

**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, 2012

OR

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

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

Commission file number: 000-31659

**NOVATEL WIRELESS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

9645 Scranton Road, San Diego, 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 6, 2012 was 33,081,806.

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

### **Forward-Looking Statements**

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

- 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 successfully integrate the operations of Enfora, Inc., or Enfora, and any other business, products, technologies or personnel that we may acquire or retain 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 given their dependence on wireless telecommunication operators continuing to deliver acceptable wireless services;
- our ability to properly manage the development 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 our 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 third-party technology necessary for the development and sale of our products;
- risks associated with doing business abroad, including foreign currency risks;
- the risks of introducing new products that could contain errors or defects; and
- our ability to hire, retain and manage additional qualified personnel to maintain and expand our business.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with 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, 2011. 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”, “MiFi.Freedom. My Way”, “Conversa”, “NovaSpeed”, “NovaCore” and “NovaDrive” 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)

	September 30, 2012 Unaudited	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,341	\$ 47,069
Marketable securities	39,958	28,267
Accounts receivable, net of allowance for doubtful accounts of \$250 at September 30, 2012 and \$245 at December 31, 2011	40,270	36,849
Inventories	36,527	42,279
Deferred tax assets, net	2,005	2,011
Prepaid expenses and other	4,782	3,712
Total current assets	139,883	160,187
Property and equipment, net of accumulated depreciation of \$62,925 at September 30, 2012 and \$59,217 at December 31, 2011	14,939	18,496
Marketable securities	6,174	13,495
Intangible assets, net of accumulated amortization of \$11,636 at September 30, 2012 and \$10,899 at December 31, 2011	3,091	35,702
Goodwill	—	19,772
Deferred tax assets, net	843	1,023
Other assets	672	504
Total assets	<u>\$ 165,602</u>	<u>\$ 249,179</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 38,948	\$ 54,030
Accrued expenses	25,188	25,044
Total current liabilities	64,136	79,074
Other long-term liabilities	3,759	4,080
Total liabilities	67,895	83,154
Stockholders' equity:		
Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding	—	—
Common stock, par value \$0.001; 50,000 shares authorized, 33,082 and 32,262 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	33	32
Additional paid-in capital	435,804	429,813
Accumulated other comprehensive income (loss)	36	(8)
Accumulated deficit	(313,166)	(238,812)
Treasury stock at cost; 2,436 common shares at September 30, 2012 and December 31, 2011, respectively	122,707	191,025
Total stockholders' equity	(25,000)	(25,000)
Total stockholders' equity	97,707	166,025
Total liabilities and stockholders' equity	<u>\$ 165,602</u>	<u>\$ 249,179</u>

See accompanying notes to unaudited consolidated financial statements.

**NOVATEL WIRELESS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(in thousands, except per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenues	\$ 71,017	\$ 113,263	\$ 273,613	\$ 293,068
Cost of net revenues	56,371	86,573	214,728	234,202
Gross profit	<u>14,646</u>	<u>26,690</u>	<u>58,885</u>	<u>58,866</u>
Operating costs and expenses:				
Research and development	14,696	15,126	44,982	45,517
Sales and marketing	6,267	7,211	21,255	22,805
General and administrative	4,825	6,243	16,061	16,550
Goodwill and intangible assets impairment	20,484	3,514	49,821	3,514
Amortization of purchased intangible assets	227	644	891	1,699
Total operating costs and expenses	<u>46,499</u>	<u>32,738</u>	<u>133,010</u>	<u>90,085</u>
Operating loss	(31,853)	(6,048)	(74,125)	(31,219)
Other income (expense):				
Interest income, net	72	60	238	303
Other expense, net	(45)	(679)	(191)	(1,164)
Loss before income taxes	(31,826)	(6,667)	(74,078)	(32,080)
Income tax (benefit) provision	107	(11,165)	276	(10,592)
Net income (loss)	<u>\$(31,933)</u>	<u>\$ 4,498</u>	<u>\$(74,354)</u>	<u>\$ (21,488)</u>
Per share data:				
Net loss per share:				
Basic	<u>\$ (0.97)</u>	<u>\$ 0.14</u>	<u>\$ (2.28)</u>	<u>\$ (0.67)</u>
Diluted	<u>\$ (0.97)</u>	<u>\$ 0.14</u>	<u>\$ (2.28)</u>	<u>\$ (0.67)</u>
Weighted average shares used in computation of basic and diluted net loss per share:				
Basic	<u>33,074</u>	<u>32,057</u>	<u>32,683</u>	<u>32,005</u>
Diluted	<u>33,074</u>	<u>32,370</u>	<u>32,683</u>	<u>32,005</u>
Comprehensive income (loss)	<u>\$(31,906)</u>	<u>\$ 4,438</u>	<u>\$(74,310)</u>	<u>\$ (21,542)</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,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (74,354)	\$ (21,488)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale/disposal of fixed asset	90	—
Depreciation and amortization	9,747	13,782
Loss on goodwill and purchased intangible assets impairment	49,821	3,514
Impairment loss on software license intangible assets	—	133
Provision for bad debts	39	59
Net impairment loss on marketable securities	39	346
Inventory provision	1,663	576
Share-based compensation expense	5,409	4,057
Non-cash income tax expense (benefit)	194	(11,287)
Changes in assets and liabilities:		
Accounts receivable	(3,460)	9,046
Inventories	4,089	(6,634)
Prepaid expenses and other assets	(1,238)	3,484
Accounts payable	(15,108)	(23,941)
Accrued expenses, income taxes, and other	233	1,651
Net cash used in operating activities	<u>(22,836)</u>	<u>(26,702)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,021)	(4,928)
Purchases of intangible assets	—	(219)
Purchases of marketable securities	(31,871)	(21,366)
Marketable securities maturities / sales	27,506	58,539
Net cash provided by (used in) investing activities	<u>(8,386)</u>	<u>32,026</u>
Cash flows from financing activities:		
Proceeds from the issuance of short-term debt	5,000	12,000
Principal repayments of short-term debt	(5,000)	(12,000)
Principal payments under capital lease obligations	(46)	(81)
Proceeds from stock option exercises and ESPP net of taxes paid on vested restricted stock units	583	(617)
Net cash provided by (used in) financing activities	537	(698)
Effect of exchange rates on cash and cash equivalents	(43)	(74)
Net increase (decrease) in cash and cash equivalents	<u>(30,728)</u>	<u>4,552</u>
Cash and cash equivalents, beginning of period	47,069	17,375
Cash and cash equivalents, end of period	<u>\$ 16,341</u>	<u>\$ 21,927</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 1	\$ 7
Income taxes	\$ 100	\$ 194
Supplemental disclosures of non-cash investing activities:		
Building rent incentives to fund leasehold improvements	\$ —	\$ 1,869
Supplemental disclosures of non-cash financing activities:		
Marketable equity securities received in settlement of note receivable	\$ —	\$ 384

See accompanying notes to unaudited consolidated financial statements.

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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, 2012 and the results of the Company's operations for the three and nine months ended September 30, 2012 and 2011 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, 2011. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the Company's Form 10-K with the exception of new accounting pronouncements adopted in 2012. 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.

*New Accounting Pronouncements*

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

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

## 2. Balance Sheet Details

### Marketable Securities

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

	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>September 30, 2012</b>					
Available-for-sale:					
Government agency securities	1 or less	\$ 3,681	\$ —	\$ —	\$ 3,681
Municipal bonds	1 or less	14,678	11	—	14,689
Certificates of deposit	1 or less	4,079	2	—	4,081
Corporate debentures / bonds	1 or less	17,496	11	—	17,507
Total short-term marketable securities		39,934	24	—	39,958
Available-for-sale:					
Government agency securities	1 to 2	3,000	1	—	3,001
Municipal bonds	1 to 2	804	1	—	805
Certificates of deposit	1 to 2	2,358	10	—	2,368
Total long-term marketable securities		6,162	12	—	6,174
		<u>\$46,096</u>	<u>\$ 36</u>	<u>\$ —</u>	<u>\$46,132</u>
<b>December 31, 2011</b>					
Available-for-sale:					
Government agency securities	1 or less	\$ 6,913	\$ —	\$ (1)	\$ 6,912
Municipal bonds	1 or less	8,390	—	(6)	8,384
Certificates of deposit	1 or less	4,319	2	—	4,321
Corporate debentures / bonds	1 or less	8,615	—	(3)	8,612
Marketable equity securities	1 or less	38	—	—	38
Total short-term marketable securities		28,275	2	(10)	28,267
Available-for-sale:					
Government agency securities	1 to 2	3,734	4	—	3,738
Municipal bonds	1 to 2	5,967	2	—	5,969
Certificates of deposit	1 to 2	3,797	—	(9)	3,788
Total long-term marketable securities		13,498	6	(9)	13,495
		<u>\$41,773</u>	<u>\$ 8</u>	<u>\$ (19)</u>	<u>\$41,762</u>

The Company's available-for-sale securities are carried on the 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, 2012, the Company recorded a net unrealized gain of \$36,000. The Company's net unrealized gain 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.

### *Inventories*

Inventories consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Finished goods	\$ 28,407	\$ 35,211
Raw materials and components	8,120	7,068
	<u>\$ 36,527</u>	<u>\$ 42,279</u>

### *Accrued Expenses*

Accrued expenses consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Royalties	\$ 4,260	\$ 5,861
Payroll and related expenses	7,628	8,706
Product warranty	2,481	1,525
Market development funds and price protection	1,448	1,750
Deferred rent	1,238	1,135
Professional fees	1,914	1,213
Other	6,219	4,854
	<u>\$ 25,188</u>	<u>\$ 25,044</u>

### *Accrued Warranty Obligations*

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Warranty liability at beginning of period	\$ 2,674	\$ 1,709	\$ 1,525	\$ 2,279
Additions charged to operations	849	1,035	3,579	2,238
Deductions from liability	(1,042)	(1,015)	(2,623)	(2,788)
Warranty liability at end of period	<u>\$ 2,481</u>	<u>\$ 1,729</u>	<u>\$ 2,481</u>	<u>\$ 1,729</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 and comprehensive income (loss) 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, 2012					December 31, 2011		
	Gross	Accumulated Amortization	March 31, 2012 Impairment	September 30, 2012 Preliminary Impairment	Net	Gross	Accumulated Amortization	Net
Developed technologies	\$ 26,000	\$ (5,703)	\$ (15,477)	\$ (4,070)	\$ 750	\$ 26,000	\$ (4,163)	\$ 21,837
Trade name	12,800	(2,018)	(5,693)	(3,189)	1,900	12,800	(1,387)	11,413
Other	3,720	(1,868)	(1,620)	—	232	3,720	(1,609)	2,111
Total amortizable purchased intangible assets	<u>\$ 42,520</u>	<u>\$ (9,589)</u>	<u>\$ (22,790)</u>	<u>\$ (7,259)</u>	<u>\$ 2,882</u>	<u>\$ 42,520</u>	<u>\$ (7,159)</u>	<u>\$ 35,361</u>

The following table presents details of the amortization of purchased intangible assets 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,	
	2012	2011	2012	2011
Cost of net revenues	\$ 289	\$ 705	\$1,539	\$3,144
General and administrative expenses	227	644	891	1,699
Total amortization expense	<u>\$ 516</u>	<u>\$ 1,349</u>	<u>\$2,430</u>	<u>\$4,843</u>

During the quarter ended March 31, 2012, the Company recorded an impairment loss of \$22.8 million related to a decrease in the estimated fair values of the purchased intangible assets fair values. At September 30, 2012, the Company performed a preliminary interim impairment assessment of its purchased intangible assets. The resulting preliminary impairment of \$7.3 million has been recorded as a loss in the current quarter and the intangible asset values have been recorded at their estimated fair value. See Note 4.

The following table represents details of the amortization of existing purchased intangible assets that is currently estimated to be expensed in the remainder of 2012 and thereafter (in thousands):

Fiscal year:	Amount
2012 (remaining 3 months)	\$ 229
2013	743
2014	743
2015	729
2016	438
Total	<u>\$2,882</u>

Additionally, at September 30, 2012 and December 31, 2011, the Company had \$209,000 and \$341,000, respectively, of acquired software licenses, net of accumulated amortization of \$2.0 million and \$3.7 million, respectively. The acquired software licenses represent rights to use certain software necessary for commercial sale of the Company's products.

### 4. Goodwill

The changes in the carrying amount of goodwill for the nine month periods ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Goodwill at beginning of period	\$ 13,225	\$22,258	\$ 19,772	\$22,258
Goodwill impairment during the period	(13,225)	(3,514)	(19,772)	(3,514)
Other adjustments, net	—	791	—	791
Goodwill at end of period	<u>\$ —</u>	<u>\$19,535</u>	<u>\$ —</u>	<u>\$19,535</u>

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

Based upon fair value tests performed with the assistance of third party independent appraisals, during the first quarter of 2012 and the third quarter of 2011, the Company recorded pre-tax goodwill impairment charges of \$6.5 million and \$3.5 million, respectively, and a purchased intangible asset impairment charge of \$22.8 million during the first quarter of 2012.

Based upon fair value tests performed with the assistance of a third party independent appraisal, the Company recorded a preliminary pre-tax goodwill impairment charge of approximately \$13.2 million and a preliminary purchased intangible asset charge of approximately \$7.3 million during the third quarter of 2012. As of November 9, 2012, the Company had not finalized its review of these impairments analyses due to the limited time period from the first indication of the potential impairments to the date of this filing and the complexities involved in estimating the fair value of certain assets and liabilities. Any adjustments to those estimated charges resulting from the completion of the measurement of the impairment losses will be recognized in the fourth quarter of 2012.

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

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

Our financial instruments consist principally of cash and cash equivalents, 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 the majority of our cash and cash equivalents and marketable equity securities were determined based on Level 1 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, 2012 (in thousands):

<u>Description</u>	<u>September 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Assets:</b>			
<b>Cash equivalents</b>			
Money market funds	\$ 5,146	\$5,146	\$ —
US Treasury securities	1,438	—	1,438
<b>Total cash equivalents</b>	<b>6,584</b>	<b>5,146</b>	<b>1,438</b>
<b>Short-term marketable securities:</b>			
Available-for-sale:			
Government agency securities	3,681	—	3,681
Municipal bonds	14,689	—	14,689
Certificates of deposit	4,081	—	4,081
Corporate debentures / bonds	17,507	—	17,507
<b>Total short-term marketable securities</b>	<b>39,958</b>	<b>—</b>	<b>39,958</b>
<b>Long-term marketable securities:</b>			
Available-for-sale:			
Government agency securities	3,001	—	3,001
Municipal bonds	805	—	805
Certificates of deposit	2,368	—	2,368
<b>Total long-term marketable securities</b>	<b>6,174</b>	<b>—</b>	<b>6,174</b>
<b>Total financial assets</b>	<b>\$ 52,716</b>	<b>\$5,146</b>	<b>\$47,570</b>

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

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

## 6. Share-Based Compensation

The Company included the following amounts for share-based compensation awards in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of net revenues	\$ 167	\$ 149	\$ 543	\$ 383
Research and development	645	529	2,033	1,337
Sales and marketing	334	327	1,067	890
General and administrative	606	566	1,766	1,447
Totals	<u>\$1,752</u>	<u>\$ 1,571</u>	<u>\$5,409</u>	<u>\$4,057</u>

## 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 income (loss) and identifiable assets for our reportable segments (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b><u>Net revenues by reportable segment:</u></b>				
Mobile Computing Products	\$ 65,189	\$ 102,691	\$ 248,620	\$ 258,268
M2M Products and Solutions	5,828	10,572	24,993	34,800
Total	<u>\$ 71,017</u>	<u>\$ 113,263</u>	<u>\$ 273,613</u>	<u>\$ 293,068</u>
<b><u>Operating income (loss):</u></b>				
Mobile Computing Products	\$ (7,513)	\$ 1,311	\$ (11,701)	\$ (14,359)
M2M Products and Solutions	(24,340)	(7,359)	(62,424)	(16,860)
Total	<u>\$ (31,853)</u>	<u>\$ (6,048)</u>	<u>\$ (74,125)</u>	<u>\$ (31,219)</u>
<b><u>Identifiable assets by reportable segment:</u></b>				
Mobile Computing Products			\$ 148,855	\$ 181,180
M2M Products and Solutions			16,747	67,999
Total			<u>\$ 165,602</u>	<u>\$ 249,179</u>

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

	<u>September 30,</u>	<u>December 31,</u>
	<u>2012</u>	<u>2011</u>
United States	\$ 160,345	\$ 243,030
Canada	3,922	4,764
Europe, Latin America and Asia	1,335	1,385
	<u>\$ 165,602</u>	<u>\$ 249,179</u>

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
United States and Canada	94.0%	95.2%	92.7%	95.5%
Latin America	—	—	2.2	—
Europe, Middle East and Africa	5.7	4.5	4.7	4.3
Asia and Australia	0.3	0.3	0.4	0.2
	<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, 2012, sales to our two largest customers accounted for 57% and 10% of net revenues. In the same period in 2011, sales to our two largest customers accounted for 49% and 11% of net revenues. For the nine months ended September 30, 2012, sales to our two largest customers accounted for 58% and 10% of net revenues. In the same period in 2011, sales to our three largest customers accounted for 45%, 13%, and 10% of net revenues. 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.

The following table sets forth the computation of diluted weighted-average common and potential common shares outstanding for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic weighted-average common shares outstanding	33,074	32,057	32,683	32,005
Effect of dilutive securities:				
Options	—	33	—	—
Employee Stock Purchase Plan	—	258	—	—
Restricted Stock Units	—	22	—	—
Diluted weighted-average common and potential common shares outstanding	<u>33,074</u>	<u>32,370</u>	<u>32,683</u>	<u>32,005</u>

During the three and nine months ended September 30, 2012, 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.

During the three and nine months ended September 30, 2011, weighted-average options, RSUs and ESPP shares to acquire a total of 5,718,527 and 4,657,850 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 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.

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On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California on behalf of persons who allegedly purchased our stock between February 5, 2007 and August 19, 2008. On December 11, 2008, these lawsuits were consolidated into a single action entitled *Backe v. Novatel Wireless, Inc., et al.*, Case No. 08-CV-01689-H (RBB) (Consolidated with Case No. 08-CV-01714-H (RBB)) (U.S.D.C., S.D. Cal.). In May 2010, the district court re-captioned the case *In re Novatel Wireless Securities Litigation*. The plaintiffs filed the consolidated complaint on behalf of persons who allegedly purchased our stock between February 27, 2007 and November 10, 2008. The consolidated complaint names the Company and certain of our current and former officers as defendants. The consolidated complaint alleges generally that we issued materially false and misleading statements during the relevant time period regarding the strength of our products and market share, our financial results and our internal controls. The plaintiffs are seeking an unspecified amount of damages and costs. The court has denied defendants' motions to dismiss. In May 2010, the court entered an order granting the plaintiffs' motion for class certification and certified a class of purchasers of Company common stock between February 27, 2007 and September 15, 2008. On February 14, 2011, following extensive discovery, the Company filed a motion for summary judgment on all of plaintiffs' claims. A trial date had been set for May 10, 2011. On March 15, 2011, the case was reassigned to a new district judge, the Honorable Anthony J. Battaglia. Following the reassignment, the court vacated the trial date pending the court's consideration of dispositive motions. Oral argument on the motion for summary judgment was heard by the court on June 17, 2011. On November 23, 2011, the court issued an order granting in part and denying in part the motion for summary judgment. On July 9, 2012, the court vacated the final pretrial conference date. Dates for the pretrial conference and trial have not yet been scheduled. 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 October 8, 2008, a purported shareholder, Jerry Rosenbaum, filed a derivative action in the Superior Court for the State of California, County of San Diego, against the Company, as nominal defendant, and certain of our current and former officers and directors, as defendants. Two other purported shareholders, Mark Campos and Chris Amsdorf, separately filed substantially similar lawsuits in the same court on October 20, 2008 and November 5, 2008, respectively. On October 16, 2009, the plaintiffs filed a consolidated complaint. The consolidated complaint, Case No. 37-2008-00093576-CU-NP-CTL, alleges claims for breaches of fiduciary duties, violations of certain provisions of the California Corporations Code, unjust enrichment, and gross mismanagement. In February 2010, the court granted the defendants' motion to stay the action pending the resolution of the federal securities class action described above. In July 2010, the parties executed a memorandum of understanding setting forth the terms to be included in a contemplated settlement. Any settlement would be subject to court approval. The memorandum of understanding did not contemplate any restitution from the defendants. Following execution of the memorandum of understanding, plaintiffs conducted certain confirmatory discovery and sought to negotiate an award of legal fees as part of the terms to be included in a stipulation of settlement. Plaintiffs have since purported to terminate the memorandum of understanding. On January 28, 2011, the court held an informal status conference, at which plaintiffs requested that the court lift the stay of action. The court declined plaintiffs' request. Following certain additional confirmatory discovery and negotiations, on March 2, 2012, the parties executed a Stipulation of Settlement, which settlement was submitted to the court for approval. The court preliminarily approved the settlement pursuant to an order dated March 15, 2012. The settlement requires the Company to maintain and/or implement certain corporate governance measures and provides for the payment of fees and expenses to the plaintiffs' counsel of an amount not to exceed \$900,000, \$500,000 of which is to be paid out of insurance proceeds, and \$400,000 to be paid by the Company. These fees have been paid in accordance with the March 15<sup>th</sup> order and on May 4, 2012, the court granted final approval of the settlement. The Company recorded the \$400,000 in fees in its 2011 financial results.

#### *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.

### Credit Facility

The Company has a credit facility with a bank to allow margin borrowings based on the Company's investments in cash equivalents and marketable securities held with the bank. This facility is collateralized by the Company's cash equivalents and marketable securities held with the bank. Borrowings under the facility incur an interest rate at the bank's base rate plus 1%. This margin account facility provides the Company with the flexibility to access cash for short periods of time and avoids the need to sell marketable securities for these short-term requirements. At September 30, 2012, the Company had approximately \$25.2 million in cash equivalents and marketable securities held at this bank, and the Company's borrowing limit at September 30, 2012 under the credit facility was \$14.1 million. Any monies borrowed and interest incurred are payable on demand, and there is no express expiration date to the credit facility. During the three months ended September 30, 2012, the Company borrowed \$5.0 million and repaid the entire amount during the same period. During November 2012, the Company borrowed \$9.0 million against the facility, which remained outstanding as of the date of this report.

### 10. Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	<u>\$(31,933)</u>	<u>\$4,498</u>	<u>\$(74,354)</u>	<u>\$(21,488)</u>
Unrealized gain (loss) on cash equivalents and marketable securities, net of tax	<u>27</u>	<u>(60)</u>	<u>44</u>	<u>(54)</u>
Comprehensive income (loss)	<u>\$(31,906)</u>	<u>\$4,438</u>	<u>\$(74,310)</u>	<u>\$(21,542)</u>

### 11. 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, 2012 (as described above), the Company recognized increases in the valuation allowance primarily related to its U.S.-based deferred tax amounts, resulting from carryforward net operating losses, and Canadian-based deferred tax amounts, resulting from research and development tax credits, generated during the three and nine months ended September 30, 2012. These deferred tax benefits, combined with a corresponding charge to income tax expense related to the increased valuation allowance of \$9.9 million and \$24.3 million for the three and nine months ended September 30, 2012, respectively, resulted in an insignificant effective income tax rate for those respective periods. The Company's valuation allowance was \$61.0 million on net deferred tax assets of \$61.9 million at September 30, 2012. The net unreserved portion of the Company's remaining deferred tax assets at September 30, 2012 primarily related to research and development tax credits associated with the Company's Canadian subsidiary.

For the three and nine months ended September 30, 2012, the Company recorded an income tax expense, including discrete items, of \$107,000 and \$276,000, 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 increase 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, 2012 and December 31, 2011, the total liability for unrecognized tax benefits was \$420,000 and \$413,000, respectively, and is included in other long-term liabilities. For the three and nine months ended September 30, 2012, the Company included \$2,000 and \$7,000 respectively, of interest expense related to uncertain tax positions in its condensed consolidated statements of operations and comprehensive income (loss).

During the third quarter of 2012, the Company recorded preliminary estimated impairment changes of \$7.3 million against intangible assets and \$13.2 million against goodwill on a pre-tax basis against the M2M operating unit. The Company will finalize its estimate of the impairment charge during the fourth quarter of 2012, including the related impact to income taxes.

In the fourth quarter of 2012, the Company expects to release \$50,000 of its liability for unrecognized tax benefits due to the expiration of the statute of limitations applicable to the 2007 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.

## **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, 2011 contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Overview and Background**

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

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

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

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

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

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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. 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 growth and breadth of the demand for wireless access to data through the use of next generation networks including demand for 3G and 4G products, 3G and 4G data access services, particularly in North America, Europe and Asia; customer acceptance for our new products that address these markets, including our MiFi line of Intelligent Mobile Hotspots; and our ability to meet customer demand. Factors that could potentially affect customer demand for our products include the following:

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

We anticipate introducing additional products during the next 12 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, Dell, QUALCOMM, Sprint Nextel, Verizon Wireless, AT&T 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 price 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 price 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 group expenses, costs associated with the Company's cancellation of purchase orders, costs related to outside services and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Inventory adjustments are impacted primarily by demand for our products, which is influenced by the factors discussed above.

*Operating Costs and Expenses.* Many of our products target wireless operators and other customers in North America, Europe, and Asia. We will likely develop new products to serve these markets, resulting in increased research and development expenses. We have 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 expense; general and administrative costs; and amortization of purchased intangibles.

Research and development is 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, administrative support, and professional fees. This category also includes the expenses needed to operate as a publicly-traded company, including Sarbanes-Oxley compliance, Securities and Exchange Commission (“SEC”) filings, stock-exchange fees, and investor-relations expense. General and administrative expenses have been relatively stable and are not directly related to revenue levels.

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 ten 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 will 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.

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

In order to perform the annual goodwill impairment analysis, we are required to estimate the fair value of our M2M Products reporting unit. The fair value is calculated as though the M2M Products and Solutions reporting unit were to be sold in its entirety in an orderly transaction between market participants, using an estimate of fair value based on a blended sum resulting from the use of two valuation methods. First, we use the guideline public company method utilizing a multiple of the reporting unit’s revenue. Second, we perform a discounted cash flow analysis using forward looking projections of an estimate of our future operating results. These approaches use significant estimates and assumptions, including the size and timing of product deployments by our customers and related projections and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, stage of products in development, determination of appropriate market comparables and determination of whether a premium or discount should be applied to comparables. The resultant estimated fair value of our M2M Products and Solutions reporting unit is compared to the net book value of the reporting unit to assess whether any impairment exists.

The significant accounting policies used in preparation of these consolidated financial statements for the three and nine months ended September 30, 2012 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, 2011 in all material respects and in Note I 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, 2012 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011 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, 2012 Compared to Three Months Ended September 30, 2011**

*Net revenues.* Net revenues for the three months ended September 30, 2012 were \$71.0 million, a decrease of \$42.2 million or 37.3% compared to the same period in 2011.

The following table summarizes net revenues by reportable segment and net revenues by product categories during the three months ended September 30, 2012 and September 30, 2011 (in thousands):

Three Months Ended September 30,

	<u>2012</u>	<u>2011</u>
<b><u>Net revenues by reportable segment:</u></b>		
Mobile Computing Products	\$ 65,189	\$ 102,691
M2M Products and Solutions	<u>5,828</u>	<u>10,572</u>
Total	<u>\$ 71,017</u>	<u>\$ 113,263</u>
<b><u>Net revenues by product categories:</u></b>		
Mobile Broadband Devices	\$ 58,275	\$ 93,250
Embedded Solutions	<u>7,666</u>	<u>13,769</u>
Asset Management Solutions & Services	<u>5,076</u>	<u>6,244</u>
Total	<u>\$ 71,017</u>	<u>\$ 113,263</u>

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**Mobile Computing Products.** Net revenues from our Mobile Computing Products segment for the three months ended September 30, 2012 were \$65.2 million, a decrease of \$37.5 million or 36.5% compared to the same period in 2011. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by increased market competition at our largest customer.

**M2M Products and Solutions.** Net revenues from our M2M Products and Solutions segment for the three months ended September 30, 2012 were \$5.8 million, compared with \$10.6 million for the same period last year. The decrease is primarily due to the reduced sales volume and pricing of our 2G GPRS M2M modules in the North American market as it transitions away from 2G GSM networks. We are currently developing CDMA and 3G GSM modules and integrated solutions to address this market. These products are expected to launch in the fourth quarter of 2012 and the first half of 2013.

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

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

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

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

**Cost of net revenues.** Cost of net revenues for the three months ended September 30, 2012 was \$56.4 million, or 79.4% of net revenues, as compared to \$86.6 million, or 76.4% of net revenues, for the same period in 2011. During the third quarter of 2012, the cost of net revenues as a percentage of net revenues increased due to higher inventory obsolescence charges and lower average pricing on 4G MiFi products sold, partially offset by lower quarter over quarter purchased intangible amortization expense decreasing to \$289,000 during the quarter ended September 30, 2012 as compared to \$705,000 in the comparable quarter of 2011. 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 and volume sales 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, 2012 was \$14.6 million, or a gross margin of 20.6% of net revenues, compared to \$26.7 million, or a gross margin of 23.6% of net revenues for the same period in 2011. The gross margin decrease 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, 2012 were \$14.7 million, or 20.7% of net revenues, compared to \$15.1 million, or 13.4% of net revenues, for the same period in 2011. Research and development expenses for the three months ended September 30, 2012 were lower as compared to the same period in 2011, due to reduced labor cost attributed to headcount reductions and lower software amortization costs.

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

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**Sales and marketing expenses.** Sales and marketing expenses for the three months ended September 30, 2012 were \$6.3 million, or 8.8% of net revenues, compared to \$7.2 million, or 6.4% of net revenues, for the same period in 2011. The \$900,000 decrease for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to reductions in outside consulting expenses, and a decrease in salaries and related expenditures.

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, 2012 were \$4.8 million, or 6.8% of net revenues, compared to \$6.2 million, or 5.5% of net revenues, for the same period in 2011. General and administrative expenses for the three months ended September 30, 2012 were lower as compared to the same period in 2011 primarily due to reduced outside consulting and legal expenses, and a decrease in salaries and related expenditures. 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 consolidated financial statements included in this report. During the third quarter periods in 2012 and 2011, the Company incurred \$941,000 and \$1.3 million in legal expenses, respectively.

**Goodwill and intangible assets impairments.** 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 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 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. Based on the fair value tests performed, during the third quarter of 2011 the Company recorded a pre-tax goodwill impairment charge of \$3.5 million. See Note 4 in the condensed consolidated financial statements included in this report.

**Amortization of purchased intangible assets.** The amortization of purchased intangible assets for the three months ended September 30, 2012 was \$227,000, compared to \$644,000 for the same period 2011. The decrease in amortization expense for the three months ended September 30, 2012 was caused by the lower net asset value of the intangible assets resulting from an impairment charge in the first quarter of 2012.

**Interest income, net.** Interest income, net, for the three months ended September 30, 2012 was \$72,000 as compared to \$60,000 for the same period in 2011. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 0.46% and 0.37% in the third quarter of 2012 and 2011, respectively.

**Other expense, net.** Other expense, net, for the three months ended September 30, 2012 was \$45,000 as compared to \$679,000 for the same period in 2011. This other expense in 2011 was related to foreign currency losses on South Korean won denominated trade payables, foreign exchange currency losses on foreign denominated bank accounts and trade receivables, and other-than-temporary loss recognized on our marketable equity securities.

**Income tax expense (benefit).** Income tax expense for the three months ended September 30, 2012 was \$107,000, as compared to \$11.2 million benefit for the same period in 2011. The income tax benefit in 2011 related to the release of \$11.8 million of the Company's liability related to uncertain tax positions due to the expiration of the applicable statutes of limitations for certain tax years.

The effective tax rate for the three months ended September 30, 2012 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 2012.

**Net loss.** For the three months ended September 30, 2012, we reported a net loss of \$31.9 million, as compared to net income of \$4.5 million for the same period in 2011. Net income was negatively impacted due to the impairment charges recognized in the third quarter of 2012.

#### **Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011**

**Net revenues.** Net revenues for the nine months ended September 30, 2012 were \$273.6 million, a decrease of \$19.5 million or 6.6% compared to the same period in 2011.

The following table summarizes net revenues by reportable segment and net revenues by product categories during the nine months ended September 30, 2012 and September 30, 2011 (in thousands):

	<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>2011</u>
	<u>2012</u>	<u>2011</u>
<b><u>Net revenues by reportable segment:</u></b>		
Mobile Computing Products	\$ 248,620	\$ 258,268
M2M Products and Solutions	24,993	34,800
Total	<u>\$ 273,613</u>	<u>\$ 293,068</u>
<b><u>Net revenues by product categories:</u></b>		
Mobile Broadband Devices	\$ 231,033	\$ 242,797
Embedded Solutions	22,618	32,073
Asset Management Solutions & Services	19,962	18,198
Total	<u>\$ 273,613</u>	<u>\$ 293,068</u>

**Mobile Computing Products.** Net revenues from our Mobile Computing Products segment for the nine months ended September 30, 2012 were \$248.6 million, a decrease of \$9.6 million or 3.7% compared to the same period in 2011. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by increased market competition at our largest customer.

**M2M Products and Solutions.** Net revenues from our M2M Products and Solutions segment for the nine months ended September 30, 2012 were \$25.0 million, compared with \$34.8 million net revenues from the same period last year. The decrease is primarily due to the reduced sales volume and pricing of our 2G GPRS M2M modules in the North American market as it transitions away from 2G GSM networks. We are currently developing CDMA and 3G GSM modules and integrated solutions to address this market. These products are expected to launch in the fourth quarter of 2012 and the first half of 2013.

**Cost of net revenues.** Cost of net revenues for the nine months ended September 30, 2012 was \$214.7 million, or 78.5% of net revenues, as compared to \$234.2 million, or 79.9% of net revenues, for the same period in 2011. The improvement in cost of net revenues as a percentage of net revenues in 2012 resulted from higher sales of 4G products in our Mobile Computing Products segment during the first nine months of 2012. The cost of net revenues as a percentage of revenues also benefitted from lower amortization costs associated with purchased intangible assets. Cost of net revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

**Gross profit.** Gross profit for the nine months ended September 30, 2012 was \$58.9 million, or a gross margin of 21.5% of net revenues, compared to \$58.9 million, or a gross margin of 20.1% of net revenues, for the same period in 2011. The gross margin percentage increase was primarily attributable to the changes in net revenues and cost of net revenues as discussed above. We expect that our gross margin 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 nine months ended September 30, 2012 were \$45.0 million, or 16.4% of net revenues, compared to \$45.5 million, or 15.5% of net revenues, for the same period in 2011. Research and development expenses for the nine months ended September 30, 2012 were lower as compared to the same period in 2011, due to reduced labor cost attributed to headcount reductions and lower software amortization costs.

**Sales and marketing expenses.** Sales and marketing expenses for the nine months ended September 30, 2012 were \$21.3 million, or 7.8% of net revenues, compared to \$22.8 million, or 7.8% of net revenues, for the same period in 2011. The decrease for the nine months ended September 30, 2012 compared to the same period in 2011 was due primarily to lower labor cost and decreased cooperative advertising and joint marketing expenses.

**General and administrative expenses.** General and administrative expenses for the nine months ended September 30, 2012 were \$16.1 million, or 5.9% of net revenues, compared to \$16.6 million, or 5.6% of net revenues, for the same period in 2011. General and administrative expenses for the nine months ended September 30, 2012 decreased as compared to the same period in 2011, as there was a focus to contain operational costs. 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 nine months ended September 30, 2012 and 2011, the Company incurred \$3.7 and \$3.8 million in legal expenses, respectively.

**Goodwill and intangible assets impairments.** During the first and third quarters of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices and forecasted sales volumes, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis. Based on the fair value tests performed, during the first quarter of 2012 the Company recorded a pre-tax goodwill impairment charge of \$6.5 million and a purchased intangible asset charge of \$22.8 million. Based on the fair value tests performed, during the third quarter of 2012 the Company recorded a preliminary pre-tax goodwill impairment charge of \$13.2 million and a preliminary purchased intangible asset charge of \$7.3 million. Based on the fair value tests performed, during the third quarter of 2011 the Company recorded a pre-tax goodwill impairment charge of \$3.5 million. See Note 4 in the condensed consolidated financial statements included in this report.

**Amortization of purchased intangible assets.** Amortization of purchased intangible assets for the nine months ended September 30, 2012 was \$891,000, as compared to \$1.7 million for the same period in 2011. The decrease in amortization expense for the nine months ended September 30, 2012 was due to reduced amortization of purchased intangible assets from Enfora caused by the impairment charge recognized in the first quarter of 2012.

**Interest income, net.** Interest income, net, for the nine months ended September 30, 2012 was \$238,000 as compared to \$303,000 for the same period in 2011. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 0.42% and 0.51% in the first nine months of 2012 and 2011, respectively.

**Other expense, net.** Other expense, net, for the nine months ended September 30, 2012 was \$191,000 as compared to \$1.2 million for the same period in 2011. The other expense in 2011 related to foreign currency losses on South Korean won denominated trade payables, and an other-than-temporary loss realized on marketable equity securities.

**Income tax expense (benefit).** Income tax expense for the nine months ended September 30, 2012 was \$276,000, as compared to income tax benefit of \$10.6 million for the same period in 2011. The income tax benefit in 2011 related to the release of \$11.8 million of the Company's liability related to uncertain tax positions due to the expiration of the applicable statutes of limitations for certain tax years.

The effective tax rate for the nine months ended September 30, 2012 is different than the U.S. statutory rate primarily due to a valuation allowance recorded against additional U.S.-based deferred tax assets generated in the first nine months of 2012, and expenses attributable to foreign operations.

**Net loss.** For the nine months ended September 30, 2012, we reported a net loss of \$74.4 million, as compared to a net loss of \$21.5 million for the same period in 2011. Net income was significantly impacted due to the impairment charges recognized in the first quarter of 2012 and the third quarter of 2012.

### 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 equivalents and marketable securities on deposit at the bank. During the three months ended September 30, 2012, we borrowed approximately \$5.0 million and subsequently repaid all amounts in the same period. During November 2012, the Company borrowed \$9.0 million against the facility, which remained outstanding as of the date of this report.

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

#### 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, 2012 (unaudited)	December 31, 2011
Working capital <sup>(1)</sup>	\$ 75,747	\$ 81,113
Cash and cash equivalents <sup>(2)</sup>	\$ 16,341	\$ 47,069
Short-term marketable securities <sup>(2)</sup>	39,958	28,267
Long-term marketable securities	6,174	13,495
<b>Total cash and cash equivalents and marketable securities</b>	<b>\$ 62,473</b>	<b>\$ 88,831</b>

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

(2) Included in working capital.



Our working capital decreased \$5.4 million from December 31, 2011 to September 30, 2012. The decrease was primarily due to the operating loss in the nine months ended September 30, 2012, net of non-cash related expenses.

As of September 30, 2012, cash and cash equivalents and marketable securities decreased by \$26.4 million from December 31, 2011. The principal component of this net decrease was the cash used by our operating activities of \$22.8 million, and cash used to pay for acquisition of property, plant and equipment of \$4.0 million.

#### *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,	
	2012	2011
Net cash used in operating activities	\$(22,836)	\$(26,702)
Net cash provided by (used in) investing activities	(8,386)	32,026
Net cash provided by (used in) financing activities	537	(698)
Effect of exchange rates on cash and cash equivalents	(43)	(74)
Net increase (decrease) in cash and cash equivalents	(30,728)	4,552
Cash and cash equivalents, beginning of period	47,069	17,375
Cash and cash equivalents, end of period	<u>\$ 16,341</u>	<u>\$ 21,927</u>

**Operating activities.** Net cash used in operating activities was \$22.8 million for the nine months ended September 30, 2012 as compared to net cash used by operating activities of \$26.7 million for the same period in 2011. 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. The net decrease in cash caused by changes in net working capital accounts primarily included increases in accounts receivable and prepaid expenses and other assets, as well as a decrease in accounts payable. For the nine months ended September 30, 2011, net cash used by operating activities was primarily related to net losses for the period, along with decreases in cash caused by a reduction in accounts payable and an increase in inventory. These were partially offset by an increase in cash caused by a decrease in accounts receivable.

**Investing activities.** Net cash used in investing activities during the nine months ended September 30, 2012 was \$8.4 million compared to \$32.0 million provided during the same period in 2011. 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 for approximately \$4.0 million. Cash provided by investing activities during the same period in 2011 was primarily related to net sales of marketable securities of \$37.2 million, net of purchases of property, plant, and equipment for approximately \$4.9 million.

**Financing activities.** Net cash provided by financing activities during the nine months ended September 30, 2012 was \$537,000, compared to cash used of \$698,000 during the same period in 2011. Net cash provided by financing activities in 2012 was primarily related to cash received for ESPP purchases. Net cash used in financing activities in 2011 was primarily related to payroll taxes paid on behalf of employees for restricted stock units which vested during the period.

#### *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 \$5.1 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 or from other borrowings, 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, 2011, 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, 2011.

**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, 2012, 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, 2012, 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, on July 9, 2012, vacated the final pretrial conference date. Dates for the pretrial conference and trial have not yet been scheduled.

In *Jerry Rosenbaum v. Peter Leparulo, et al.*, Superior Court of the State of California, County of San Diego, Case No. 37-2008-00093576-CU-NP-CTL, the parties executed a Stipulation of Settlement on March 2, 2012 which was submitted to the court for approval. The court preliminarily approved the settlement pursuant to an order dated March 15, 2012. The settlement required the Company to maintain and/or implement certain corporate governance measures and provided for the

payment of fees and expenses to the plaintiffs' counsel of an amount not to exceed \$900,000, \$500,000 of which was to be paid out of insurance proceeds and \$400,000 to be paid by the Company. These fees have been paid in accordance with the March 15<sup>th</sup> order and on May 4, 2012, the court granted final approval of the settlement. The Company recorded the \$400,000 in fees in its 2011 financial results.

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, 2011.

**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 Form 10-K for the year ended December 31, 2011.

**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.**

<u>Exhibit Number</u>	<u>Description</u>
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, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Condensed Consolidated Financial Statements.

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**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.

Date: November 9, 2012

Novatel Wireless, Inc.

By: /S/ PETER LEPARULO  
Peter Leparulo  
Chairman and Chief Executive Officer

By: /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 9, 2012

/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 9, 2012

/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**

I, Peter Leparulo, Chairman and Chief Executive Officer of Novatel Wireless, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2012 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 9, 2012

/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**

I, Kenneth Leddon, Senior Vice President and Chief Financial Officer of Novatel Wireless, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2012 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 9, 2012

/S/ KENNETH LEDDON

Kenneth Leddon

*Senior Vice President and Chief Financial Officer*