning of period | 16,044 | 47,069 |
| Cash and cash equivalents, end of period | <u>\$18,138</u> | <u>\$ 16,341</u> |

Operating activities. Net cash used in operating activities was \$4.2 million for the nine months ended September 30, 2013 compared to net cash used by operating activities of \$22.8 million for the same period in 2012. Net cash used in operating activities for the nine months ended September 30, 2013 was attributable to a net decrease in cash caused by net losses in the period, partially offset by contributions to cash caused by net changes in working capital accounts, and non-cash charges for depreciation and amortization, inventory obsolescence provision and share based compensation expense. Net cash used for the nine months ended September 30, 2012 was attributable to net losses in the period and a net decrease in cash caused by changes in working capital accounts, offset by non-cash charges for impairments of goodwill and intangibles, depreciation and amortization, and share based compensation expense.

Investing activities. Net cash provided by investing activities during the nine months ended September 30, 2013 was \$4.4 million compared to \$8.4 million used during the same period in 2012. Cash provided by investing activities during the nine months ended September 30, 2013 was related to net sales of marketable securities of \$9.5 million, partially offset by purchases of property, plant, and equipment of approximately \$5.0 million. Cash used in investing activities during the nine months ended September 30, 2012 was related to net purchases of marketable securities of \$4.4 million, and purchases of property, plant, and equipment of approximately \$4.0 million.

Financing activities. Net cash provided by financing activities during the nine months ended September 30, 2013 was \$1.9 million compared to cash provided of \$537,000 during the same period in 2012. Net cash provided by financing activities for the nine months ended September 30, 2013 was primarily related to proceeds received from borrowing on our margin credit facility, partially offset by principal repayments on our margin credit facility borrowings, and payroll taxes paid on behalf of employees for restricted stock units which vested during the period. Net cash provided by financing activities during the same period in 2012 was primarily related to cash received for ESPP purchases.

Other Liquidity Needs

We expect to incur ongoing professional fees and expenses to defend litigation filed against us or related to our products, which litigation is discussed in Note 9 to our condensed consolidated financial statements included in this report. These costs cannot be estimated at this time.

During the next twelve months, we currently plan to incur approximately \$3.5 million for discretionary capital expenditures, including the acquisition of additional software licenses.

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

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

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

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, 2012, 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, 2012.

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 SEC'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 September 30, 2013, 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 September 30, 2013, 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.

In *Backe v. Novatel Wireless, Inc. et al.*, United States District Court for the Southern District of California (San Diego), Case No. 3:08-cv-01689-AJB-RBB (consolidated with Case No. 3:08-cv-01714-H-RBB (U.S.D.C., S.D. Cal.)), the court has set the final pretrial conference for November 20, 2013 and a trial date of January 6, 2014.

For additional information regarding these matters, see Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2012.

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, 2012.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable

Item 6. Exhibits.

| Exhibit Number | Description |
|-----------------------|--|
| 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 Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of our Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of our Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements and footnotes from the Novatel Wireless, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements. |

SIGNATURES

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.

November 7, 2013

Date

Novatel Wireless, Inc.

/s/ PETER LEPARULO

Peter Leparulo
Chairman and Chief Executive Officer

November 7, 2013

Date

/s/ KENNETH LEDDON

Kenneth Leddon
Senior Vice President and Chief Financial 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.

Date: November 7, 2013

/s/ PETER LEPARULO

Peter Leparulo

Chairman and Chief Executive Officer

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

I, Kenneth Leddon, certify that:

1. I have reviewed this 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.

Date: November 7, 2013

/s/ KENNETH LEDDON

Kenneth Leddon

Senior Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Novatel Wireless, Inc. (the "Company"), on Form 10-Q for the quarter ended September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Leparulo, Chairman and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, that to the best of my 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.

Date: November 7, 2013

/s/ Peter Leparulo

Peter Leparulo

Chairman and Chief Executive Officer

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

In connection with the Quarterly Report of Novatel Wireless, Inc. (the "Company"), on Form 10-Q for the quarter ended September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth Leddon, Senior Vice President and Chief Financial Officer, do hereby certify, pursuant to 18 U.S.C. Section 1350, that to the best of my 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.

Date: November 7, 2013

/s/ Kenneth Leddon

Kenneth Leddon

Senior Vice President and Chief Financial Officer