

# NOVATEL WIRELESS

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A N N U A L R E P O R T

***NOVATEL WIRELESS***



# Proxy Statement



# ***NOVATEL WIRELESS***<sup>TM</sup>

April 30, 2015

Dear Stockholder:

You are cordially invited to attend the 2015 Annual Meeting of Stockholders of Novatel Wireless, Inc., a Delaware corporation. The annual meeting will be held on Wednesday, June 24, 2015, at 2:00 p.m., local time, at the Company's headquarters located at 9645 Scranton Road, Suite 205, San Diego, California 92121.

Information about the meeting is included in the following Notice of Annual Meeting of Stockholders and Proxy Statement. Also included is a proxy card and postage-paid return envelope.

It is important that your shares be represented at the meeting. Whether or not you plan to attend, please complete, sign, date and promptly return your proxy card in the enclosed postage-paid return envelope. If you hold your shares through an account with a broker, dealer, bank or other nominee, please follow the instructions you receive from them to vote your shares.

We look forward to seeing you at the meeting.

Sincerely,



Michael A. Newman  
*Executive Vice President,  
Chief Financial Officer and Secretary*



# **NOVATEL WIRELESS™**

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## **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on June 24, 2015**

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The 2015 Annual Meeting of Stockholders (the “Annual Meeting”) of Novatel Wireless, Inc., a Delaware corporation (the “Company”), will be held at 2:00 p.m. on Wednesday, June 24, 2015, at the Company’s headquarters located at 9645 Scranton Road, Suite 205, San Diego, California 92121, for the following purposes:

1. To elect three directors to serve until the 2018 Annual Meeting of Stockholders;
2. To amend the Company’s 2009 Omnibus Incentive Compensation Plan to increase the number of shares issuable under the plan by 2,000,000 shares;
3. To hold an advisory vote on the compensation of the Company’s named executive officers;
4. To ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for 2015; and
5. To transact any other business properly brought before the Annual Meeting or any adjournment or postponement thereof.

Information concerning the matters to be voted upon at the Annual Meeting is set forth in the accompanying proxy statement. Holders of record of the Company’s common stock as of the close of business on May 4, 2015 are entitled to notice of, and to vote at, the Annual Meeting and, unless the Board of Directors of the Company fixes a new record date, at any adjournments or postponements thereof.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, please complete, sign, date and promptly return your proxy card in the enclosed postage-paid return envelope. If you hold shares through an account with a broker, dealer, bank or other nominee, please follow the instructions you receive from them to vote your shares.

By Order of the Board of Directors,



Michael A. Newman  
*Executive Vice President,  
Chief Financial Officer and Secretary*

April 30, 2015  
San Diego, California





**NOVATEL WIRELESS, INC.  
9645 Scranton Road, Suite 205  
San Diego, California 92121**

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**PROXY STATEMENT**

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**QUESTIONS AND ANSWERS ABOUT THIS PROXY STATEMENT AND THE ANNUAL MEETING**

**Why am I receiving this Proxy Statement?**

This proxy statement (this “Proxy Statement”) is being sent to you on behalf of the Board of Directors (the “Board”) of Novatel Wireless, Inc. (the “Company”) to solicit your proxy to vote at the annual meeting of the stockholders of the Company to be held on Wednesday, June 24, 2015, at 2:00 p.m., local time, at the Company’s headquarters located at 9645 Scranton Road, Suite 205, San Diego, California 92121 (the “Annual Meeting”). You are invited to attend the Annual Meeting to vote on the proposals described in this Proxy Statement.

This Proxy Statement and the enclosed proxy card are first being mailed to the Company’s stockholders on or about May 15, 2015.

**What matters will be considered at the Annual Meeting?**

At the Annual Meeting, our stockholders will be asked:

1. To elect three directors to serve until the 2018 Annual Meeting of Stockholders (“Proposal 1”);
2. To amend the Company’s 2009 Omnibus Incentive Compensation Plan (as amended, the “2009 Incentive Plan”) to increase the number of shares issuable under the plan by 2,000,000 shares (“Proposal 2”);
3. To hold an advisory vote on the compensation of the Company’s named executive officers (“Proposal 3”);
4. To ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for 2015 (“Proposal 4” and, together with Proposal 1, Proposal 2 and Proposal 3, the “Proposals”); and
5. To consider such other business as may properly come before the Annual Meeting.

**Who is entitled to vote at the Annual Meeting?**

Holders of record of our common stock as of the close of business on May 4, 2015 (the “Record Date”) are entitled to notice of, and to vote at, the Annual Meeting. If your shares of common stock were registered directly in your name with our transfer agent, Computershare Trust Company, at the close of business on the Record Date, then you are a holder of record and are entitled to notice of, and to vote at, the Annual Meeting. If your shares were not directly held in your name, but were held through an account with a broker, dealer, bank or other nominee at the close of business on the Record Date, then your shares are held in “street name” and the organization holding your account is considered the holder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to instruct your broker, dealer, bank or other nominee on how to vote your shares and are invited to attend the Annual Meeting. However, since you are not the holder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker, dealer, bank or other nominee.

**How many votes do I have?**

Each holder of record as of the close of business on the Record Date is entitled to one vote for each share of common stock held by such holder on the Record Date. As of April 28, 2015, 50,101,876 shares of common stock were outstanding and entitled to vote at the Annual Meeting. The Company expects the number of outstanding shares will not materially change as of the Record Date.

## What are the Board's recommendations on how I should vote my shares?

The Board recommends a vote:

1. **FOR** the election of the three director nominees to serve until the 2018 Annual Meeting of Stockholders;
2. **FOR** the approval of an amendment to the Company's 2009 Incentive Plan to increase the number of shares issuable under the plan by 2,000,000 shares;
3. **FOR** the advisory vote on executive compensation;
4. **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2015; and
5. at the discretion of the proxy holders with respect to any other matter that is properly presented at the Annual Meeting.

## How do I cast my vote?

You may vote "for," "against" or abstain from voting for the matters to be voted on.

If you are a holder of record, you can vote in person at the Annual Meeting or by proxy prior to the Annual Meeting. The Annual Meeting will be held at our headquarters located at 9645 Scranton Road, Suite 205, San Diego, California 92121. You may call the Company's Secretary by telephone at (858) 812-3400 to obtain directions to the Annual Meeting. If you decide to vote by proxy, you may do so in any one of the following three ways:

- **By telephone.** You may vote your shares 24 hours a day by calling the number listed on your proxy card, and following the instructions provided by the recorded message. You will need to enter identifying information that appears on your proxy card. The telephone voting system allows you to confirm that your votes were properly recorded.
- **By Internet.** You may vote your shares 24 hours a day by logging onto a secure website, which will be listed on your proxy card, and following the instructions provided. You will need to enter identifying information that appears on your proxy card. As with the telephone voting system, you will be able to confirm that your votes were properly recorded.
- **By mail.** If you received a proxy card, you may complete, sign, date and promptly return the enclosed proxy card to the Secretary of the Company in the postage-paid return envelope that was provided.

If you submit a valid proxy to us before the Annual Meeting, we will vote your shares as you direct (unless your proxy is subsequently revoked in the manner described below). Telephone and Internet voting is available through 1:00 a.m. Pacific time on Wednesday, June 24, 2015. If you vote by mail, your proxy card must be received before the Annual Meeting to assure that your vote is counted.

If your shares are held in "street name," your broker, dealer, bank or other nominee will provide you with instructions on how to vote your shares. To be sure your shares are voted in the manner you desire, you should instruct your broker, dealer, bank or other nominee on how to vote your shares.

**Instructing your broker, dealer, bank or other nominee how to vote your shares is important due to the stock exchange rule that prohibits your broker, dealer, bank or other nominee from voting your shares with respect to certain proposals without your express voting instructions.** If you hold your shares in "street name" and wish to attend the Annual Meeting and vote your shares in person, you must obtain a valid proxy from your broker, dealer, bank or other nominee.

### **Can I revoke my proxy?**

Yes. However, your presence at the Annual Meeting will not automatically revoke your proxy. If you are a registered holder, you may change or revoke your proxy at any time before a vote is taken at the meeting by giving notice to the Company's Secretary in writing during the Annual Meeting or in advance of the meeting by executing and forwarding to the Company's Secretary a later-dated proxy or by voting a later proxy over the telephone or the Internet. If your shares are held in "street name," you should check with the broker, dealer, bank or other nominee that holds your shares to determine how to change or revoke your vote.

### **What if I return a signed proxy card but do not provide voting instructions?**

All properly submitted proxies, unless revoked in the manner described above, will be voted at the Annual Meeting in accordance with your instructions on the proxy. If a properly executed proxy gives no specific voting instructions, the shares of common stock represented by your proxy will be voted:

1. **FOR** the election of the three director nominees to serve until the 2018 Annual Meeting of Stockholders;
2. **FOR** the approval of an amendment to the Company's 2009 Incentive Plan to increase the number of shares issuable under the plan by 2,000,000 shares;
3. **FOR** the advisory vote on executive compensation;
4. **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2015; and
5. at the discretion of the proxy holders with respect to any other matter that is properly presented at the Annual Meeting.

### **What will constitute a quorum at the Annual Meeting?**

Holders of a majority of shares of our common stock entitled to vote at the Annual Meeting must be present at the Annual Meeting, in person or by proxy, to constitute a quorum necessary to conduct the Annual Meeting. Your shares will be counted toward the quorum if you submit a properly executed proxy or vote at the Annual Meeting. In addition, abstentions and broker non-votes will be treated as present for the purpose of determining the presence of a quorum for the transaction of business at the Annual Meeting. A broker non-vote occurs when a broker, dealer, bank or other stockholder of record holding shares for a beneficial owner submits a proxy for a meeting but does not vote on a particular proposal because that holder does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. If there is no quorum, then either the chairman of the meeting or the holders of a majority in voting power of the shares of common stock that are entitled to vote at the meeting, present in person or by proxy, may adjourn the meeting to a later date.

### **How many votes are required to approve each proposal?**

**Proposal 1.** Assuming that a quorum is present, the directors will be elected by a plurality of the votes cast by holders of our common stock. Abstentions and broker non-votes will have no effect on Proposal 1.

**Proposal 2.** Assuming that a quorum is present, the approval of the amendment to the 2009 Incentive Plan to increase the number of shares issuable under the plan by 2,000,000 shares will require the affirmative vote of the holders of a majority of the common stock present, in person or by proxy, and entitled to vote at the Annual Meeting. Abstentions will have the same effect as votes against Proposal 2. Broker non-votes will have no effect on Proposal 2.

**Proposal 3.** Assuming that a quorum is present, the approval of the advisory vote on executive compensation requires the affirmative vote of the holders of a majority of the common stock present, in person or by proxy, and entitled to vote at the Annual Meeting. Abstentions will have the same effect as votes against Proposal 3. Broker non-votes will have no effect on Proposal 3.

**Proposal 4.** Assuming that a quorum is present, the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2015 requires the affirmative vote of the holders of a majority of the common stock present, in person or by proxy, and entitled to vote at the Annual Meeting. Abstentions will have the same effect as votes against Proposal 4. Proposal 4 is considered a routine matter under applicable rules. A broker, dealer, bank or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected in connection with Proposal 4.

**What does it mean if I received more than one proxy card?**

If you received more than one proxy card, your shares are likely registered in more than one name or are held in more than one account. Please complete, sign, date and promptly return each proxy card to ensure that all your shares are voted.

**Where else are the proxy materials available?**

The Proxy Statement, the Company's 2014 Annual Report and related materials are available for your review at [www.nvtl.com/proxymaterials](http://www.nvtl.com/proxymaterials).

**Who will bear the costs of soliciting votes for the Annual Meeting?**

The Company will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. We may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners for their reasonable expenses in forwarding solicitation material to such beneficial owners. Our directors, officers and employees may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation.

**Where can I find the voting results of the Annual Meeting?**

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be reported in a current report on Form 8-K, which will be filed with the Securities Exchange Commission (the "SEC") within four business days after the Annual Meeting. If our final voting results are not available within four business days after the Annual Meeting, we will file a current report on Form 8-K reporting the preliminary voting results and subsequently file the final voting results in an amendment to the current report on Form 8-K within four business days after the final voting results are known to us.

**IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JUNE 24, 2015:** The Notice of Annual Meeting, Proxy Statement and the Company's 2014 Annual Report are available at [www.nvtl.com/proxymaterials](http://www.nvtl.com/proxymaterials).

**PROPOSAL 1**  
**ELECTION OF DIRECTORS**

The Company's Board is divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors constituting the entire Board, and each class has a three-year term. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election.

There are currently seven directors serving on the Board and one vacancy. In accordance with the terms of the Second Amended and Restated Bylaws of the Company (the "Bylaws"), this vacancy may be filled by the affirmative vote of a majority of the remaining directors.

The Nominating and Corporate Governance Committee of our Board (the "Nominating and Corporate Governance Committee") has recommended that each of Alex Mashinsky, Robert Pons and David Werner be elected to serve a three-year term expiring at the 2018 Annual Meeting of Stockholders. Mr. Mashinsky is an incumbent director who was originally appointed to the Board pursuant to the terms of that certain letter agreement, dated April 29, 2014 (the "Letter Agreement"), by and among the Company and each of Cobb H. Sadler, Edward T. Shaddek, Robert Ellsworth, Mr. Mashinsky, Richard A. Karp, Maguire Financial, LP, a Delaware limited partnership, Maguire Asset Management, LLC, a Delaware limited liability company, and Timothy Maguire. Mr. Pons is an incumbent director who was originally appointed to the Board pursuant to the terms of that certain Investors' Rights Agreement, dated September 8, 2014 (the "Investors' Rights Agreement"), by and between the Company and HC2 Holdings 2, Inc. ("HC2 Holdings"). Mr. Werner is an incumbent director and stands for re-election at the Annual Meeting.

This section contains information about the director nominees and the directors whose terms of office continue after the Annual Meeting. The directors will be elected by a plurality of the votes cast by holders of our common stock at the Annual Meeting. Abstentions and broker non-votes will have no effect on this proposal. Proxies cannot be voted for a greater number of persons than three, the number of nominees named above.

***The Board Recommends a Vote FOR Each of the three Director Nominees.***

**Nominees to be Elected for a Term Expiring at the 2018 Annual Meeting of Stockholders**

*Alex Mashinsky*, age 49, has served as a director since April 2014 and as the Company's Chief Executive Officer since June 2014. Mr. Mashinsky has served as Managing Partner of Governing Dynamics since 2004. Governing Dynamics is an early stage investment and development company. Between May and December 2013, Mr. Mashinsky served on the board of directors of Tellabs, a publicly traded telecommunications company, until it was acquired in December 2013. In 2004, Mr. Mashinsky founded GroundLink, a transportation marketplace that aggregates, manages and executes ground travel services on a global scale. Mr. Mashinsky served as CEO of GroundLink through 2011. Also in 2004, Mr. Mashinsky founded Transit Wireless, a wireless distributed antenna systems company that provided wireless data coverage to 300 of New York City's subway stations. Between 1995 and 2003, Mr. Mashinsky founded and operated companies in the information technology sector, including Arbinet. Mr. Mashinsky attended Tel Aviv University and Israel Open University. Mr. Mashinsky's experience in technology and venture capital industries and his success in founding, operating and growing businesses provide him an informed background for service as a director and officer of the Company.

*Robert Pons*, age 58, has served as director since October 2014. Mr. Pons has served as a director of HC2 Holdings, Inc., a Delaware corporation ("HC2"), since September 2011. HC2 Holdings is a wholly owned subsidiary of HC2. Mr. Pons also served as President and Chief Executive Officer of HC2 from August 2013 to January 2014 and Executive Chairman of HC2 from January 2014 to April 2014 and has served as Executive

Vice President of Business Development since April 2014. From February 2011 to April 2014 he was Chairman of Live Microsystems, formerly Livewire Mobile, Inc., a comprehensive one-stop digital content solution for mobile carriers. From January 2008 until February 2011, Mr. Pons was Senior Vice President of TMNG Global, a leading provider of professional services to the communications, converging media and entertainment industries and the capital formation firms that support them. From January 2004 until April 2007, Mr. Pons served as President and Chief Executive Officer of Uphonia, Inc. (previously SmartServ Online, Inc.), a wireless applications service provider. From August 2003 until January 2004, Mr. Pons served as interim Chief Executive Officer of SmartServ Online, Inc. on a consulting basis. From March 1999 to August 2003, he was President of FreedomPay, Inc., a wireless device payment processing company. During the period from January 1994 to March 1999, Mr. Pons was President of Lifesafety Solutions, Inc., an enterprise software company. Mr. Pons also currently serves on the board of directors of Concurrent Computer Corporation, a global leader in multi-screen video delivery, media data management and monetization platforms, DragonWave, Inc., a leading provider of high-capacity wave solutions for next generation IP networks, and as Vice-Chairman of MRV Communications. Within the past five years, he has also served on the boards of directors of Proxim Wireless Corporation, Network-1 Security Solutions, Inc. and Arbinet Corporation. Mr. Pons received a Bachelor of Arts from Rowan University. Mr. Pons's experience serving on public company boards of directors and his industry experience, knowledge and relationships provide a relevant and informed background for him to serve as a member of our Board, a member of the Audit Committee of our Board (the "Audit Committee") and the Nominating and Corporate Governance Committee and as Chairman of the Compensation Committee of our board (the "Compensation Committee").

*David Werner*, age 63, has served as a director since January 2004. Mr. Werner has been Co-Chief Executive Officer of Aerofit, LLC, an engineered component manufacturer, and Co-Chief Executive Officer of Consolidated Aerospace Manufacturing, LLC, an engineered component manufacturer, since December 2012. Previously, Mr. Werner was a co-owner of Aerofit, Inc., from March 2004 to December 2012. From 2002 to 2004, Mr. Werner was a partner in an acquisition and business development venture serving the engineered components market. Mr. Werner also served as Executive Vice President and Chief Financial Officer of Day Runner, Inc. from 1999 to 2002. From 1994 to 1999, Mr. Werner was Executive Vice President and a member of the board of directors of Kaynar Technologies, Inc., a specialty component manufacturer. From 1990 to 1993, he served as Vice President and Chief Financial Officer of Microdot, Inc. From 1978 to 1990, Mr. Werner served in various accounting, financial, operating and executive positions with Lear Siegler. From 1974 to 1978, Mr. Werner worked for Peat, Marwick, Mitchell & Co. (currently KPMG). Mr. Werner is a certified public accountant (inactive) and received a Bachelor of Science in Business Administration and a Master of Business Administration from the University of Southern California. Mr. Werner brings leadership, financial experience and a background in executive management to the Board. Mr. Werner has a strong understanding of the issues affecting the Company as a result of more than 20 years of executive experience in various industries. With his background in accounting and finance, Mr. Werner also brings an understanding of financial issues to the Board and the Audit Committee.

#### **Directors With Terms Expiring at the 2016 Annual Meeting of Stockholders**

*James Ledwith*, age 69, has served as a director since March 2008 and served as our lead independent director from April 2010 through April 2014. Mr. Ledwith served as a partner at Cohn Reznick, LLP, formerly J.H. Cohn LLP, an accounting and consulting firm, from 1992 until his retirement in 2009 and has been a lecturer at San Diego State University from 2000 to 2007 and from 2011 to the present. Mr. Ledwith served as a director of San Diego Trust Bank, a privately held community bank from 2004 until its sale in June 2013. Mr. Ledwith is a certified public accountant and received a Bachelor of Science in Business Administration from Babson College and a Masters of Business Administration from the Wharton Graduate Division of the University of Pennsylvania. Mr. Ledwith spent his career primarily in public accounting and has extensive knowledge of accounting and financial reporting rules and regulations. Mr. Ledwith's educational background and accounting expertise provide a solid background for him to advise and consult with the Board on financial and audit-related matters as Chairman of the Audit Committee and on compensation-related matters as a member of the Compensation Committee.

*Sue Swenson*, age 66, has served as a director since June 2012 and as Chair of the Board since April 2014. Ms. Swenson has more than 20 years of executive management experience in the telecommunications industry and considerable experience serving on the boards of growing technology companies. Since 1994, she has been a director of Wells Fargo and sits on their Audit and Examination Committee and Governance and Nominating Committee. Ms. Swenson also serves as a director on the boards of Spirent Communications Plc, Harmonic, Inc., and FirstNet, and has previously served on boards of numerous public and private companies, including Leap Wireless International, mBlox, and Palm. Ms. Swenson retired in 2011 as President and Chief Executive Officer of Sage Software, Inc., a position she had held since 2008. Before joining Sage Software, Ms. Swenson held positions in a variety of telecom companies, including as Chief Operating Officer of Atrinsic, Inc. (formerly known as New Motion, Inc.), Chief Operating Officer of Amp'd Mobile, Inc., President and Chief Executive Officer of Leap Wireless International, Inc., and President and Chief Executive Officer of Cellular One. Ms. Swenson's substantial experience at, and knowledge regarding, high technology companies, including wireless communication companies, provide a particularly relevant and informed background for her to use on the Board and as a member of the Compensation Committee.

#### **Directors With Terms Expiring at the 2017 Annual Meeting of Stockholders**

*Philip Falcone*, age 52, has served as director since October 2014. Mr. Falcone was originally appointed to the Board pursuant to the terms of the Investors' Rights Agreement. Mr. Falcone has served as a director of HC2 since January 2014 and as Chairman of the Board, President and Chief Executive Officer of HC2 since May 2014. Mr. Falcone served as President of Harbinger Group Inc., a diversified holding company ("HGI"), from 2009 to 2011 and as a director, Chairman of the Board and Chief Executive Officer of HGI from 2009 to 2014. Mr. Falcone served as Chief Investment Officer and Chief Executive Officer of Harbinger Capital Partners LLC ("Harbinger Capital") and certain of its affiliates, all affiliates of HGI, from 2001 to 2014. Prior to joining the predecessor of Harbinger Capital, Mr. Falcone served as Head of High Yield trading for Barclays Capital where he managed the Barclays High Yield and Distressed trading operations. Mr. Falcone began his career in 1985, trading high yield and distressed securities at Kidder, Peabody & Co. Mr. Falcone received a Bachelor of Arts in Economics from Harvard University. Mr. Falcone has over two decades of experience in leveraged finance, distressed debt and special situations. Mr. Falcone has a strong financial background, including significant experience working with companies in the information technology and broadband industry, and experience serving on public company boards of directors which make him well-suited to serve on our Board.

*Russell Gerns*, age 77, has served as director since September 2009. Mr. Gerns has more than 27 years of operational and finance experience, having participated in the founding and dramatic growth of numerous high-tech companies, including Scientific Data Systems (which was acquired by Xerox Corporation), Computer Machinery Corporation, Cipher Data Products and Rexon, Inc. (which was acquired by Legacy Storage Systems Corporation). Since 1985, Mr. Gerns has concentrated on venture capital financing of start-up companies, private equity investments, and company acquisitions. He was a member of the Board of Advisors of the UCLA Anderson School of Management Center for Entrepreneurial Studies and has taught as a professor of business management at Pepperdine University. Mr. Gerns earned his Bachelor of Science in Business Administration from the University of California, Los Angeles. Mr. Gerns' experience in technology and venture capital industries and his success in founding, operating and growing businesses, as well as his prior experience serving on public company boards of directors, provide him an informed background for service as a director of the Company and as the Chairman of the Nominating and Corporate Governance Committee.

## CORPORATE GOVERNANCE

### Director Independence

Under the listing requirements of The NASDAQ Stock Market LLC (“NASDAQ”), a majority of the members of our Board must be independent. The Board has determined that our current non-management directors, Mr. Falcone, Mr. Gerns, Mr. Ledwith, Mr. Pons, Ms. Swenson and Mr. Werner, are each independent of the Company and management within the meaning of the NASDAQ listing requirements. Mr. Mashinsky is not “independent” under the NASDAQ listing requirements because he is an employee of the Company.

Two of the three former directors that served during the Company’s 2014 fiscal year, Mr. Karp and General Wakelin, were both determined by our Board to be independent of the Company and management within the meaning of the NASDAQ listing requirements. Mr. Leparulo, our former Chief Executive Officer, was not “independent” under the NASDAQ listing requirements during the portion of 2014 during which he was also an employee of the Company.

### Director Nominations

**Qualifications.** The Nominating and Corporate Governance Committee considers a number of factors in its evaluation of director candidates, including the members of the Board eligible for re-election. These factors include relevant business experience, expertise, character, judgment, length of potential service, independence, other commitments and the current needs of the Board and its committees. In the case of incumbent directors, the Nominating and Corporate Governance Committee also considers a director’s overall service to the Company during his or her term, including the number of meetings attended, level of participation and quality of performance.

While the Nominating and Corporate Governance Committee has not established specific criteria related to a director candidate’s age, education, experience level or skills, it expects qualified candidates will have appropriate experience and a proven record of business success and leadership. The Nominating and Corporate Governance Committee believes the Board should be comprised of a diverse group of individuals with significant and relevant senior management and leadership experience, an understanding of technology relevant to the Company and its business, a long-term and strategic perspective and the ability to advance constructive debate and a global perspective. While the Board considers diversity in its evaluation of candidates, the Board does not have a policy specifically focused on diversity.

**Stockholder Recommendations.** The Nominating and Corporate Governance Committee considers recommendations of potential director candidates from stockholders based on the same criteria as a candidate identified by an individual director or the Nominating and Corporate Governance Committee.

Stockholders may recommend candidates at any time. However, to be considered by the Nominating and Corporate Governance Committee for inclusion in the proxy statement for our next annual meeting, the recommendations must be in proper form and delivered to, or mailed and received at, the principal executive offices of the Company not later than the close of business on the 90th day nor earlier than the 120th day prior to the one-year anniversary of this year’s annual meeting; *provided, however*, that if the date of the next annual meeting is more than 30 days before or more than 60 days after such anniversary date, the recommendation must be delivered, or mailed and received, not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the 90th day prior to such annual meeting or, if later, the tenth day following the day on which public disclosure of the date of such annual meeting was first made. A stockholder’s notice recommending a candidate must include the following:

- As to each Nominating Person (as defined below), the (i) the name and address of such Nominating Person (including, if applicable, the name and address that appear on the Company’s books and records); and (ii) the class or series and number of shares of the Company’s common stock that are,



directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the “Exchange Act”)) by such Nominating Person;

- As to each Nominating Person, any Disclosable Interests (as defined in Section 5(c)(ii) of the Bylaws;
- As to each Nominating Person, (i) a representation that the Nominating Person is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose the recommendation and (ii) a representation as to whether the Nominating Person intends or is part of a group which intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company’s outstanding capital stock required to approve or adopt the recommendation and/or (2) otherwise to solicit proxies or votes from stockholders in support of the recommendation; and
- As to each person whom a Nominating Person proposes to nominate for election as a director, (i) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (ii) a description of all direct and indirect compensation and other material agreements, arrangements, and understandings during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective associates or any other participants in such solicitation, and any other persons with whom such proposed nominee (or any of his or her respective associates or other participants in such solicitation) is Acting in Concert (as defined in Section 5(c) of the Bylaws), on the other hand, (iii) a completed and signed questionnaire, representation, and agreement as provided in Section 6(h) of the Bylaws.

For purposes of this Proxy Statement, the term “Nominating Person” shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, (iii) any participant with such stockholder or beneficial owner in such solicitation or associate of such stockholder or beneficial owner, and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective associates or other participants in such solicitation) is Acting in Concert (as defined in Section 5(c) of the Bylaws). The Nominating Person’s notice must be signed and delivered to the following address: Novatel Wireless, Inc., c/o Corporate Secretary, 9645 Scranton Road, Suite 205, San Diego, California 92121.

### **Communications with the Board**

Stockholders and other interested parties may communicate with the Board, the non-management directors or specific directors by mail addressed to: Novatel Wireless, Inc., c/o Corporate Secretary, 9645 Scranton Road, Suite 205, San Diego, California 92121. The communication should clearly indicate whether it is intended for the Board, the non-management directors or a specific director. Our Corporate Secretary will review all communications and will, on a periodic basis, forward all communications to the appropriate director or directors, other than those communications that are merely solicitations for products or services or that relate to matters that are clearly improper or irrelevant to the functioning of the Board.

### **Code of Ethics**

The Board has adopted a code of business conduct and ethics applicable to all our directors, officers and employees. The purpose of the code of business conduct and ethics is to, among other things, focus our directors, officers and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical

issues, provide mechanisms to report concerns regarding possible unethical or unlawful conduct and to help enhance and formalize our culture of integrity, respect and accountability. We distribute copies of the code to, and conduct periodic training sessions regarding its content for, our newly elected directors and newly hired officers and employees. We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website in the Investors tab under “Corporate Governance” as required by applicable law. A copy of our code of business conduct and ethics is available on our website under the Investors tab under “Corporate Governance” at <http://novatelwireless.com>.

## THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

### The Board

The Board currently consists of seven members, six of whom are non-management directors. The Board is divided into three classes with each class serving a three-year term. The term of one class expires at each annual meeting of stockholders of the Company.

### Board Meetings and Director Attendance

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all meetings of the Board and the committees on which he or she serves. In 2014, the Board met 20 times, 16 of which were telephonic meetings. Each Board member attended at least 75% of the meetings of the Board and the committees on which he or she served during the period for which he or she was a director or committee member.

### Annual Meeting of Stockholders

We do not have a formal policy regarding attendance by members of the Board at our annual meetings of stockholders. However, we encourage, but do not require, our directors to attend. Four directors attended the 2014 Annual Meeting of Stockholders, including three of our current directors, Mr. Mashinsky, Mr. Ledwith and Ms. Swenson.

### Board Committees

The Board currently has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Each committee operates under a written charter adopted by the Board. All of the charters are publicly available on our website at [www.novatelwireless.com](http://www.novatelwireless.com) in the Investors tab under “Corporate Governance.” You may also obtain a copy of these charters upon written request to our Corporate Secretary at our principal executive offices.

Upon the recommendation of the Nominating and Corporate Governance Committee, the Board appoints committee members annually. The table below sets forth the current composition of our Board committees:

<u>Name</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating and Corporate Governance Committee</u>
Russell Gerns .....			✓(Chair)
James Ledwith .....	✓ (Chair)	✓	
Alex Mashinsky .....		✓	
Sue Swenson .....		✓	
Robert Pons .....	✓	✓(Chair)	✓
Philip Falcone .....			
David A. Werner .....	✓		

### Audit Committee

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements and internal control over financial reporting. The functions and responsibilities of the Audit Committee include:

- engaging our independent registered public accounting firm and conducting an annual review of the independence of that firm;

- reviewing with management and the independent registered public accounting firm the scope and the planning of the annual audit;
- reviewing the annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm;
- reviewing the findings and recommendations of the independent registered public accounting firm and management’s response to the recommendations of that firm;
- discussing with management and the independent registered public accounting firm, as appropriate, the Company’s policies with respect to financial risk assessment and financial risk management;
- overseeing compliance with applicable legal and regulatory requirements, including ethical business standards;
- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;
- establishing procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- preparing the Audit Committee Report to be included in our annual proxy statement;
- monitoring ethical compliance, including review of related party transactions; and
- periodically reviewing the adequacy of the Audit Committee charter.

In 2014, the Audit Committee met five times, one of which was a telephonic meeting.

Our independent registered public accounting firm reports directly to the Audit Committee. Each member of the Audit Committee must have the ability to read and understand fundamental financial statements and at least one member must have past employment experience in finance or accounting, requisite professional certification in accounting or another comparable experience or background. The Board has determined that each member of the Audit Committee is “independent” as defined by the NASDAQ listing requirements and SEC rules. The Board has also determined that Mr. Ledwith, the Chair of the Audit Committee, meets the requirements of an “audit committee financial expert” as defined by SEC rules.

### **Compensation Committee**

The Compensation Committee establishes, administers and oversees compliance with our policies, programs and procedures for compensating our executive officers and the Board. The functions and responsibilities of the Compensation Committee include:

- establishing and reviewing our general compensation policies and levels of compensation applicable to our executive officers and our non-management directors;
- evaluating the performance of, and determining the compensation for, our executive officers, including our chief executive officer;
- reviewing regional and industry-wide compensation practices in order to assess the adequacy and competitiveness of our executive compensation programs;
- administering our employee benefits plans, including approving awards of stock, restricted stock units (“RSUs”) or stock options to employees and other parties under our equity incentive compensation plans;
- reviewing and discussing with management the disclosures contained in the Compensation Discussion and Analysis to be included in our annual reports on Form 10-K, registration statements, proxy statements or information statements;
- preparing the Compensation Committee Report to be included in our annual proxy statement; and
- periodically reviewing the adequacy of the Compensation Committee charter.

In 2014, the Compensation Committee met seven times, three of which were telephonic meetings. The Board has determined that each member of the Compensation Committee is “independent” as defined by the NASDAQ listing requirements.

The Compensation Committee has the sole authority to retain and supervise one or more outside advisors, including outside counsel and consulting firms, to advise the Committee on executive and director compensation matters and to terminate any retained adviser. In addition, the Committee has the sole authority to approve the fees of an outside adviser and other retention terms.

In late 2013, the Compensation Committee retained the compensation consultant, Meridian Compensation Partners, LLC (“Meridian”), to advise the Compensation Committee on executive and director compensation matters for director and executive officer compensation for 2014. In late 2014, the Compensation Committee retained a new compensation consultant, Compensia, Inc. (“Compensia”), to replace Meridian. Compensia was engaged to prepare a report and make recommendations to the Compensation Committee with regard to selecting an appropriate peer group of comparator companies and determining compensation of certain newly appointed executive officers and 2015 compensation of non-management directors.

The Compensation Committee reviewed the services provided by Meridian and Compensia to the Compensation Committee and based on this review has determined that the provision of such services did not give rise to any conflict of interest, taking into account such factors as required by the SEC and applicable law and such other factors as the Compensation Committee determines are relevant.

### **Nominating and Corporate Governance Committee**

The functions and responsibilities of the Nominating and Corporate Governance Committee include:

- developing and recommending a set of corporate governance guidelines applicable to the Company;
- identifying and evaluating candidates to serve on the Board, including determining whether incumbent directors should be nominated for re-election to the Board, and reviewing and evaluating director nominees submitted by stockholders;
- reviewing possible conflicts of interest of prospective Board members;
- recommending director nominees;
- establishing procedures and guidelines for individuals to be considered to become directors;
- recommending the appropriate size and composition of the Board and each of its committees;
- overseeing periodic evaluations of the performance of the Board, the Board committees and the directors;
- monitoring the continued legal compliance of our established principles and policies; and
- periodically reviewing the adequacy of the Nominating and Corporate Governance Committee charter.

In 2014, the Nominating and Corporate Governance Committee met one time. The Board has determined that each member of the Nominating and Corporate Governance Committee is “independent” as defined by the NASDAQ listing requirements.

### **Board Leadership Structure**

Until April 2014, the Company combined the positions of Chairman and Chief Executive Officer and the Board annually elected an independent director to serve as lead director. Mr. Ledwith served as lead director for the last several years. In April 2014, the Board separated these two roles and created the role of Chair of the Board to be filled by an independent director. Ms. Swenson was elected to serve as Chair of the Board. With the creation of the position of Chair of the Board, the Board has eliminated the position of lead director.

The primary responsibilities of the Chair of the Board include, among other things:

- creating the agenda for, and requesting the information to be provided in connection with, Board meetings;
- convening and presiding at meetings of directors;
- acting as a liaison between the directors and the Chief Executive Officer; and
- acting as a liaison for communication with Company stockholders.

### **Board’s Role in Risk Oversight**

The Board plays an active role in the Company’s risk oversight and is responsible for overseeing the processes established to report and monitor systems that mitigate material risks applicable to the Company. The Board delegates certain risk management responsibilities to the committees of the Board. The Audit Committee reviews and discusses with management the Company’s policies regarding risk assessment and risk management and the Company’s significant financial risk exposures and the actions that management has taken to limit, monitor or control those exposures. The Compensation Committee reviews the compensation of the Company’s executive officers at least annually and considers the design of compensation programs and arrangements and potential risks presented thereby. The Nominating and Corporate Governance Committee considers potential risks presented by corporate governance issues affecting the Company and makes recommendations to the Board as appropriate. Each of these committees regularly reports to the Board on matters that involve the specific areas of risk that each committee oversees. The Board also receives regular reports on the Company’s risk management from senior representatives of the Company’s independent registered public accounting firm.

### **Director Compensation**

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. Upon the recommendation of the Compensation Committee, the Board makes all compensation decisions for our non-management directors. In recommending director compensation, the Compensation Committee considers, among other things, the amount of time required of directors to fulfill their duties. A director who is also an employee of the Company does not receive additional compensation for serving as a director.

**Cash Compensation.** The table below summarizes the components of cash compensation payable to our non-management directors for Board and Board committee service in 2014, which was unchanged from 2013. The Company also reimburses directors for reasonable expenses incurred in connection with attending Board and Board committee meetings.

<b>Board Service:</b>	
Annual Retainer .....	\$20,000
Additional Retainer for Chair of the Board <sup>(1)</sup> .....	\$15,000
Meeting Fee (in person) .....	\$ 1,500
Meeting Fee (telephonic) .....	\$ 750
<b>Board Committee Service:</b>	
Audit Committee Chair .....	\$10,000
Compensation Committee Chair .....	\$ 5,000
Nominating and Corporate Governance Committee Chair .....	\$ 5,000
Meeting Fee (in person) .....	\$ 1,000
Meeting Fee (telephonic) .....	\$ 500

(1) This amount was paid to the lead independent director during the first four months of the 2014 fiscal year.

In order to conserve the Company's cash resources, on September 11, 2014, each member of the Board accepted shares of our common stock in lieu of cash compensation payable for Board and Board committee service during the second quarter of 2014. These shares were granted pursuant to the terms of our 2009 Incentive Plan.

For 2015, the Compensation Committee adopted Compensia's recommendation that, consistent with the compensation practices of the Company's peers, the Company compensate its non-management directors by paying them an annual cash retainer fee without any additional per meeting attendance fees as the Company had done in previous years. At its meeting held on February 12, 2015, the Board approved the Compensation Committee's recommendation to pay the following components of cash compensation to our non-management directors for Board and Board committee service in 2015, retroactively effective for service beginning on January 1, 2015.

**Board Service:**

Annual Retainer .....	\$40,000
Additional Retainer for Chair of the Board .....	\$40,000

**Board Committee Service:**

Audit Committee Chair .....	\$20,000
Compensation Committee Chair .....	\$14,000
Nominating and Corporate Governance Committee Chair .....	\$10,000
Audit Committee Members .....	\$10,000
Compensation Committee Members .....	\$ 6,000
Nominating and Corporate Governance Committee Members .....	\$ 5,000

**Equity-Based Compensation.** In March 2014, the Board approved the Compensation Committee's recommendation that non-management directors would be granted a specified number of RSUs (50,847 each), which on the date of grant yielded an economic value of \$90,000, as partial compensation for their Board service in 2014. These RSUs vest in three equal annual installments beginning on the first anniversary of the grant date and will be settled in shares of our common stock.

For 2015, based on market data provided by Compensia, the Compensation Committee recommended that, consistent with the compensation practices of a group of similarly situated comparison companies, the Company's non-management directors should receive an annual grant of RSUs that vest on the first anniversary of the grant date, as opposed to the three year vesting schedule the Company has used in the past.

In February 2015, the Board approved the Compensation Committee's recommendation that the Company grant each non-management director a specified number of RSUs (18,722 each), which on the grant date yielded an economic value of \$85,000, as partial compensation for their Board service in 2015. These RSUs will vest in full on March 16, 2016 and will be settled in shares of our common stock.

**Director Compensation Table.** The table below summarizes the compensation paid to our non-management directors for 2014.

<u>Name(1)(2)</u>	<u>Fees Earned or Paid in Cash(3)</u>	<u>Stock Awards(4)(5)</u>	<u>Total</u>
Philip Falcone .....	\$ 6,924	\$ 99,833	\$106,757
Russell Gerns .....	\$43,288	\$100,169	\$143,452
James Ledwith .....	\$56,486	\$100,169	\$156,655
Robert Pons .....	\$10,842	\$ 99,833	\$110,675
Sue Swenson .....	\$52,514	\$100,169	\$152,683
David A. Werner .....	\$47,000	\$100,169	\$147,169
Richard A. Karp <sup>(6)</sup> .....	\$28,089	\$ 99,939	\$128,028
John Wakelin <sup>(7)</sup> .....	\$27,060	\$100,169	\$127,229

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- (1) Alex Mashinsky, our current Chief Executive Officer, was appointed to the Board on April 29, 2014 as a non-management director and accrued compensation for his service as a non-management director from that date through June 12, 2014 when he was appointed interim Chief Executive Officer. After June 12, 2014, he continued to serve on our Board, but did not accrue or receive compensation for his service as a director other than his compensation as an employee of this Company. The compensation received by Mr. Mashinsky as an employee of the Company, as well as compensation received as a non-management director prior to becoming an employee, is shown in the Summary Compensation Table in this Proxy Statement.
  - (2) Peter V. Leparulo, our former Chief Executive Officer, is not included in this table because he was an employee of the Company and received no additional compensation for his service as a director. The compensation received by Mr. Leparulo as an employee of the Company is shown in the Summary Compensation Table in this Proxy Statement. Mr. Leparulo resigned from the Board effective as of October 14, 2014.
  - (3) Includes the value of fully vested RSUs granted to non-management directors in lieu of cash compensation as follows: Mr. Gerns (4,605 shares), Mr. Ledwith (6,134 shares), Ms. Swenson (5,708 shares), Mr. Werner (5,702 shares) and Mr. Karp (3,114 shares).
  - (4) The amounts in this column reflect the aggregate grant date fair value of the stock awards granted in 2014 as computed in accordance with ASC Topic 718, excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in Note 9, "Stock Incentive and Employee Stock Purchase Plans" in the Company's Form 10-K for the year ended December 31, 2014.
  - (5) As of December 31, 2014, the number of shares of restricted stock and/or shares underlying outstanding RSUs held by each of our current directors listed in the table above were as follows: Mr. Falcone (29,801 shares), Mr. Gerns (66,957 shares), Mr. Ledwith (66,957 shares), Mr. Pons (29,801 shares), Ms. Swenson (66,957 shares) and Mr. Werner (66,957 shares).
  - (6) Mr. Karp resigned from the Board effective as of December 17, 2014.
  - (7) General Wakelin resigned from the Board effective as of August 3, 2014.



## EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our current executive officers:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Alex Mashinsky . . . . .	49	Chief Executive Officer
Slim Souissi . . . . .	50	President and Chief Operations Officer
Michael Newman . . . . .	46	Executive Vice President and Chief Financial Officer
John Carney . . . . .	53	Executive Vice President, Sales and Marketing
Stephen Sek . . . . .	49	Senior Vice President and Chief Technology Officer

*Alex Mashinsky* has served as a director since April 2014 and as Chief Executive Officer since June 2014. Mr. Mashinsky has served as Managing Partner of Governing Dynamics since 2004. Governing Dynamics is an early stage investment and development company. Between May and December 2013, Mr. Mashinsky served on the board of directors of Tellabs, a publicly traded telecommunications company, until it was acquired in December 2013. In 2004, Mr. Mashinsky founded GroundLink, a transportation marketplace that aggregates, manages and executes ground travel services on a global scale. Mr. Mashinsky served as CEO of GroundLink through 2011. Also in 2004, Mr. Mashinsky founded Transit Wireless, a wireless distributed antenna systems company that provided wireless data coverage to 300 of New York City’s subway stations. Between 1995 and 2003, Mr. Mashinsky founded and operated companies in the information technology sector, including Arbinet. Mr. Mashinsky attended Tel Aviv University and Israel Open University.

*Slim S. Souissi* has served as our President and Chief Operations Officer since June 2014, as our Senior Vice President and Chief Technology Officer from 2004 to 2014, as our Vice President and Chief Technology Officer from 2002 to 2004, as our Vice President of Emerging Technologies from 2001 to 2002 and as our Principal Research Scientist from 2000 through 2001. Prior to joining the Company in 2000, Dr. Souissi was Principal Staff Engineer in Motorola’s research and development operation from November 1994 to May 2000. Dr. Souissi earned a Ph.D. and Master of Science in Electrical Engineering from the Georgia Institute of Technology, a Master of Science in Digital Signal Processing from the Ecole Superieure d’Electricite (France) and a Master of Science in Engineering from the Ecole Centrale Marseille (France). Dr. Souissi holds over 50 U.S. patents, all related to wireless technology.

*Michael Newman* has served as our Executive Vice President and Chief Financial Officer since September 2014. He was appointed to serve as Secretary of the Company in October 2014. Prior to joining the Company, Mr. Newman served as Chief Financial Officer of Websense, Inc., a global leader of advanced IT security solutions from 2011 to 2014. From 2002 to 2011, he served in several other senior executive level positions at Websense, Inc., including General Counsel and Chief Administrative Officer. During his time with Websense, Inc., Mr. Newman was responsible for accounting, finance, tax, human resources, legal, information technology, facilities and sales operations functions. Prior to joining Websense, Inc. Mr. Newman managed securities and corporate development matters in the legal department for Gateway, Inc., a publicly-traded computer manufacturer. Mr. Newman holds a Juris Doctor from Harvard Law School and a Bachelor of Science in Business Administration from Georgetown University.

*John Carney* has served as our Executive Vice President, Sales and Marketing since April 2015. Prior to joining the Company, Mr. Carney was employed by Google Inc. as its Senior Vice President of Global Sales and Go To Market for its Motorola Mobility division from 2012 to 2014. From 2009 to 2012, Mr. Carney served as Senior Vice President of Consumer Marketing for Sprint Nextel Corporation. Prior to that, he served as President and Chief Executive Officer of Affinity Mobile LLC from 2007 to 2009 and with T-Mobile USA as its Senior Vice President of Sales and Service from 2001 to 2006. Mr. Carney received his Bachelor of Science degree in Marketing from University of Illinois and his Master of Science degree in Management Studies from the Kellogg School of Management at Northwestern University.

*Stephen Sek* has served as our Senior Vice President and Chief Technology Officer since March 2015. Prior to his appointment as Senior Vice President and Chief Technology Officer, Mr. Sek had been employed by the Company as its Vice President of Global Products since September 2013, and had previously worked at the Company from August 2000 to November 2006 serving in various capacities, including as the Company's director of technology and standards, systems, test and accreditation engineering, general manager of Asia Pacific, and director of customer technical solutions and technologies. Between 2006 and 2013, he served as Chief Technology Officer for Axisstel, Inc., a San Diego-based provider of wireless broadband access, connected home and voice solutions for the worldwide telecommunications market. At Axisstel, he was responsible for leading the office of the Chief Technology Officer, the patent committee, the company's technology realization and product introduction in all technologies to customers. From 1990 through 2000, Mr. Sek worked at Motorola Inc., where he served in various senior research, engineering and managerial roles for the PCS Advanced Technology Lab, PCS FLEX Technology Systems Division, and Paging and Wireless Data Group. Mr. Sek is a veteran and active participant in technology standards, having been involved in carving the evolution of numerous generations of wireless technologies as a past steering committee member of the CDMA Development Group, a current member of the board of directors of the Portable Computer and Communications Association, a technical contributor to the Third Generation Partnership Project (3GPP2) and an advisor to the Federal Communications Commission. Mr. Sek holds a Bachelor of Science degree from Boston University and a Master of Science degree in Electrical Engineering from the University of Southern California.

## COMPENSATION DISCUSSION AND ANALYSIS

### Overview

Decisions with respect to compensation for our executive officers, including our Chief Executive Officer, are made by the Compensation Committee. The following discussion and analysis is focused primarily on the compensation of our executive officers, with additional detail provided for our named executive officers. Our “named executive officers” are our Chief Executive Officer, our President and Chief Operations Officer, our Chief Financial Officer, our former Chief Executive Officer, our former Interim Chief Financial Officer, our former Senior Vice President and Chief Financial Officer, our former Senior Vice President of Business Affairs, General Counsel and Secretary, and our former Chief Marketing Officer. The compensation of our named executive officers is presented in the tables and related information and discussed under “Executive Compensation” following this section, beginning on page 28.

### Recent Developments

The Company has experienced a number of recent board and management changes including, without limitation, the following:

- On April 29, 2014, the Board appointed Alex Mashinsky and Richard A. Karp to serve as members of the Board, it separated the positions of Chair of the Board and Chief Executive Officer and it appointed Sue Swenson to serve as the independent Chair of the Board. For additional information, see the Company’s Current Report on Form 8-K which was filed with the SEC on May 6, 2014.
- Effective as of May 31, 2014, Kenneth Leddon resigned from his position as Chief Financial Officer of the Company.
- Effective June 13, 2014, Mr. Mashinsky became the interim Chief Executive Officer of the Company, replacing Mr. Leparulo, and Slim S. Souissi became the President and Chief Operations Officer of the Company. For additional information, see the Company’s Current Report on Form 8-K which was filed with the SEC on June 16, 2014. The Company subsequently entered into an employment agreement with Mr. Mashinsky which is described in the Company’s Current Report on Form 8-K which was filed on August 6, 2014 and an offer letter agreement with Mr. Mashinsky which is described in the Company’s Current Report on Form 8-K which was filed on November 6, 2014.
- From June 24, 2014 to September 2, 2014, Thomas D. Allen served as interim Chief Financial Officer.
- Effective July 11, 2014, Robert M. Hadley resigned from his position as Chief Marketing Officer of the Company and Catherine Ratcliffe left her positions as Senior Vice President of Business Affairs, General Counsel and Secretary.
- General John Wakelin resigned from his position on the Board effective as of August 3, 2014.
- On September 2, 2014, the Board appointed Michael Newman to serve as Executive Vice President and Chief Financial Officer of the Company and entered into an offer letter agreement with Mr. Newman. For additional information, see the Company’s Current Report on Form 8-K which was filed with the SEC on September 4, 2014. Mr. Newman was appointed to serve as Secretary of the Company effective as of October 3, 2014.
- Mr. Leparulo resigned from his position as a member of the Board effective as of October 14, 2014.
- On October 7, 2014, in accordance with the Investors’ Rights Agreement, the Board appointed Mr. Falcone and Mr. Pons to serve as members of the Board. For additional information, see the Company’s Current Report on Form 8-K which was filed with the SEC on October 14, 2014.
- Richard A. Karp resigned from his position on the Board effective as of December 17, 2014.
- Stephen Sek began serving as Senior Vice President and Chief Technology Officer of the Company on March 16, 2015.

- John Carney commenced employment as Executive Vice President, Sales and Marketing of the Company on April 20, 2015.

### **Compensation Philosophy and Objectives**

In making decisions with respect to compensation for our executive officers, the Compensation Committee is guided by a pay-for-performance philosophy. The Compensation Committee believes that a significant portion of each executive's total compensation opportunity should vary with achievement of the Company's annual and long-term financial, operational and strategic goals. In designing the compensation program for our executive officers, the Compensation Committee seeks to achieve the following key objectives:

- *Motivate Executives.* The compensation program should encourage our executive officers to achieve the Company's annual and long-term goals.
- *Alignment with Stockholders.* The compensation program should align the interests of our executives with those of our stockholders, promoting actions that will have a positive impact on total stockholder return over the long term.
- *Attract and Retain Talented Executives.* The compensation program should provide each executive officer with a total compensation opportunity that is market competitive. This objective is intended to ensure that we are able to attract and retain executives while maintaining an appropriate cost structure for the Company.

### **Committee's Role in Establishing Compensation**

Our Compensation Committee is currently comprised of Mr. Ledwith, Ms. Swenson and Mr. Pons, all of whom are independent directors under the Internal Revenue Code and the rules of NASDAQ and the SEC. The Compensation Committee makes all compensation decisions for our executive officers, including grants of equity awards. The Compensation Committee believes that one of its key functions is to help ensure that our executives are fairly and reasonably compensated based upon their performance and contribution to the Company's growth and profitability, and it seeks to make compensation decisions that support our compensation philosophy and objectives. The agenda for meetings of the Compensation Committee is determined by its Chair, with the assistance of our Chief Financial Officer, who has responsibility for human resources and compensation matters for non-executive employees of the Company.

The Compensation Committee is authorized to retain advisors with respect to compensation matters. The compensation consultant's role is to provide independent third-party advice to assist the Compensation Committee in evaluating and designing our executive compensation policies and programs, including:

- providing recommendations regarding the composition of our comparator group, as described below;
- reviewing and assisting with recommendations regarding current executive compensation levels relative to the market and our performance, including with respect to the retention and promotion of executive officers;
- advising on trends in executive compensation, including best practices; and
- advising on aligning pay and performance.

The Compensation Committee engaged Meridian to provide advice on compensation matters for executive officers and non-management directors for 2014. In late 2014, the Compensation Committee engaged Compensia to advise on compensation matters for newly appointed executive officers and for non-management directors for 2015. The Compensation Committee is responsible for reviewing fees paid to compensation consultants to ensure that the consultants maintain their objectivity and independence when rendering advice to the Committee regarding executive compensation matters.

## **Management’s Role in Establishing Compensation**

Our Chief Executive Officer and our Chief Financial Officer attend some Compensation Committee meetings to discuss matters under consideration by the Committee and to answer questions regarding those matters. The Compensation Committee also regularly meets in executive session without any members of management present.

The Compensation Committee members hold discussions with our Chief Executive Officer concerning the compensation for other executive officers. Our Chief Executive Officer provides his assessment of each individual’s responsibilities and contribution to the Company’s results and potential for future contributions to the Company’s success. The Compensation Committee considers this input, but has final authority to set the compensation amounts for all executive officers in its discretion. The Committee discusses proposals for our Chief Executive Officer’s compensation package with him but always makes final decisions regarding his compensation when he is not present. The Compensation Committee also reviews market data and other relevant information provided by the compensation consultant when considering competitive and market factors in compensation, elements of compensation packages and possible changes to the compensation of our executive officers.

With oversight by the Compensation Committee, our human resources department administers our executive compensation program to implement the compensation decisions made by the Compensation Committee for our executive officers.

## **Consideration of 2014 Stockholder Advisory Vote**

At our 2014 Annual Meeting of Stockholders, we held an advisory “say-on-pay” vote on the compensation of our named executive officers. Our stockholders approved the compensation of our named executive officers, with over 90% of shares cast voting in favor of the say-on-pay proposal. As we evaluated our compensation practices and talent needs throughout 2014, we were mindful of the support our stockholders expressed for our philosophy of linking compensation to our financial, operational and strategic goals and in support of enhancing stockholder value. As a result, the Compensation Committee decided to retain our general approach with respect to our executive compensation program, with an emphasis on delivering short and long-term incentive compensation that rewards our most senior executives based on achievement of financial, operational and strategic goals and with a view to enhancing stockholder value.

## Comparator Group

During the second and third quarters of 2013, the Compensation Committee worked with its independent consultants at Meridian to assess the Company's executive compensation program, including base salary, total cash compensation and long-term incentive awards, against compensation paid by a comparator group of publicly traded companies compiled by Meridian. In 2012, at the Compensation Committee's request, Meridian had conducted an independent review of the Company's existing peer group and made recommendations regarding the composition of the peer group of companies used in the Compensation Committee's considerations concerning executive officer compensation. In determining executive officer and non-management director compensation for 2014, the Compensation Committee relied upon the custom compensation peer group, developed by Meridian and accepted, with minor modifications, by the Compensation Committee in 2012, which consisted of the following 24 companies:

- Avid Technology, Inc.
- Cray Inc.
- Datalink Corp.
- DIGI International Inc.
- Dot Hill Systems Corp.
- Electronics for Imaging Inc.
- Emulex Corp.
- Finisar Corp.
- Harmonic Inc.
- InterDigital Inc.
- Intermec Inc.
- Newport Corp.
- Oclaro Inc.
- OCZ Technology Group Inc.
- PMC-Sierra Inc.
- Premiere Global Services Inc.
- QLogic Corp.
- Sierra Wireless Inc.
- Silicon Graphics International Corp
- STEC Inc.
- Super Micro Computer Inc.
- Synaptics Inc.
- Telecommunication Systems
- United Online Inc.

In late 2014, at the Compensation Committee's request, Compensia evaluated the continued use of the foregoing comparator group and advised the Compensation Committee to make certain changes to the peer group used for evaluating executive officer and non-management director compensation. In determining executive officer and non-management director compensation for 2015, the Compensation Committee relied upon the new compensation peer group, developed by Compensia and accepted by the Compensation Committee, which consisted of the following 20 publicly traded companies:

- 8x8
- Boingo Wireless
- BroadSoft
- CalAmp
- Calix
- Digi International
- Dot Hill Systems
- Emulex
- Guidance Software
- Harmonic
- Jive Software
- MobileIron
- MRV Communications
- Oclaro
- ShoreTel
- Silver Spring Networks
- Spok Holdings
- TeleCommunication Systems
- Telenav
- United Online, Inc.

## Review of Compensation Program

In developing an annual compensation program for our executive officers, the Compensation Committee typically considers the following three main factors.

- *Market Competitiveness.* The Compensation Committee reviews market data provided by the compensation consultant to evaluate whether changes to the compensation program and pay levels of our executive officers may be appropriate. The Compensation Committee generally seeks to compensate our executive officers by using median compensation levels of the closest corresponding executive positions among our comparator group companies as a data point in determining target pay opportunities.

- *Internal Equity.* The Compensation Committee considers the level of total compensation opportunity for the executive officers in relation to one another to ensure that each executive's contribution to Company performance is appropriately reflected.
- *Individual Performance.* The Compensation Committee considers each individual executive's experience serving in his or her position and the potential for the executive to expand responsibilities and increase contributions to the Company.

### **Executive Compensation Programs and Policies**

The components of our executive compensation program typically provide for a combination of fixed and variable compensation. As described in more detail below, these components are:

- base salary;
- annual incentive compensation;
- long-term incentive compensation;
- broad-based employee benefits; and
- severance and change-in-control benefits.

The Compensation Committee typically allocates a significant percentage of the total compensation for our executive officers to annual and long-term incentives as a result of the compensation philosophy and objectives described above. In evaluating the levels of total compensation, the Compensation Committee reviews tally sheets for each executive officer. The tally sheets detail current and historical compensation for each officer, including target and actual base and bonus compensation, equity grants and other benefits available generally to Company employees (e.g., 401(k) match and life and health insurance).

**Base Salary.** The base salary for each of our executive officers has historically been paid in cash and represents the fixed portion of his or her total compensation. Base salary compensation is intended to provide a reliable source of income for our executive officers, an important part of retaining our executive officers, and is not subject to the variability of the annual incentive compensation and long-term equity incentive components of our executive compensation programs. The base salary for each of our executive officers is generally reviewed by the Compensation Committee annually. Base salaries are determined on the basis of the factors described above, as well as management responsibilities, level of experience and individual contributions to the Company. Recently, due to cash constraints experienced by the Company, certain executive officers of the Company have agreed to accept RSUs in substitution for a portion of their base salary.

**Annual Incentive Compensation.** The Compensation Committee believes annual incentive compensation should be a key element of the total compensation opportunity of each executive officer. The Compensation Committee also believes that placing a portion of executive compensation at risk each year appropriately motivates executives to achieve Company and individual goals, thereby enhancing stockholder value.

The Compensation Committee establishes annually the performance metrics and goals that must be achieved for an executive officer to earn an annual incentive compensation award. In establishing performance metrics for each of our executive officers, the Compensation Committee considers both Company objectives and individual objectives. The Company objectives are based on certain financial, operational and commercial goals of the Company as set forth in our operating plan for that year. Individual objectives may be established for each executive officer in light of his or her functional group responsibilities and accompanying goals and expectations.

The Compensation Committee assesses performance by comparing actual results to the performance goals established. Historically, the total potential annual target incentive award payable to any executive officer has been 50% of annual base salary (100% for our Chief Executive Officer). Commencing in 2015, the target bonus awards payable to Mr. Mashinsky and Dr. Souissi are 60% of annual base salary and the target bonus payable to

Mr. Newman is 50% of annual base salary. In approving annual incentive payouts, the Compensation Committee may use its discretion to determine the amounts that otherwise would be payable based upon Company and individual performance, subject to the maximum awards payable. For financial and revenue goals in incentive plans, there may be threshold minimum levels that must be achieved before any payments will be made for such goals. In addition, for these types of goals, there may be over-achievement levels specified up to a maximum amount payable if these goals are over-achieved.

***Long-Term Incentive Compensation.*** Long-term incentive awards are granted to our executive officers under our 2009 Incentive Plan, which was originally approved by our stockholders in June 2009. These awards are intended to align the interests of management with those of our stockholders and are intended as a long-term incentive for future performance. The 2009 Incentive Plan is administered by the Compensation Committee.

Our 2009 Incentive Plan provides for grants of both equity and cash awards, including stock options, stock appreciation rights, restricted stock, RSUs, annual incentive awards, performance shares, performance units and other forms of awards. The availability of these various types of equity and cash awards affords the Compensation Committee the flexibility to design long-term incentive awards that are responsive to our business needs and advance our interests and long-term success. To date, only stock options and RSUs have been granted under the 2009 Incentive Plan. The Compensation Committee believes these forms of equity grants motivate employees and align their interests with the Company's stockholders. The Compensation Committee also believes that conserving the Company's cash is important and has not made any cash awards under the 2009 Incentive Plan.

The Compensation Committee views equity incentive awards as a means to encourage management retention because these awards vest over a specified period of time. The Compensation Committee typically consults with its compensation consultants regarding equity awards to the Company's executive officers and considers the level of total compensation opportunity for the executive officers in relation to one another. The Compensation Committee has historically granted the executive officers a mix of stock option and RSU awards. When making equity incentive award decisions, the Compensation Committee does not consider existing ownership levels because the Committee does not want to discourage our executive officers from holding significant amounts of our common stock.

The Compensation Committee has adopted an equity granting policy that provides for grants to be made on a specific date each year to our executive officers and non-management directors. The Compensation Committee determines the amount and form of the equity to be granted to each individual or uses an established formula for these awards which are then made later on the specific date.

***Anti-hedging and Pledging Policy.*** The Company's Insider Trading Policy prohibits any pledging or hedging activities in the Company's stock by the Company's executive officers, members of the Board and certain other Company employees. The prohibited activities include any pledge of Company stock as well as transactions such as short sales, puts or calls.

***Employee Benefits.*** We do not provide our executive officers or other employees with defined pension benefits, supplemental retirement benefits, post-retirement payments or deferred compensation programs. We do provide a 401(k) defined contribution plan that is available to all of our U.S. employees who meet certain eligibility requirements.

Except as described below, we provide health, life and other insurance benefits to our executive officers on the same basis as our other full-time employees. All of our U.S. employees are enrolled in our group disability and life insurance plans. Each of our executive officers is entitled to receive a life insurance benefit upon his or her death equal to two times his or her annual base salary in effect on the date of death, up to a maximum benefit of \$500,000. Each of our other salaried employees is entitled to a life insurance benefit equal to two times his or her annual base salary in effect on the date of death, up to a maximum benefit of \$300,000.



All of our employees, including our executive officers, are eligible to participate in our Employee Stock Purchase Plan (“Purchase Plan”), which has been designed to comply with Section 423 of the Internal Revenue Code. The Compensation Committee believes that the Purchase Plan encourages employees, including our executive officers, to increase their ownership in the Company and further aligns their economic interests with those of our stockholders. The Purchase Plan is designed to appeal primarily to non-executive employees and is not intended to be a meaningful element of our executive compensation program.

We do not provide other perquisites or personal benefits to our executive officers. The Compensation Committee believes that this policy is consistent with its pay-for-performance philosophy. We also do not provide any additional cash compensation to our executive officers to reimburse them for any income tax liability (with the exception of certain circumstances following a change in control) that may arise and become due and payable as a result of their receipt of any cash or equity compensation or benefits.

***Severance and Change in Control Benefits.*** In November 2007, we entered into an employment agreement with Peter V. Leparulo, who was then our Executive Chairman and subsequently served as our Chief Executive Officer. The agreement provided for a minimum annual base salary and annual and long-term incentive compensation opportunities, as well as severance and other benefits. For additional information about the terms of this employment agreement, see “Executive Compensation—Employment Agreements,” beginning on page 30. For additional information about the severance benefits provided under this agreement, see “Executive Compensation—Potential Payments Upon Termination or Change in Control—Employment Agreements,” beginning on page 34. As described above, the Board replaced Mr. Leparulo as Chief Executive Officer in June 2014.

On November 2, 2014, we entered into an offer letter with Mr. Mashinsky which provides that in the event that Mr. Mashinsky is terminated by us without cause or resigns for good reason during the term (each as defined in the offer letter), Mr. Mashinsky will be entitled to receive certain severance payments. In addition, all options and RSUs, other than compensatory RSUs, held by Mr. Mashinsky which are not then vested will vest in full. For additional information about the terms of this offer letter, see “Executive Compensation—Employment Agreements,” beginning on page 30. For additional information about the severance benefits provided under this agreement, see “Executive Compensation—Potential Payments Upon Termination or Change in Control—Employment Agreements,” beginning on page 34.

We have also entered into Change in Control and Severance Agreements with Dr. Souissi and Mr. Newman which provide for certain payments and other benefits to the executives if they are subject to a Covered Termination during a Change in Control Period (each as defined in the severance agreements). For additional information about the terms of Dr. Souissi and Mr. Newman’s severance agreements, see “Executive Compensation—Potential Payments Upon Termination or Change in Control—Severance Agreements,” beginning on page 36.

***Internal Revenue Code Section 162(m).*** Section 162(m) of the Internal Revenue Code provides that compensation in excess of \$1 million paid to the chief executive officer or to any of the other three most highly compensated executive officers (other than the chief financial officer) of a public company is not deductible for federal income tax purposes unless the compensation qualifies as “performance based compensation.”

In reviewing our executive compensation program, the Compensation Committee considers the anticipated tax treatment to the Company and our executive officers of various payments and benefits. However, the deductibility of certain compensation payments depends upon the timing of an executive’s vesting or exercise of previously granted awards, as well as interpretations and changes in the tax laws and other factors beyond the Committee’s control. For these and other reasons, including the need to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Compensation Committee will not necessarily, or in all circumstances, limit executive compensation to that which is deductible under Section 162(m) and has not adopted a policy requiring that all compensation be deductible.

## 2014 Compensation

**Base Salaries.** During the second half of 2014, the Compensation Committee reviewed recommendations from Compensia, based on data from the relevant comparator group and published studies regarding compensation of executive officers at other public companies, to determine the base salary of Mr. Mashinsky and to reevaluate the base salary of Dr. Souissi.

**Annual Incentive Compensation.** In connection with the Company's turnaround efforts in 2014, the Board adopted the 2014 Retention Bonus Plan (the "2014 Plan") pursuant to which certain of the Company's full-time employees may become eligible to receive awards from the Company in a total dollar amount equal to 50% of his or her annualized base compensation. Performance milestones and bonus awards under the 2014 Plan relate only to the third and fourth quarters of the Company's 2014 fiscal year and the first quarter of the Company's 2015 fiscal year (the "2014 Performance Period").

Under the terms of the 2014 Plan, if the Company achieves both "positive EBITDA" and "increased cash" (both non-GAAP and as defined in the 2014 Plan) in two consecutive quarters during the 2014 Performance Period, then all full-time employees who were employed with the Company for at least four months during the 2014 Performance Period, and who continue to be employed with the Company on the date that the Company determines achievement of the performance milestones and any applicable payment dates, will be eligible to receive bonus awards under the 2014 Plan. Based upon the Company's financial results for the quarter ended December 31, 2014, the Company accrued approximately \$5.5 million, or 50% of the maximum total target bonus expense payable under the 2014 Plan. However, whether the performance milestones were achieved and any bonus awards were earned cannot be determined until after the end of the first quarter of 2015. Accordingly, no bonus compensation was paid to any of the Company's executive officers during 2014. The Company may pay the bonuses, in its discretion, using a combination of cash and Company common stock, with the Company having the ability to pay up to 70% of the final achieved bonus in Company common stock.

Commencing April 1, 2015, officers and employees of the Company ("Participants") will be eligible to receive bonuses under the 2015 Corporate Bonus Plan (the "2015 Plan"), with target bonus amounts set as a percentage of base salary based on rank or job title within the Company ("Bonus Awards"). Bonus Awards under the 2015 Plan will relate only to the second through fourth quarters of the Company's 2015 fiscal year (the "2015 Performance Period") and payouts will be 75% of the payout that would have been applicable for a bonus plan based on a full fiscal year.

Under the terms of the 2015 Plan, 75% of each Participant's Bonus Award will be based on achievement of the Company objectives, with 25% of each Bonus Award earned if the Company meets each of its (i) revenue, (ii) non-GAAP gross margin and (iii) adjusted EBITDA objectives for the 2015 Performance Period. Achievement of at least 85% of the revenue or non-GAAP gross margin performance goals and 50% of the adjusted EBITDA performance goal is required for any payment of the portion of each Bonus Award that is based on achievement by the Company of such goals. The remaining 25% of each Participant's Bonus Award will be determined by the Compensation Committee based on individual performance during the 2015 Performance Period.

The foregoing descriptions of the 2014 and the 2015 Plan do not purport to be complete and are subject to, and qualified in their entirety by, the terms of such plans which are incorporated herein by reference.

**Long-Term Incentive Compensation.** In 2014, the Compensation Committee considered several scenarios to address long-term equity compensation. The Compensation Committee reviewed the equity grants of the previous several years and received recommendations from Meridian based on the equity compensation practices of the comparator group of companies. Based upon these considerations, the Compensation Committee decided to grant long-term equity compensation in a mix of stock options and RSUs.

The following table sets forth the economic value (at the time of grant) of the long-term equity incentive award granted to each of our named executive officers in 2014, as well as the number of stock options and RSUs granted to each named executive officer. As described above, Messrs. Leparulo, Leddon, Hadley and Allen and Ms. Ratcliffe are no longer employed by the Company.

<u>Name</u>	<u>Economic Value of Award at Time of Grant</u>	<u>Number of Stock Options</u>	<u>Number of Restricted Stock Units</u>
Alex Mashinsky .....	\$2,380,565	1,000,000	458,488
Slim S. Souissi .....	568,533	87,712	233,898
Michael Newman .....	743,288	175,000	225,000
Peter V. Leparulo .....	1,164,533	179,661	479,096
Kenneth G. Leddon .....	499,872	77,119	205,650
Robert Hadley .....	428,460	66,102	176,571
Catherine F. Ratcliffe .....	469,108	72,373	192,994
Thomas Allen .....	31,935	0	16,129

Generally, the stock option awards described above vest over a three-year period, with one-third vesting on the first anniversary of the grant date and the remainder vesting ratably on a monthly basis thereafter through the third anniversary of the grant date, and the RSUs vest in three equal installments on the first, second and third anniversary of the grant date. The RSUs granted to Mr. Allen on June 24, 2014 vested in full on September 12, 2014. The Compensation Committee approved equity awards with time-based vesting to create a significant incentive for our executive officers to be employed by the Company for at least three years after the date of grant.

## EXECUTIVE COMPENSATION

The following executive compensation tables and related information are intended to be read with the more detailed disclosure regarding our executive compensation program presented under “Compensation Discussion and Analysis” above.

### Summary Compensation Table

The following table sets forth information regarding the compensation of our named executive officers:

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation(2)	All Other Compensation(3)	Total
Alex Mashinsky <sup>(4)</sup> Chief Executive Officer	2014	\$203,348 <sup>(5)</sup>	\$1,178,406	\$1,202,160	\$ 0	\$ 1,364	\$2,585,278
Slim S. Souissi President and Chief Operations Officer	2014	355,833	460,779	107,754	0	15,912	940,278
	2013	307,500	0	89,715	60,600	10,734	468,549
	2012	300,000	252,217	54,089	65,700	10,534	682,540
Michael A. Newman Executive Vice President, Chief Financial Officer and Secretary	2014	99,999 <sup>(5)</sup>	506,250	237,038	0	178	843,465
Peter V. Leparulo Former Chief Executive Officer	2014	456,417	943,819	220,713	0	2,826,255	4,447,204
	2013	473,333	0	184,215	186,648	10,734	854,930
	2012	462,000	517,889	111,065	210,000	10,534	1,311,488
Kenneth G. Leddon Former Senior Vice President and Chief Financial Officer	2014	185,000	405,131	94,741	0	6,983	691,855
	2013	291,667	0	73,865	57,570	10,734	433,836
	2012	285,000	207,659	44,534	62,415	10,534	610,142
Robert Hadley Former Chief Marketing Officer	2014	206,538	347,254	81,206	0	9,074	644,072
	2013	287,500	0	85,229	57,570	10,734	441,033
	2012	285,000	239,606	51,385	62,415	10,534	648,940
Catherine F. Ratcliffe Former Senior Vice President of Business Affairs, General Counsel and Secretary	2014	216,648	380,198	88,910	0	9,499	695,255
	2013	275,833	0	75,361	54,540	10,734	416,468
	2012	270,000	211,863	45,436	59,130	10,534	596,963
Thomas D. Allen Former Interim Chief Financial Officer	2014	92,478	31,935	0	0	0	124,413

- (1) The amounts in these columns reflect the aggregate grant date fair value of the stock and option awards granted in the respective fiscal year as computed in accordance with ASC Topic 718, excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in Note 9, “Stock Incentive and Employee Stock Purchase Plans” in the Company’s Form 10-K for the year ended December 31, 2014.
- (2) Represents cash awards under our annual incentive compensation plans.
- (3) The amounts shown represent Company matching contributions under our 401(k) plan, life insurance premiums paid by the Company, a patent bonus paid to Dr. Souissi and severance benefits paid or accrued in connection with the replacement of our former Chief Executive Officer.

- (4) Mr. Mashinsky served as a non-management director from April 29, 2014 through June 12, 2014. During that time, he accrued compensation for his service on the Board, which he received in the form of 55,215 unvested RSUs on April 29, 2014 and 2,346 fully vested RSUs on September 10, 2014. This compensation is included in the Summary Compensation Table above.
- (5) For 2014, the Company paid 30% of Mr. Newman’s annual salary, and 30% of Mr. Mashinsky’s salary from November 1, 2014 through December 31, 2014, in the form of RSUs.

### Grants of Plan-Based Awards

The following table sets forth information regarding the Company’s grants of plan-based awards to named executive officers during 2014 under the Company’s annual incentive plan and 2009 Incentive Plan (as described above, Messrs. Leparulo, Leddon, Hadley and Allen and Ms. Ratcliffe are no longer employed by the Company). In this table, the annual incentive plan is abbreviated as “AIP” and awards under the 2009 Incentive Plan are abbreviated as “RSU” for restricted stock unit awards and “SOA” for stock option awards.

Name	Award Type	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares or Units (#)(2)	All Other Option Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards	
			Threshold	Target	Maximum					
Alex Mashinsky . . . . .	AIP	11/02/2014	282,000	282,000	282,000					
	SOA	11/02/2014						700,000	2.85	890,190
	SOA	11/02/2014						300,000	5.00	311,970
	RSU	04/29/2014						55,215		99,939
	RSU	08/04/2014						72,308		135,216
	RSU	09/10/2014						2,346		5,349
	RSU	11/02/2014						9,298		26,499
	RSU	11/02/2014						330,965		943,250
Slim Souissi . . . . .	AIP	06/18/2014	182,500	182,500	182,500					
	SOA	03/04/2014						87,712	1.97	107,754
	RSU	03/14/2014						233,898		460,779
Michael Newman . . . . .	AIP	09/02/2014	150,000	150,000	150,000					
	SOA	09/02/2014						175,000	2.25	237,038
	RSU	09/02/2014						225,000		506,250
	RSU	09/02/2014						13,333		29,999
Peter Leparulo . . . . .	AIP	—	—	—	—					
	SOA	03/14/2014						179,661	1.97	220,714
	RSU	03/14/2014						479,096		943,819
Kenneth Leddon . . . . .	AIP	—	—	—	—					
	SOA	03/14/2014						77,119	1.97	94,741
	RSU	03/14/2014						205,650		405,131
Robert Hadley . . . . .	AIP	—	—	—	—					
	SOA	03/14/2014						66,102	1.97	81,206
	RSU	03/14/2014						176,271		347,254
Catherine Ratcliffe . . . . .	AIP	—	—	—	—					
	SOA	03/14/2014						72,373	1.97	88,910
	RSU	03/14/2014						192,994		380,198
Thomas D. Allen . . . . .	AIP	—	—	—	—					
	RSU	06/24/2014						16,129		31,935

- (1) Represents the potential payout for awards granted under the Company’s 2014 Plan. These awards are subject to the attainment of certain performance goals. The performance goals and target award amounts for determining the payout are described under “Compensation, Discussion and Analysis—Annual Incentive Compensation.” No amounts were earned by or paid to the named executive officers under the 2014 Plan during the Company’s 2014 fiscal year.
- (2) Represents RSUs granted under the Company’s 2009 Incentive Plan. RSUs generally vest over a three-year period, with one-third vesting on each anniversary of the grant date. RSUs granted in lieu of cash

compensation or granted as part of an initial employment offer to an executive officer may vest on a different schedule based on the terms of such executive officer's employment agreement or offer letter.

- (3) Represents stock options granted under the Company's 2009 Incentive Plan. Stock options generally vest over a three-year period, with one-third vesting on the first anniversary of the grant date and the remainder vesting ratably on a monthly basis thereafter through the third anniversary of the grant date.

### **Employment Agreements**

**Alex Mashinsky.** On November 2, 2014, the Company entered into a continued employment offer letter agreement with Mr. Mashinsky, pursuant to which Mr. Mashinsky agreed to serve as the Company's Chief Executive Officer for an initial term of three years (the "Term"). Mr. Mashinsky is entitled to receive an annual base salary of \$530,000 as compensation for his services as Chief Executive Officer. Commencing with calendar year 2015, \$371,000 of Mr. Mashinsky's annual base salary will be payable in cash, and the remaining \$159,000 of Mr. Mashinsky's annual base salary will be payable through the issuance of RSUs which will vest in 12 equal monthly installments from the date of grant; *provided, however*, that beginning in calendar year 2017, Mr. Mashinsky will have the right to elect to receive his full annual base salary in cash. Mr. Mashinsky will also have the opportunity to receive a \$282,000 bonus, to the extent that the Board determines that the Company has achieved certain performance goals by the end of the first quarter of 2015 pursuant to the 2014 Plan, and for subsequent periods commencing on April 1, 2015, Mr. Mashinsky will be eligible to receive an annual bonus targeted at 60% of his annual base salary, based on the achievement of criteria to be established by the Compensation Committee of the Board. For a description of the severance benefits provided under this agreement and our other severance agreements, see "—Potential Payments Upon Termination or Change in Control—Employment Agreement."

**Slim S. Souissi.** On April 17, 2015, the Company entered into a continued employment offer letter agreement with Dr. Souissi, pursuant to which Dr. Souissi will be entitled to receive an annual base salary of \$365,000 as compensation for his services as President and Chief Operations Officer. Commencing on March 16, 2015, \$255,500 of Dr. Souissi's annual base salary will be payable in cash, and the remaining \$109,500 of Dr. Souissi's annual base salary will be payable through the issuance of RSUs which will vest in 12 equal monthly installments from the date of grant; *provided, however*, that beginning in calendar year 2016, Dr. Souissi will have the right to elect to receive his full annual base salary in cash. Dr. Souissi will also have the opportunity to receive a bonus of \$182,500, to the extent that Board determines that the Company has achieved certain performance goals pursuant to the 2014 Plan. For subsequent periods commencing on April 1, 2015, Dr. Souissi will be eligible to receive an annual bonus targeted at 60% of his annual base salary, based on the achievement of criteria to be established by the Compensation Committee. For a description of the severance benefits provided under this agreement and our other severance agreements, see "—Potential Payments Upon Termination or Change in Control—Employment Agreement."

**Michael A. Newman.** On September 2, 2014, the Board appointed Mr. Newman to serve as the Company's Executive Vice President and Chief Financial Officer pursuant to the terms of an offer letter agreement. Mr. Newman will receive an annual base salary of \$300,000 as compensation for his services as Executive Vice President and Chief Financial Officer, of which \$90,000 is to be paid through the issuance of RSUs which will vest in 12 equal monthly installments from the date of grant; *provided, however*, that beginning in calendar year 2016, Mr. Newman will have the right to elect to receive his full annual base salary in cash. For calendar year 2014, Mr. Newman was granted \$30,000 in RSUs which vested in four equal monthly installments on the last trading day of each of September, October, November and December 2014. Mr. Newman will also have the opportunity to receive a \$150,000 bonus to the extent the Board determines that the Company has achieved certain performance goals pursuant to the 2014 Plan. For subsequent periods commencing April 1, 2015, Mr. Newman will be eligible to receive an annual bonus targeted at 50% of his annual base salary, based on achievement of criteria to be established by the Compensation Committee. For a description of the severance benefits provided under this agreement and our other severance agreements, see "—Potential Payments Upon Termination or Change in Control—Employment Agreement."

**Peter Leparulo.** In November 2007, we entered into an employment agreement with Mr. Leparulo, who was then our Executive Chairman and subsequently served as our Chief Executive Officer, for an initial term of three years. The agreement provided Mr. Leparulo with an annual base salary of not less than \$462,000. The amount of his base salary was increased for the first time under the agreement, effective November 1, 2013, to \$530,000. Mr. Leparulo was eligible to receive annual incentive compensation equal to at least 100% of his base salary, based on the achievement of performance goals established by the Board or Compensation Committee. Mr. Leparulo was also entitled to annual equity grants consistent with competitive pay practices generally and appropriate relative to awards made to our other executive officers. Mr. Leparulo was entitled to a \$1,000,000 executive term life insurance policy and was entitled to designate the beneficiary of the policy. He was also eligible to participate in our employee benefits plans and programs. As previously disclosed, Mr. Leparulo served as Chairman of the Board until April 29, 2014 and as Chief Executive Officer until June 13, 2014. Mr. Leparulo was entitled to receive severance benefits for termination of employment for any reason other than cause as provided in his employment agreement.

## Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding stock options and RSUs held by our current and former named executive officers that were outstanding at December 31, 2014 (as described above, Messrs. Leparulo, Leddon, Hadley and Allen and Ms. Ratcliffe are no longer employed by the Company).

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Units That Have not Vested(1)
Alex Mashinsky	0	700,000(2)	\$ 2.85	12/2/17		
	0	300,000(2)	5.00	11/2/19		
					55,215(3)	\$ 177,792
					330,965(4)	1,065,707
Slim S. Souissi	21,333	0	\$11.04	3/7/2015		
	30,000	0	\$10.40	1/5/2017		
	102,273	0	\$ 5.51	3/13/2019		
	53,957	0	\$ 6.95	3/11/2020		
	27,522	0	\$ 5.45	7/1/2021		
	25,229	2,293(11)	\$ 3.44	3/8/2022		
	43,750	31,250(5)	\$ 2.10	3/4/2023		
	0	87,712(6)	\$ 1.97	3/14/2024		
					24,440(7)	78,697
					233,898(8)	753,152
Michael A. Newman	0	175,000(9)	\$ 2.25	9/2/2024		
					225,000(10)	724,500
Peter V. Leparulo	210,000	0	\$ 5.51	3/13/2019		
	110,791	0	\$ 6.95	3/11/2020		
	56,513	0	\$ 5.45	7/1/2021		
	56,513	0	\$ 3.44	3/8/2022		
	154,000	0	\$ 2.10	3/4/2023		
	179,661	0	\$ 1.97	3/14/2024		
Kenneth G. Leddon	64,773	0	\$ 5.51	12/31/2014		
	30,114	0	\$11.83	12/31/2014		
	44,424	0	\$ 6.95	12/31/2014		
	21,401	0	\$ 5.45	12/31/2014		
	14,366	0	\$ 3.44	12/31/2014		
Robert M. Hadley	60,227	0	\$ 5.51	12/31/2014		
	51,259	0	\$ 6.95	12/31/2014		
	26,146	0	\$ 5.45	12/31/2014		
	20,336	0	\$ 3.44	12/31/2014		
Catherine F. Ratcliffe	63,984	0	\$11.04	12/31/2014		
	27,000	0	\$10.40	12/31/2014		
	59,901	0	\$ 5.51	12/31/2014		
	45,324	0	\$ 6.95	12/31/2014		
	23,119	0	\$ 5.45	12/31/2014		
	17,982	0	\$ 3.44	12/31/2014		
Thomas D. Allen	—	—	—	—	—	—

(1) Based upon a market value per share of \$3.22, the closing price of our stock on December 31, 2014.



- (2) Option will vest as to one-third of the shares of common stock underlying the option on November 2, 2015 and the remaining two-thirds will vest ratably on a monthly basis thereafter until fully vested on November 2, 2017.
- (3) Represents RSUs, of which one-third vested on April 29, 2015, one-third will vest on April 29, 2016 and one-third will vest on April 29, 2017.
- (4) Represents RSUs, of which one-third will vest on November 2, 2015, one-third will vest on November 2, 2016 and one-third will vest on November 2, 2017.
- (5) Option vested as to one-third of the shares of common stock underlying the option on March 4, 2014 and the remaining two-thirds vest ratably on a monthly basis thereafter until fully vested on March 4, 2016.
- (6) One-third of the shares of common stock underlying the option vested on March 14, 2015 and the remaining two-thirds vest ratably on a monthly basis thereafter until fully vested on March 14, 2017.
- (7) Represents RSUs which vested on March 8, 2015.
- (8) Represents RSUs, of which one-third vested on March 14, 2015, one-third will vest on March 14, 2016 and one-third will vest on March 14, 2017.
- (9) Option will vest as to one-third of shares of common stock on September 2, 2015 and the remaining two-thirds will vest ratably on a monthly basis until thereafter until fully vested on September 2, 2017.
- (10) Represents RSUs, of which one-third will vest on September 2, 2015, one-third will vest on September 2, 2016 and one-third will vest on September 2, 2017.
- (11) Option vested as to one-third of the shares of common stock underlying the option on March 8, 2013 and the remaining two-thirds vested ratably on a monthly basis and fully vested on March 8, 2015.

### Option Exercises and Stock Vested

The following table sets forth information regarding the vesting of RSU awards for each of our current and former named executive officers during 2014 (as described above, Messrs. Leparulo, Leddon, Hadley and Allen and Ms. Ratcliffe are no longer employed by the Company).

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting(1)
Alex Mashinsky	—	—	83,952	\$ 239,455
Slim S. Souissi	—	—	48,880	99,471
Michael A. Newman	—	—	13,333	43,132
Peter V. Leparulo	—	—	629,645	1,559,199
Kenneth G. Leddon	26,015	\$28,740	20,122	42,659
Robert Hadley	31,667	35,202	46,436	94,497
Catherine F. Ratcliffe	28,000	31,080	41,059	83,555
Thomas D. Allen	—	—	16,129	31,935

- (1) Represents the number of shares of restricted stock vested multiplied by the closing price of our common stock on the applicable vesting date.

### Potential Payments Upon Termination or Change in Control

We have historically provided severance benefits to our named executive officers in the event the executive's employment is terminated under certain circumstances following a change in control of the Company. We currently provide these benefits to Mr. Mashinsky under an employment agreement and to Dr. Souissi and Mr. Newman under separate severance agreements. We have also agreed to provide severance benefits unrelated to a change in control to Mr. Mashinsky under his offer letter and to Dr. Souissi and Mr. Newman under their severance agreements. We previously provided these benefits to Mr. Leparulo under an employment agreement and also provided Mr. Leparulo severance benefits unrelated to a change in control under his employment agreement. A description of the severance benefits payable under these agreements is set forth below.

### ***Employment Agreements.***

*Employment Agreement with Mr. Leparulo.* Our employment agreement with Mr. Leparulo provided for payments and benefits to him in the event there was a change in control of the Company or his employment was terminated under the circumstances described below. We and Mr. Leparulo agreed that retroactive to the commencement of his service as our Chief Executive Officer, the employment agreement shall be construed as also referring to his service as Chief Executive Officer. Unless clearly inappropriate in the context, every reference in the employment agreement to Mr. Leparulo's position, authority, rights, or duties shall be construed as referring to both his Executive Chairman and Chief Executive Officer positions, authority, rights, or duties while he held both positions and, when he only held one of those positions, to that position and its authority, rights, or duties.

As previously disclosed, Mr. Leparulo served as Chairman of the Board until April 29, 2014 and as Chief Executive Officer until June 13, 2014. Under the terms of his agreement, Mr. Leparulo was entitled to receive the following severance benefits for termination of employment for any reason other than for cause as provided in his employment agreement:

- a severance payment equal to two times the sum of (a) his base salary, plus (b) the greater of the annual incentive award he would have earned for the year of termination (which is deemed to be no less than his target award for the year) and his base salary multiplied by the average annual incentive award, as a percentage of base salary, for the next three most senior executive officers;
- immediate vesting of all outstanding equity awards under our compensation plans, which awards will remain exercisable until the applicable expiration date;
- an amount equal to his unpaid base salary earned through the date of termination, unpaid annual incentive award earned for the previous year and annual incentive award earned in the year of termination pro-rated through the date of termination;
- outplacement services for one year, not to exceed \$20,000;
- continued participation for 24 months by Mr. Leparulo and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination;
- payment for accrued vacation time; and
- a payment equal to the amount necessary to offset any excise taxes and any related income taxes, penalties and interest.

*Employment Agreement with Mr. Mashinsky.* Our offer letter agreement with Mr. Mashinsky provides for payments and benefits to him in the event or his employment is terminated under the circumstances described below.

Mr. Mashinsky is entitled to the following severance benefits if we terminate his employment without cause or if he terminates his employment for good reason:

- an amount equal to his unpaid base salary earned through the date of termination, accrued but unpaid vacation, incurred but unreimbursed business expenses payable in accordance with applicable law or Company policy, or vested benefits (other than severance) under any Company benefit plan;
- severance payments paid in cash as salary continuation payments equal, in the aggregate, to the greater of (a) his base salary for the remainder of the initial three-year term of his employment agreement and (b) his base salary for 12 months, in each case, assuming his base salary was paid entirely in cash;
- immediate vesting of outstanding equity awards under our compensation plans, other than compensatory RSUs, with respect to the number of shares of common stock that would have vested had his employment continued through December 31 of the year of termination and, with respect to

compensatory RSUs, immediate vesting of the number of shares of common stock that would have vested had his employment continued through the next monthly vesting date, which awards will remain exercisable until the applicable expiration date;

- if he elects to receive continued healthcare coverage pursuant to COBRA, direct payment of premiums for Mr. Mashinsky and his covered dependents through the earliest of (x) 12 months, (y) the date he and his dependents become eligible for coverage through another group plan, and (z) the date he and his dependents become no longer eligible for COBRA; and
- unpaid annual incentive award earned for the previous year and annual incentive award earned in the year of termination pro-rated through the date of termination.

*provided* that in order to receive the aforementioned severance benefits, Mr. Mashinsky must deliver to the Company a general release of all claims against the Company and its affiliates effective no more than 55 days after termination of his employment.

Under the agreement, termination without cause includes termination for any reason other than Mr. Mashinsky's:

- material misconduct or material dishonesty in the performance of his duties;
- willful failure, gross neglect or refusal to attempt in good faith to perform his duties to the Company or follow the lawful instructions of the Board that is not cured within a reasonable period after notice;
- commission of any fraud or embezzlement against the Company;
- material breach of any written agreement with the Company that has not been cured within 30 days after written notice;
- conviction of (or pleading guilty or nolo contendere to) any felony or misdemeanor involving theft, embezzlement, dishonesty or moral turpitude; or
- failure to comply with Company policies relating to ethics, conflicts of interest, insider trading, discrimination, etc. or his other breach of fiduciary duties to the Company.

Mr. Mashinsky is deemed to have terminated his employment for good reason if the termination follows:

- a material reduction in his duties;
- a material reduction in his base compensation;
- a relocation of his principal place of work by more than 50 miles; or
- the Company giving him notice that it will not renew his offer letter agreement.

If we terminate Mr. Mashinsky's employment without cause or if he terminates his employment for good reason within 30 days prior to or 12 months following a change in control of the Company, he will be entitled to receive the benefits listed above, except that:

- in lieu of the severance payments described above, he will be entitled to receive severance payments paid in cash as salary continuation payments equal, in the aggregate, to the greater of (a) his base salary for the remainder of the term of his employment agreement and (b) his base salary for 24 months, in each case, assuming his base salary was paid entirely in cash;
- if he elects to receive continued healthcare coverage pursuant to COBRA, direct payment of premiums for Mr. Mashinsky and his covered dependents through the earliest of (x) 18 months, (y) the date he and his dependents become eligible for coverage through another group plan, and (z) the date he and his dependents become no longer eligible for COBRA; and
- he will be entitled to receive immediate vesting of outstanding equity awards under our compensation plans.

Under Mr. Mashinsky's employment agreement, a change in control is defined as:

- a transaction after which an individual, entity or group owns 50% or more of the outstanding shares of our common stock, subject to limited exceptions;
- a sale of all or substantially all of the Company's assets; or
- a merger, consolidation or similar transaction, unless immediately following such transaction (A) the holders of our common stock immediately prior to the transaction continue to beneficially own more than 50% of the combined voting power of the surviving entity in substantially the same proportion as their ownership immediately prior to the transaction, (B) no person becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding shares of the voting securities eligible to elect directors of the surviving entity, and (C) at least a majority of the members of the board of directors of the surviving entity immediately following the transaction were also members of the Board at the time the Board approved the transaction.

#### ***Severance Agreements.***

*Change of Control and Severance Agreement with Michael Newman.* The Company entered into an Amended and Restated Change of Control and Severance Agreement with Mr. Newman in April 2015.

Under the terms of this agreement, if Mr. Newman's employment is terminated by the Company without cause or by Mr. Newman for good reason not in connection with a change in control, then Mr. Newman is entitled to the following benefits:

- an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to him under our compensation plans;
- an amount equal to 50% of his annual base compensation, payable in cash in the form of salary continuation;
- immediate vesting of the portion of his outstanding equity awards under our compensation plans (other than compensatory RSUs) that would have vested had his employment continued through the next vesting date, which awards will remain exercisable until the applicable expiration date;
- a lump-sum bonus payment equal to the pro-rated portion of the target bonus in the year of termination; and
- continued participation for up to 9 months by Mr. Newman and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

This agreement provides for the following severance benefits, in lieu of the benefits described above, if Mr. Newman's employment is terminated by the Company without cause or by Mr. Newman for good reason during the period commencing 30 days before and ending 12 months after a change in control:

- an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to Mr. Newman under our compensation plans;
- an amount equal to the sum of 18 months of Mr. Newman's base salary plus an amount equal to 12 months of Mr. Newman's target annual bonus opportunity;
- immediate vesting of outstanding equity awards under our compensation plans, other than compensatory RSUs, which awards will remain exercisable until the applicable expiration date; and
- continued participation for up to 18 months by Mr. Newman and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

*Change of Control and Severance Agreement with Slim Souissi.* The Company entered into a Change of Control and Severance Agreement with Dr. Souissi in April 2015. This agreement provides for severance benefits upon termination of Dr. Souissi's employment under certain specified circumstances.

If Dr. Souissi's employment is terminated by the Company without cause or by Dr. Souissi for good reason after June 14, 2015 not in connection with a change in control, then Dr. Souissi is entitled to the following benefits:

- an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to him under our compensation plans;
- an amount equal to six months of his annual base compensation, payable in cash in the form of salary continuation;
- immediate vesting of the portion of his outstanding equity awards under our compensation plans (other than compensatory RSUs) that would have vested had his employment continued through the next vesting date, which awards will remain exercisable until the applicable expiration date;
- a lump-sum bonus payment equal to the pro-rated portion of the target bonus in the year of termination; and
- continued participation for up to 9 months by Dr. Souissi and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

If, on or prior to June 14, 2016, Dr. Souissi experiences a "Payment Termination" during a "Change in Control" period (as such terms are defined in that certain change of control letter agreement by and between Dr. Souissi and the Company dated May 19, 2004 (the "2004 CIC Agreement")), then Dr. Souissi is entitled to the following benefits in lieu of the benefits described in the preceding paragraph:

- an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to him under our compensation plans;
- a lump-sum severance payment equal to the sum of the following:
  - (A) 300% of the greater of (x) his annual base salary as in effect immediately prior to the termination or (y) his annual base salary as in effect immediately prior to the change in control; and
  - (B) 300% of the greater of (x) his targeted annual bonus for the year in which the termination occurs or (y) his targeted annual bonus for the year in which the change in control occurs, in each case assuming that the bonus targets are satisfied;
- financial planning services for the one year period following date of termination;
- outplacement services for a period not to exceed one year at an aggregate cost to the Company not to exceed \$10,000; and
- continued participation for up to 24 months by Dr. Souissi and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

If Dr. Souissi's employment is terminated by the Company without cause or by the executive for good reason between June 15, 2015 and June 14, 2016 during the period commencing 30 days before and ending 12 months after a change in control and Dr. Souissi is not entitled to benefits under the 2004 CIC Agreement, Dr. Souissi is entitled to receive, in addition to an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to him under our compensation plans, an amount equal to 300% of his base salary, payable in cash in the form of salary continuation, in lieu of the benefits described in either of the two preceding paragraphs.

If Dr. Souissi's employment is terminated by the Company without cause or by the executive for good reason after June 14, 2016, and during the period commencing 30 days before and ending 12 months after a change in control, Dr. Souissi is entitled to the following benefits in lieu of the benefits described in any of the three preceding paragraphs:

- an amount equal to his unpaid base salary and incentive pay through the date of termination and any other amounts owed to him under our compensation plans;

- an amount equal to the sum of 18 months of his base salary plus an amount equal to 12 months of his target annual bonus opportunity;
- immediate vesting of outstanding equity awards under our compensation plans, other than compensatory RSUs, which awards will remain exercisable until the applicable expiration date; and
- continued participation for up to 18 months by Dr. Souissi and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

Under Mr. Newman and Dr. Souissi's severance agreements, "change in control", "cause" and "good reason" are defined in the same manner as Mr. Mashinsky's employment agreement. To receive any benefits under their severance agreement, the executive must deliver to the Company a general release of all claims against the Company and its affiliates effective no more than 55 days after termination of his employment.

***Equity Award Agreements.*** The following is a summary of the vesting provisions applicable to the outstanding equity awards held by our named executive officers as of December 31, 2014.

***2009 Incentive Plan.*** The award agreements covering grants of stock options and RSUs made to our named executive officers under our 2009 Incentive Plan provide that the Board, in its discretion, may accelerate the vesting of any unvested options or units in the event of a change in control.

Under our 2009 Incentive Plan, a change in control is defined as:

- any person becoming the beneficial owner of 50% or more of the combined voting power of the then-outstanding shares of our common stock, subject to certain exceptions;
- a majority of the Board ceasing to be comprised of directors who (a) were serving as members of the Board on June 18, 2009 or (b) became members of the Board after June 18, 2009 and whose nomination, election or appointment was approved by a vote of two-thirds of the then-incumbent directors;
- a reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction, unless the holders of our common stock immediately prior to the transaction beneficially own more than 50% of the combined voting power of the shares of the surviving entity and certain other conditions are satisfied; or
- a liquidation or dissolution of the Company approved by the Company's stockholders.

***2000 Stock Incentive Plan.*** The award agreements covering stock option grants previously made to our named executive officers under our 2000 Stock Incentive Plan provide that the stock options will remain exercisable for up to 270 days following the date of an executive's employment termination for any reason.

**Summary of Potential Termination Benefits.** The following tables quantify the compensation and benefits that would have been payable to the named executive officers under the agreements described above, in the case of Mr. Mashinsky and Mr. Newman, and under the 2004 CIC Agreement, in the case of Dr. Souissi, if the executive’s employment had terminated on December 31, 2014, given the executive’s base salary, and, if applicable, the closing price of our common stock, as of that date. Due to the fact that one of the triggers under the 2004 CIC Agreement had already been satisfied at December 31, 2014, any termination of Dr. Souissi on that date would have resulted in payment under the provisions of the 2004 CIC Agreement applicable to a “Payment Termination” during a “Change in Control” period (as such terms are defined in the 2004 CIC Agreement). The amounts shown in the tables do not include payments and benefits, such as accrued salary and accrued vacation, to the extent that such payments and benefits are provided on a non-discriminatory basis to salaried employees generally upon termination of employment.

**Alex Mashinsky  
Chief Executive Officer**

<b>Benefits and Payments</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason During a Change in Control Period</b>	<b>Death</b>
Cash Severance . . . . .	\$ 1,504,329	\$ 1,504,329	—
Annual Incentive Award . . . . .	282,000	282,000	—
Acceleration of Equity Awards . . . . .	1,502,500	1,502,500	—
Health Benefits . . . . .	6,539	13,078	—
Outplacement Services . . . . .	—	—	—
Insurance Benefits . . . . .	—	—	\$ 500,000
<b>Totals:</b> . . . . .	<u>\$ 3,295,368</u>	<u>\$ 3,301,907</u>	<u>\$ 500,000</u>

**Slim S. Souissi  
President and Chief Operations Officer**

<b>Benefits and Payments</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason During a Change in Control Period</b>	<b>Death</b>
Cash Severance . . . . .	—	\$ 1,095,000	—
Annual Incentive Award . . . . .	—	547,500	—
Acceleration of Equity Awards . . . . .	—	976,488	—
Health Benefits . . . . .	—	41,688	—
Outplacement Services . . . . .	—	10,000	—
Insurance Benefits . . . . .	—	—	\$500,000
<b>Totals:</b> . . . . .	<u>—</u>	<u>\$ 2,670,676</u>	<u>\$500,000</u>

**Michael A. Newman  
Executive Vice President, Chief Financial Officer and Secretary**

<b>Benefits and Payments</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason</b>	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason During a Change in Control Period</b>	<b>Death</b>
Cash Severance . . . . .	\$ 150,000	\$ 450,000	—
Annual Incentive Award . . . . .	150,000	150,000	—
Acceleration of Equity Awards . . . . .	298,083	894,250	—
Health Benefits . . . . .	13,397	26,794	—
Outplacement Services . . . . .	—	—	—
Insurance Benefits . . . . .	—	—	\$500,000
<b>Totals:</b> . . . . .	<u>\$ 611,480</u>	<u>\$ 1,521,044</u>	<u>\$500,000</u>

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee is currently comprised of three members, Robert Pons (Chair), James Ledwith and Sue Swenson.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

### **Compensation Committee**

Robert Pons, Chair  
James Ledwith  
Sue Swenson

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Compensation Committee was at any time during fiscal 2014 or at any other time an officer or employee of the Company, and no member had any relationship with the Company requiring disclosure as a related person transaction. No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of our Board or Compensation Committee during fiscal 2014.



## REVIEW AND APPROVAL OF TRANSACTIONS WITH RELATED PARTIES

Pursuant to the Audit Committee charter, the Audit Committee is responsible for reviewing transactions with a related person (as defined in SEC regulations). In considering related person transactions, the Audit Committee takes into account the relevant available facts and circumstances, including:

- the risks, costs and benefits to the Company;
- the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;
- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from employees generally.

In the event a director has an interest in the proposed transaction, the director must recuse himself from the deliberations. When reviewing a related person transaction, the Audit Committee determines in good faith whether the transaction is in, or is not inconsistent with, the best interests of the Company and its stockholders.

**HC2 Holdings.** On September 3, 2014, we entered into a Purchase Agreement with HC2 Holdings pursuant to which, on September 8, 2014, we sold to HC2 Holdings (i) 7,363,334 shares of our common stock, par value \$0.001 per share, (ii) a warrant to purchase 4,117,647 shares of our common stock at an exercise price of \$2.26 per share (the "Warrant") and (iii) 87,196 shares of our Series C Preferred Stock, all at a purchase price of (a) \$1.75 per share of common stock plus, in each case, the related Warrant and (b) \$17.50 per share of Series C Preferred Stock, for aggregate gross proceeds of approximately \$14.4 million (collectively, the "Financing"). On November 17, 2014, each share of Series C Preferred Stock then outstanding automatically converted into ten shares of common stock. On March 26, 2015, HC2 Holdings purchased 3,824,600 shares of common stock pursuant to the exercise of the Warrant, at an exercise price of \$2.26 per share, for aggregate cash proceeds to the Company of approximately \$8.64 million. In order to induce HC2 Holdings to exercise the Warrant, on March 26, 2015, the Company issued to HC2 Holdings a new warrant to purchase 1,593,583 shares of common stock at an exercise price of \$5.50 per share. HC2 Holdings owns approximately 23% of the outstanding shares of common stock of the Company and is a wholly owned subsidiary of HC2.

In connection with the Financing described above, the Company entered into the Investors' Rights Agreement pursuant to which the Company granted to HC2 Holdings certain appointment and nomination rights related to the Company's Board, as well as rights with respect to the registration of the shares of common stock issued in the Financing and the shares of common stock underlying the Warrant and the Series C Preferred Stock. Effective as of October 14, 2014, the Board appointed Mr. Philip Falcone and Mr. Robert Pons to the Board. In addition, Mr. Pons was appointed to serve on the Compensation Committee and the Nominating and Corporate Governance Committee, and was recently appointed to serve on the Audit Committee. Mr. Falcone is the Chairman of the Board, President and Chief Executive Officer of HC2. Mr. Pons is the Executive Vice President of Business Development and a director of HC2.

On September 18, 2013, the United States District Court for the Southern District of New York entered a final Judgment (the "Final Judgment") approving a settlement between the SEC and Harbinger Capital, Harbinger Capital Partners Special Situations GP, LLC, Harbinger Capital Partners Offshore Manager, L.L.C., and Mr. Falcone (collectively, the "HCP Parties"), in connection with two civil actions previously filed against the HCP Parties by the SEC. One civil action alleged that Harbinger Capital Partners Special Situations GP, LLC, Harbinger Capital Partners Offshore Manager, L.L.C., and Mr. Falcone violated the anti-fraud provisions of the federal securities laws by engaging in market manipulation in connection with the trading of the debt securities of a particular issuer from 2006 to 2008. The other civil action alleged that Harbinger Capital and Mr. Falcone violated the anti-fraud provisions of the federal securities laws in connection with a loan made by

Harbinger Capital Partners Special Situations Fund, L.P. to Mr. Falcone in October 2009 and in connection with the circumstances and disclosure regarding alleged preferential treatment of, and agreements with, certain fund investors. The Final Judgment bars and enjoins Mr. Falcone for a period of five years (after which he may seek to have the bar and injunction lifted) from acting as or being an associated person of any “broker,” “dealer,” “investment adviser,” “municipal securities dealer,” “municipal adviser,” “transfer agent,” or “nationally recognized statistical rating organization” (as those terms are defined under the federal securities laws). Additionally, on October 7, 2013, Mr. Falcone delivered a commitment to the Department of Financial Services of the State of New York pursuant to which Mr. Falcone agreed for a period of up to seven years that he will not, directly or indirectly, individually or through any person or entity, exercise control over any New York-licensed insurer.

## SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The tables below provide information regarding the beneficial ownership of our common stock as of March 31, 2015 by:

- each of our directors;
- each of our named executive officers;
- all directors and executive officers as a group; and
- each beneficial owner of more than five percent of our common stock.

The tables below list the number and percentage of shares beneficially owned based on 49,936,912 shares of common stock outstanding as of March 31, 2015. Beneficial ownership is determined in accordance with SEC rules and regulations, and generally includes voting power or investment power with respect to securities held. Unless otherwise indicated and subject to applicable community property laws, we believe that each of the stockholders named in the table below has sole voting and investment power with respect to the shares shown as beneficially owned.

### Directors and Named Executive Officers

<u>Name of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned(1)</u>	<u>Percentage</u>
Alex Mashinsky . . . . .	238,588	*
Slim S. Souissi . . . . .	734,493	1.46%
Michael Newman . . . . .	22,507	*
Peter V. Leparulo(2) . . . . .	639,178	1.26%
Kenneth G. Leddon(3) . . . . .	0	*
Robert M. Hadley(4) . . . . .	0	*
Catherine F. Ratcliffe(5) . . . . .	0	*
Thomas D. Allen(6) . . . . .	16,129	*
Philip Falcone . . . . .	0	*
Russell Gerns . . . . .	118,942	*
James Ledwith . . . . .	129,908	*
Robert Pons . . . . .	0	*
Sue Swenson . . . . .	44,876	*
David A. Werner . . . . .	151,858	*
All current directors and executive officers as a group (10 persons) (7) . . . . .	1,449,332	2.87%

\* Less than 1%.

- (1) Includes: (a) shares of common stock that may be acquired pursuant to stock options that are or will become exercisable within 60 days after March 31, 2015 as follows: Dr. Souissi (329,552 shares), Mr. Leparulo (639,178 shares), Mr. Gerns (22,862 shares), Mr. Ledwith (38,746 shares) and Mr. Werner (53,746 shares); (b) shares of common stock issuable upon settlement of RSUs that will vest within 60 days after March 31, 2015 as follows: Mr. Mashinsky (26,509 shares), Dr. Souissi (3,014 shares) and Mr. Newman (4,587 shares); and (c) shares of common stock issuable under our Purchase Plan within 60 days after March 31, 2015 as follows: Mr. Mashinsky (5,000 shares) and Dr. Souissi (5,000 shares).
- (2) In a Form 4 filed on October 16, 2014, Mr. Leparulo reported beneficial ownership of 798,369 shares of common stock. On June 13, 2014, the Board replaced Mr. Leparulo as Chief Executive Officer. Mr. Leparulo resigned from the Board effective as of October 14, 2014. The Company believes, but has not been able to confirm, that Mr. Leparulo's beneficial ownership of common stock had declined to 639,178 shares as of March 31, 2015. This figure represents stock options that are or will become exercisable within 60 days after March 31, 2015.

- (3) Mr. Leddon resigned from his position as Chief Financial Officer effective as of May 31, 2014.
- (4) In a Form 4 filed on July 2, 2014, Mr. Hadley reported beneficial ownership of 110,356 shares of common stock. Mr. Hadley resigned from his position as Chief Marketing Officer effective as of July 11, 2014. The Company believes, but has not been able to confirm, that Mr. Hadley's beneficial ownership had declined to 0 shares as of March 31, 2015.
- (5) In a Form 4 filed on July 2, 2014, Ms. Ratcliffe reported beneficial ownership of 137,189 shares of common stock. Ms. Ratcliffe left her positions as Senior Vice President of Business Affairs, General Counsel and Secretary effective as of July 11, 2014. The Company believes, but has not been able to confirm, that Ms. Ratcliffe's beneficial ownership had declined to 0 shares as of March 31, 2015.
- (6) Mr. Allen served as interim Chief Financial Officer from June 24, 2014 to September 2, 2014.
- (7) Includes: (a) an aggregate of 444,924 shares of common stock that may be acquired pursuant to stock options that are or will become exercisable within 60 days after March 31, 2015; (b) an aggregate of 26,760 shares of common stock issuable upon settlement of RSUs that will vest within 60 days after March 31, 2015; and (c) an aggregate of 10,000 shares of common stock issuable under our Purchase Plan within 60 days after March 31, 2015.

### Five Percent Holders

The following table sets forth information regarding the number and percentage of shares of common stock held by all persons and entities known by us to beneficially own five percent or more of our outstanding common stock. The information regarding beneficial ownership of the persons and entities identified below is included in reliance on reports filed by the entity with the SEC, except that the percentage is based upon our calculations made in reliance upon the number of shares reported to be beneficially owned by such entity or person in such report and the number of shares of common stock outstanding on March 31, 2015.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage</u>
HC2 Holdings 2, Inc.(1) ..... 460 Herndon Parkway, Suite 150 Herndon, VA 20170	11,473,799	22.98%
Bruce A. Karsh(2) ..... 333 S. Grand Ave., Suite 2800 Los Angeles, CA 90071	4,590,945	9.19%

- (1) According to a Schedule 13D/A filed by HC2 Holdings 2, Inc. with the SEC on March 30, 2015, HC2 Holdings and HC2 have shared voting power and shared dispositive power with respect to 11,473,799 shares of common stock.
- (2) According to a Schedule 13D/A filed by Bruce A. Karsh with the SEC on February 26, 2015, Mr. Karsh has sole voting power and sole dispositive power with respect to 3,264,945 shares of common stock, and shared voting power and shared dispositive power with respect to 1,326,000 shares of common stock. The 1,326,000 shares of common stock with shared voting and shared dispositive power are also beneficially owned by The Karsh Family Foundation, the trustees of which are Mr. Karsh and his wife Martha L. Karsh.

## PROPOSAL 2

### APPROVAL OF AN AMENDMENT TO THE COMPANY'S 2009 OMNIBUS INCENTIVE COMPENSATION PLAN TO INCREASE THE NUMBER OF SHARES ISSUABLE UNDER THE PLAN BY 2,000,000 SHARES

#### Overview

In April 2009, the Board approved the Novatel Wireless, Inc. 2009 Incentive Plan, which was subsequently amended in June 2013, November 2014 and March 2015. The 2009 Incentive Plan affords the Board the ability to design compensatory awards that are responsive to our needs, and includes authorization for a variety of awards designed to advance our interests and long-term success by encouraging stock ownership among our directors, officers, employees and consultants. These awards include equity awards intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code. The 2009 Incentive Plan currently authorizes the issuance of up to 10,000,000 shares of our common stock, plus an additional 323,000 shares that may be issued for inducement grants pursuant to Nasdaq Listing Rule 5635, of which 2,234,690 shares were available for issuance under the plan as of March 31, 2015.

On April 22, 2015, the Board approved an amendment of the 2009 Incentive Plan, subject to stockholder approval at the Annual Meeting, to increase the number of shares available for issuance under the plan by 2,000,000 shares. The Board has determined that the amendment of the plan is advisable and in the best interests of the Company and our stockholders, and has submitted the amendment for approval by our stockholders at the Annual Meeting. The amendment to the 2009 Incentive Plan will be effective as of the date it is approved by our stockholders. In approving this amendment, the Board considered information related to the 2009 Incentive Plan including burn rate, overhang and forecasts for share usage, including shares that may be issued to employees to pay earned amounts under the Company's 2014 Plan.

As of March 31, 2015, under the Company's 2009 Incentive Plan and its predecessor equity compensation plans, there were outstanding RSU awards for 2,132,017 shares of our common stock and outstanding stock options for 4,691,340 shares of our common stock. These outstanding options have a weighted-average exercise price of \$5.35 and a weighted-average term of 6.44 years. On April 28, 2015, the closing market price of a share of our common stock was \$6.41.

A summary of the 2009 Incentive Plan appears below and is qualified by the full text of the 2009 Incentive Plan. A copy of the 2009 Incentive Plan is attached as Appendix A to this Proxy Statement and indicates, on page A-6, the change proposed to be made.

#### Administration

The 2009 Incentive Plan is administered by the Board, which may delegate all or any part of its authority under the 2009 Incentive Plan to a committee of one or more members of the Board. This authority includes, among other things, selecting award recipients, establishing award terms and conditions, granting awards, construing any ambiguous provision of the 2009 Incentive Plan or in any award agreement, and adopting modifications and amendments to the 2009 Incentive Plan or any award agreement, subject to the terms of the 2009 Incentive Plan.

To the extent permitted by applicable law, the Board may also delegate its duties under the 2009 Incentive Plan to one or more senior officers of the Company, referred to as a secondary committee. This delegation of authority is subject to any conditions and limitations set by the Board or set forth in the 2009 Incentive Plan, and may not include the authority to grant an award to a director or executive officer, or to grant awards designed to satisfy the requirements for "qualified performance-based compensation" under Section 162(m) of the Code.

## Awards

The 2009 Incentive Plan provides for grants of both equity and cash awards, including stock options, stock appreciation rights, restricted stock, RSUs, annual incentive awards, performance shares, performance units and other forms of awards. The principal terms and features of the various forms of awards are set forth below:

**Stock Options.** Stock options entitle the participant to purchase shares of our common stock at a price not less than the market value per share on the grant date. Stock options may be incentive stock options or non-qualified stock options under Section 422 of the Code. Each grant will specify whether the exercise price is payable in cash or by check, by a cashless broker-assisted exercise, by the transfer to the Company of shares of our common stock owned by the participant, by the Company withholding shares of our common stock otherwise deliverable to the participant upon the exercise of the stock option, by a combination of these payment methods, or by any other methods that the Board may approve.

Each grant will specify the periods of continuous service by the participant with the Company necessary before the stock options become exercisable. Stock option grants may specify management objectives that must be achieved as a condition to exercise. No stock option will be exercisable more than 10 years after the grant date.

The Board may substitute, without the participant's permission, stock appreciation rights for outstanding stock options. However, the terms of the substituted stock appreciation rights must be substantially the same as the terms of the stock options at the date of substitution. Additionally, the difference between the market value of the underlying shares of our common stock and the base price of the stock appreciation rights must be equivalent to the difference between the market value of the underlying shares of our common stock and the exercise price of the stock options.

**Stock Appreciation Rights.** A stock appreciation right is a right to receive from the Company a dollar amount up to the spread between a base price (which may not be less than the market value per share of our common stock on the grant date or, for a stock appreciation right substituted for an option, on the option grant date) and the market value of the shares of our common stock on the exercise date. The amount payable by the Company on exercise of a stock appreciation right may be paid in cash, shares of our common stock, or any combination of the two. Any grant of stock appreciation rights may specify that the amount payable on exercise may not exceed a maximum specified by the Board. Any grant may also specify management objectives that must be achieved as a condition to exercise, waiting periods before exercise and permissible exercise dates or periods. Each grant will specify the periods of continuous service by the participant with the Company that are necessary before the stock appreciation rights become exercisable. No stock appreciation right will be exercisable more than 10 years after the grant date.

**Restricted Stock.** A grant of restricted stock constitutes an immediate transfer to the participant of the ownership of shares of our common stock in consideration for the performance of services. Restricted stock entitles a participant to voting, dividend and other ownership rights. However, these rights will be subject to any restrictions and conditions, such as the achievement of management objectives, during the restriction period as determined by the Board.

For restricted stock that vests upon the passage of time, each grant will provide that the restricted stock will be subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code for a period to be determined by the Board on the grant date. Each grant will provide that so long as the award is subject to a substantial risk of forfeiture, the transfer of the restricted stock will be prohibited or restricted in the manner and to the extent prescribed by the Board on the grant date.

Grants of restricted stock may require that any or all dividends or other distributions paid during the period of the restrictions be automatically deferred and reinvested in additional shares of restricted stock or paid in cash, which may be subject to the same restrictions as the underlying award. Dividends or other distributions on restricted stock subject to management objectives will be deferred and paid in cash upon the achievement of the management objectives and the lapse of all restrictions.

**Restricted Stock Units.** A grant of RSUs is an agreement by the Company to deliver shares of our common stock or cash equal to the value of such shares to the participant at the end of a specified period, subject to transfer restrictions and other conditions as determined by the Board. During the restriction period, the participant may not transfer any rights under his or her award and will have no rights of ownership, including voting rights, in the RSUs. However, on the grant date, the Board may authorize the payment of dividend equivalents on the RSUs on either a current, deferred or contingent basis, either in cash, in additional RSUs or in shares of our common stock. Dividend equivalents on RSUs subject to management objectives will be deferred and paid in cash upon the achievement of the management objectives and the lapse of all restrictions.

**Performance Shares and Performance Units.** A performance share is the equivalent of one share of our common stock. A performance unit is the equivalent of \$1.00 or such other value as determined by the Board. Each grant of performance shares or performance units will specify either the number of shares, or amount of cash, payable with respect to the performance shares or performance units to which the grant pertains. Any grant of performance shares or performance units may specify that the amount payable may be paid in cash, in shares of our common stock or in any combination of the two.

Any grant of performance shares or performance units will specify the management objectives that, if achieved, will result in payment or early payment of the award and may set forth a formula for determining the number of shares, or amount of cash, payable with respect to the performance shares or performance units that will be earned if performance is at or above threshold levels. The performance period will be determined by the Board at the time of grant, but may not be less than one year.

The Board may, on the grant date, provide for the payment of dividend equivalents to the holder of the performance shares on either a current, deferred or contingent basis, either in cash or in additional shares of our common stock. Dividend equivalents on performance shares will be deferred and paid in cash upon the achievement of the applicable management objectives.

**Annual Incentive Awards.** An annual incentive award is a cash award based on the achievement of management objectives with a performance period of one year or less. Any grant of an annual incentive award will specify management objectives that, if achieved, will result in payment or early payment of the award and may set forth a formula for determining the amount payable if performance is at or above threshold levels. The performance period with respect to each annual incentive award will be determined by the Board at the time of grant. Each grant will specify the time and manner of payment of annual incentive awards that have been earned. The Board may establish a maximum amount payable under any annual incentive award on the grant date.

**Other Awards.** The Board may, subject to limitations under applicable law, grant to any participant other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, shares of our common stock. These awards may include convertible or exchangeable securities, purchase rights or awards with value and payment contingent upon performance of the Company, the book value of our shares, or any other factors designated by the Board.

Except as otherwise provided in the 2009 Incentive Plan, cash awards, as independent awards or as an element of or supplement to any other award granted under the 2009 Incentive Plan, also may be granted. The Board may grant shares of our common stock as a bonus, or may grant other awards in lieu of obligations of the Company to pay cash or deliver other property under the 2009 Incentive Plan or under other plans or compensatory arrangements, subject to terms that will be determined by the Board in a manner intended to comply with Section 409A of the Code.

## **Eligibility**

Subject to the terms of the 2009 Incentive Plan, the Board may grant awards to any of our directors, officers, employees or any other person who provides services to us. However, incentive stock options may be granted only to our employees. Currently, approximately 375 persons are eligible to receive awards under the 2009 Incentive Plan.

## Shares Available for Grants

Currently, 10,000,000 shares of our common stock are authorized under the 2009 Incentive Plan, plus an additional 323,000 shares that may be issued for inducement grants pursuant to Nasdaq Listing Rule 5635, subject to adjustment as provided in the plan. Shares of our common stock issued under any plan assumed by the Company in any corporate transaction will not count against this share limit.

Shares of our common stock covered by an award under the 2009 Incentive Plan are not counted against the aggregate share limit until issued and delivered to a participant. As a result, the total number of shares of our common stock available under the 2009 Incentive Plan is not reduced by any shares of our common stock relating to prior awards that have expired or have been forfeited or cancelled. To the extent of payment in cash of the benefit provided by any award granted under the 2009 Incentive Plan, any shares of our common stock that were covered by that award will again be available for issue or transfer under the 2009 Incentive Plan. If, under the 2009 Incentive Plan, a participant has elected to give up the right to receive compensation in exchange for shares of our common stock based on market value, the shares will not count against the aggregate share limit. In addition, shares delivered or relinquished to pay the exercise or purchase price of an award or to satisfy tax withholding obligations will also be available for future awards under the 2009 Incentive Plan, as will shares subject to restricted stock awards that never vest.

## Award Limits

Awards under the 2009 Incentive Plan are subject to the following limitations:

- the aggregate number of shares of our common stock issued upon the exercise of incentive stock options will not exceed 7,000,000;
- no participant will be granted stock options or stock appreciation rights, in the aggregate, for more than 1,000,000 shares of our common stock during any calendar year;
- no participant will be awarded qualified performance-based awards of restricted stock, RSUs, performance shares or other awards, in the aggregate, for more than 500,000 shares of our common stock during any calendar year; and
- in no event will any participant in any calendar year receive a qualified performance-based award of performance units or a qualified performance-based cash award having an aggregate maximum value in excess of \$2,500,000.

## Management Objectives

The 2009 Incentive Plan requires that the Board establish management objectives for awards of performance shares, performance units and annual incentive awards. The Board may also establish management objectives for stock options, stock appreciation rights, restricted stock, RSUs or other awards. These management objectives may be described in terms of Company-wide objectives or objectives related to performance of an individual participant or a subsidiary, division, business unit, region or function of the Company, and may be made relative to the performance of other companies. The management objectives applicable to any qualified performance-based award to a “covered employee,” as defined in Section 162(m) of the Code, will be based on specified levels of or changes in, one or more of the following criteria:

- **Profits:** Operating income, earnings before interest and taxes, earnings before taxes, net income, cash net income, earnings per share, residual or economic earnings or economic profit;
- **Cash Flow:** Earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, free cash flow, free cash flow with or without specific capital expenditure targets or ranges, including or excluding divestments and/or acquisitions, total cash flow, cash flow in excess of cost of capital, residual cash flow or cash flow return on investment;



- **Returns:** Economic value added or profits or cash flow returns on sales, assets, invested capital, net capital employed or equity;
- **Working Capital:** Working capital divided by sales, days' sales outstanding, days' sales in inventory or days' sales in payables;
- **Profit Margins:** Profits divided by revenues or sales, gross margins divided by revenues or sales, or operating margin divided by revenues or sales;
- **Liquidity Measures:** Debt-to-capital ratios, debt-to-EBITDA ratios or total debt;
- **Sales Growth, Margin Growth, Unit Growth, Cost Initiative and Stock Price Metrics:** Revenues, revenue growth, sales, sales growth, gross margin, operating margin, shipment volume, unit growth, stock price appreciation, total return to stockholders, expense targets, productivity targets or ratios, sales and administrative expenses divided by sales, or sales and administrative expenses divided by profits; and
- **Strategic Initiative Key Deliverable Metrics:** Consisting of one or more of the following: product development or launch, strategic partnering, research and development, regulatory compliance or submissions, vitality or sustainability index, market share, geographic business expansion goals, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, or goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures.

The Board will have the authority to make equitable adjustments to the management objectives, including the related minimum, target and maximum levels of achievement or performance, for specified events set forth in the 2009 Incentive Plan to the extent allowed by Section 162(m) of the Code.

#### **Amendment and Termination**

The Board may amend the 2009 Incentive Plan in whole or in part, except that any amendment to the 2009 Incentive Plan that requires stockholder approval under applicable law will not be effective until we obtain stockholder approval. No grant will be made under the 2009 Incentive Plan more than 10 years after the effective date of the 2009 Incentive Plan, but all grants made on or prior to such date will continue in effect thereafter subject to the terms of the applicable award agreement and of the 2009 Incentive Plan.

Except in connection with certain corporate transactions or a change in control, the terms of outstanding awards may not be amended to reduce the exercise price of outstanding stock options or the base price of outstanding stock appreciation rights, or cancel outstanding stock options or stock appreciation rights in exchange for other awards or stock options or stock appreciation rights with an exercise price or base price, as applicable, that is less than the exercise price of the original stock options or base price of the original stock appreciation rights, as applicable, without stockholder approval. The plan prohibits all repricings of awards regardless of whether an amendment is considered a repricing under generally accepted accounting principles.

Grants of restricted stock, RSUs, performance shares, performance units and annual incentive awards may provide for earlier termination of restrictions in the event of the retirement, death or disability, or other termination of employment, of a participant, or a change in control of the Company. In addition, if permitted by Section 409A of the Code, the Board may accelerate the vesting of or waive any other limitations requirement under any outstanding award in the event of the retirement, death or disability, or other termination of employment, of a participant. However, in either case, the restrictions on an award intended to be "qualified performance-based compensation" under Section 162(m) of the Code may not be terminated in the event of retirement or other termination of employment to the extent the provision would cause the award to fail to qualify.

The Board may amend the terms of any award granted under the 2009 Incentive Plan prospectively or retroactively, provided that such an amendment does not constitute a repricing prohibited by the 2009 Incentive

Plan. However, no amendment may impair the rights of any participant without his or her consent, except as necessary to comply with changes in law or accounting rules applicable to the Company. The Board may terminate the 2009 Incentive Plan at any time. Termination of the 2009 Incentive Plan will not affect the rights of participants or their successors under any awards outstanding on the date of termination.

### **Change in Control**

In the event a change in control of the Company occurs, the Board may substitute each award outstanding under the 2009 Incentive Plan immediately prior to the change in control with such alternative consideration (including cash), if any, as it may determine to be equitable in the circumstances and may require the surrender of all awards so replaced in a manner that complies with Section 409A of the Code. In addition, for each stock option or stock appreciation right with an exercise price or base price greater than the consideration offered in connection with any change in control, the Board may elect to cancel the stock option or stock appreciation right without any payment to the person holding the stock option or stock appreciation right. The Board may also adjust the aggregate number of shares available under the 2009 Incentive Plan and the individual participant limits as the Board deems appropriate. However, any adjustment to the number of shares available for incentive stock options will be made only if, and to the extent that, the adjustment would not cause any stock option intended to qualify as an incentive stock option to fail to qualify.

### **U.S. Federal Income Tax Consequences**

The following is a brief summary of some of the U.S. federal income tax consequences of certain transactions under the 2009 Incentive Plan based on U.S. federal income tax laws in effect on January 1, 2015. This summary is not intended to be complete and does not describe state or local tax consequences.

### **Tax Consequences to Participants**

***Incentive Stock Options.*** No income generally will be recognized by an optionee upon the grant or exercise of an incentive stock option. The exercise of an incentive stock option, however, may result in alternative minimum tax liability. If shares of our common stock are issued to the optionee pursuant to the exercise of an incentive stock option, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of grant nor within one year after the transfer of such shares to the optionee, then upon the sale of such shares, any amount realized in excess of the exercise price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If shares of our common stock acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess, if any, of the market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the exercise price. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

***Non-Qualified Stock Options.*** In general,

- no income will be recognized by an optionee at the time a non-qualified option right is granted;
- at the time of exercise, ordinary income will be recognized in an amount equal to the difference between the exercise price and the market value of the shares, if unrestricted, on the date of exercise; and
- at the time of sale of shares acquired pursuant to the exercise of a non-qualified option right, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

***Stock Appreciation Rights.*** No income will be recognized by a participant in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the market value of any unrestricted shares of our common stock received on the exercise.

***Restricted Stock.*** The recipient of restricted stock generally will be subject to tax at ordinary income rates on the market value of the restricted stock (reduced by any amount paid by the participant for such restricted stock) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code, referred to as Restrictions. However, a recipient who so elects under Section 83(b) of the Code within 30 days of the date of grant of the shares will have taxable ordinary income on the date of grant of the shares equal to the excess of the market value of such shares (determined without regard to the Restrictions) over the purchase price, if any, of such restricted stock. Any dividends received with respect to restricted stock that is subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

***Restricted Stock Units.*** No income generally will be recognized upon the award of RSUs. The recipient of a RSU award generally will be subject to tax at ordinary income rates on the market value of unrestricted shares of our common stock on the date that such shares are transferred or settled in cash, as the case may be, to the participant under the award (reduced by any amount paid by the participant for such RSUs), and the capital gain/loss holding period for such shares will also commence on such date.

***Performance Shares, Performance Units and Annual Incentive Awards.*** No income generally will be recognized upon the grant of performance shares, performance units or annual incentive awards. Upon payment in respect of the earn-out of performance shares, performance units or annual incentive awards, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the market value of any unrestricted shares of our common stock received.

### **Tax Consequences to the Company**

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company will be entitled to a corresponding deduction, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an “excess parachute payment” within the meaning of Section 280G of the Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

## Equity Compensation Plan Information

As of March 31, 2015, the Purchase Plan and the 2009 Incentive Plan were the only compensation plans under which securities of the Company were authorized for grant. These plans, including all amendments thereto (other than the March 2015 amendment approving the issuance of inducement shares), were approved by our stockholders. The Company does not have any equity plans that have not been approved by stockholders. The following table provides information as of March 31, 2015 regarding the Company's existing and predecessor plans.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options</u>	<u>Weighted-average exercise price of outstanding options</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by security holders <sup>(1)</sup> .....	4,691,340 <sup>(2)</sup>	\$5.35 <sup>(3)</sup>	3,620,031 <sup>(4)</sup>

(1) As of March 31, 2015, 4,691,340 shares of common stock were issuable upon exercise of outstanding options with a weighted-average exercise price of \$5.35. As of that date, there were outstanding RSU awards for 2,132,017 shares.

(2) The 2,132,017 shares issuable upon vesting of outstanding RSUs are excluded.

(3) As of March 31, 2015, the weighted-average term of the outstanding options was 6.44 years.

(4) Represents shares available for future issuance under the 2009 Incentive Plan and the Purchase Plan. As of March 31, 2015, there were 2,234,690 shares of our common stock available for issuance under the 2009 Incentive Plan and 1,385,341 shares of our common stock available for issuance under the Purchase Plan.

## Awards Granted to Certain Persons

As of March 31, 2015, the number of stock options and other awards under the 2009 Incentive Plan received by the following persons or groups since the inception of the 2009 Incentive Plan are as follows (as described above, Messrs. Leparulo, Leddon, Hadley and Allen and Ms. Ratcliffe are no longer employed by the Company):

<u>Executive</u>	<u>Number of Stock Options Granted</u>	<u>Weighted-Average per Share Exercise Price</u>	<u>Number of Restricted Stock Units Granted</u>	<u>Dollar Value of Restricted Stock Units Granted</u>
Alex Mashinsky .....	1,990,400	\$4.80	699,468	\$2,189,688
Slim S. Souissi .....	448,838	3.91	545,772	1,949,377
Michael A. Newman .....	285,650	3.14	334,705	938,825
Peter V. Leparulo .....	557,478	3.50	853,996	2,795,124
Kenneth G. Leddon .....	258,727	4.44	370,146	1,315,099
Robert Hadley .....	240,903	3.61	349,722	1,203,777
Catherine F. Ratcliffe .....	226,935	3.51	346,362	1,137,550
Thomas D. Allen .....	—	—	16,129	31,935
All current executive officers as a group .....	2,754,888	4.48	1,639,945	5,299,890
All current directors, who are not executive officers, as a group .....	44,444	7.59	613,018	2,022,826
All current employees as a group (excluding executive officers) .....	673,223	\$5.43	953,692	\$3,699,434

## New Plan Benefits

Because benefits under the 2009 Incentive Plan depend upon the Board's actions, the market value of the shares of our common stock in the future and/or the future performance of the Company, it is not possible to determine the value of the benefits that will be received by participants in the 2009 Incentive Plan with respect to any awards made in the future. Benefits under the 2009 Incentive Plan will, however, be subject to the limits described above under "—Award Limits."

## **Potential Effects of Proposal 2**

Approval of Proposal 2 will enable the Company to: (i) pay portions of the bonus compensation due to employees, if any, under the Company's 2014 Plan with equity rather than cash; (ii) provide annual equity awards to existing employees; (iii) pay portions of salary and bonus compensation to executives with equity rather than cash; and (iv) grant equity awards to new employees, including potentially meaningful upfront grants to principals who may be hired as part of future acquisitions in situations where the exception for inducement grants pursuant to Nasdaq Listing Rule 5635 is unavailable. If Proposal 2 is not approved, the Company may not have sufficient stock issuable under the 2009 Incentive Plan to satisfy these requirements and may need to pay significant portions of such compensation and earned bonuses in cash.

## **Recommendation and Vote Required**

The affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote at the Annual Meeting, is required to approve the amendment of the 2009 Incentive Plan. Because abstentions are counted as present for purposes of the vote on this matter but are not votes FOR this proposal, they have the same effect as votes AGAINST this proposal. Broker non-votes will not have any effect on this proposal.

*The Board recommends a vote "FOR" Proposal 2.*

### **PROPOSAL 3**

#### **ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In accordance with Section 14A of the Exchange Act, we are asking stockholders to approve an advisory resolution on our executive compensation as reported in this Proxy Statement.

In making decisions with respect to compensation for our executive officers, the Compensation Committee is guided by a pay-for-performance philosophy. The Compensation Committee believes that a significant portion of each executive's total compensation opportunity should vary with achievement of the Company's annual and long-term financial, operational and strategic goals. In designing the compensation program for our executive officers, the Compensation Committee seeks to achieve the following key objectives:

- *Motivate Executives.* The compensation program should encourage our executive officers to achieve the Company's annual and long-term goals.
- *Alignment with Stockholders.* The compensation program should align the interests of our executives with those of our stockholders, promoting actions that will have a positive impact on total stockholder return over the long term.
- *Attract and Retain Talented Executives.* The compensation program should provide each executive officer with a total compensation opportunity that is market competitive. This objective is intended to ensure that we are able to attract and retain executives while maintaining an appropriate cost structure for the Company.

We believe our executive compensation is structured in the manner that best serves the interests of the Company and its stockholders. We encourage stockholders to read the Compensation Discussion and Analysis section of this Proxy Statement which provides a more thorough review of our compensation philosophy and how that philosophy was implemented in 2014.

#### **Effect of Proposal**

The resolution to approve our executive compensation is non-binding on us and our Board and Compensation Committee. As a result, the Board and Compensation Committee retain discretion to change executive compensation from time to time if they conclude that such a change would be in the best interest of the Company. No determination has been made as to what action, if any, would be taken if our stockholders fail to approve executive compensation. However, our Board and its Compensation Committee value the opinions of stockholders and will carefully consider the results of this advisory vote. We currently conduct advisory votes on executive compensation on an annual basis, and we expect to conduct our next advisory vote at our 2016 Annual Meeting of Stockholders.

#### **Recommendation and Vote Required**

Our Board recommends that stockholders vote FOR the approval of executive compensation. The proxy holders will vote all proxies received FOR approval of this proposal unless instructed otherwise. Approval of this proposal requires the affirmative vote of a majority of the outstanding shares of common stock present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Because abstentions are counted as present for purposes of the vote on this matter but are not votes FOR this proposal, they have the same effect as votes AGAINST this proposal. Broker non-votes will not have any effect on this proposal.

*The Board Recommends a Vote FOR Proposal 3.*

**PROPOSAL 4**  
**RATIFICATION OF APPOINTMENT OF**  
**ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT**  
**REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015**

The Audit Committee has appointed Ernst & Young LLP as the company's independent registered public accounting firm for 2015. The Board is asking stockholders to ratify this appointment. Although SEC regulations require the company's independent registered public accounting firm to be engaged, retained and supervised by the Audit Committee, the Board considers the selection of an independent registered public accounting firm to be an important matter to stockholders and considers a proposal for stockholders to ratify such appointment to be an opportunity for stockholders to provide input to the Audit Committee and the Board on a key corporate governance issue. In the event that our stockholders do not ratify the appointment, it will be considered as a direction to our Audit Committee to consider the selection of a different firm.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will be offered the opportunity to make a statement if they so desire. They will also be available to answer questions.

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the appointment of Ernst & Young. Abstentions will have the effect of a vote against this proposal. The ratification of the appointment of Ernst & Young as the Company's independent registered public accounting firm for 2015 is considered a routine matter under applicable rules. A broker, dealer, bank or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected in connection with this proposal.

***The Board Recommends a Vote FOR Proposal 4.***

## PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Selection

Ernst & Young LLP has been appointed by the Audit Committee to serve as the Company's independent registered public accounting firm for 2015. Representatives of Ernst & Young are expected to be present at the Annual Meeting and will be offered the opportunity to make a statement if they so desire. They will also be available to answer questions.

### Audit and Non-Audit Fees

The following table sets forth fees for audit services rendered by Ernst & Young for the audit of our consolidated financial statements for 2014 and 2013, and fees for other services rendered by Ernst & Young.

	<b>2014</b>	<b>2013</b>
	<b>E&amp;Y</b>	<b>E&amp;Y</b>
Audit Fees(1) .....	\$1,001,806	\$1,063,343
Audit-Related Fees .....	0	0
Tax Fees .....	0	0
All Other Fees .....	0	0
<b>Total</b> .....	<b>\$1,001,806</b>	<b>\$1,063,343</b>

- (1) Audit fees consist principally of fees for the audit of our annual consolidated financial statements, review of our interim consolidated financial statements and the audit of internal control over financial reporting.

### Pre-Approval Policies and Procedures

The Audit Committee annually reviews and pre-approves certain audit and non-audit services that may be provided by our independent registered public accounting firm and establishes and pre-approves the aggregate fee level for these services. Any proposed services that would cause us to exceed the pre-approved aggregate fee amount must be pre-approved by the Audit Committee. All audit services for 2014 were pre-approved by the Audit Committee.



## AUDIT COMMITTEE REPORT

The Audit Committee assists the Board in fulfilling its responsibility to oversee management's implementation of the Company's financial reporting process. The Audit Committee Charter can be viewed on the Company's Website site at [www.novatelwireless.com](http://www.novatelwireless.com) and is available in print upon request. In discharging its oversight role, the Audit Committee reviewed and discussed the audited financial statements contained in the 2014 Annual Report on Form 10-K with the Company's management and its independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of disclosure controls and procedures and internal control over financial reporting. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's financial statements with accounting principles generally accepted in the United States and on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee met with the independent registered public accounting firm and discussed issues deemed significant by the accounting firm, and the Audit Committee has discussed with the independent auditors the matters required to be discussed by the Public Company Accounting Oversight Board. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence from the Company and its management; received the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence; and considered whether the provision of non-audit services was compatible with maintaining the accounting firm's independence.

In reliance on the reviews and discussions outlined above, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for filing with the SEC.

### **Audit Committee**

James Ledwith, Chair  
David A. Werner  
Robert Pons

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who beneficially own more than 10% of our common stock to file initial reports of beneficial ownership and reports of changes in beneficial ownership with the SEC. These reporting persons are required by SEC rules to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to us and written representations from our directors and executive officers, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and greater than 10% stockholders were complied with during 2014, except as noted below.

Administrative oversights caused one late filing of a required Form 4 for each of Mr. Allen, Mr. Karp and Mr. Falcone.

## **DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS**

A number of brokers with account holders who are stockholders of the Company will be “householding” our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement, please notify your broker, direct your written request to Novatel Wireless, Inc., 9645 Scranton Road, Suite 205, San Diego, California 92121, Attn: Secretary, or contact the Company’s Secretary by telephone at (858) 812-3400. Stockholders who currently receive multiple copies of the proxy materials at their address and would like to request “householding” of their communications should contact their broker. In addition, upon written or oral request to the address or telephone number set forth above, we will promptly deliver a separate copy of the proxy materials to any stockholder at a shared address to which a single copy of the documents was delivered.

## **STOCKHOLDER PROPOSALS FOR 2016 ANNUAL MEETING OF STOCKHOLDERS**

In order to be included in our proxy materials for our 2016 Annual Meeting of Stockholders, a stockholder proposal or information about a proposed director candidate must be timely received in writing by the Company at Novatel Wireless, Inc., Attention: Secretary, 9645 Scranton Road, Suite 205, San Diego, California 92121, by January 16, 2016, and otherwise comply with all requirements of the SEC, the General Corporation Law of Delaware and our Amended and Restated Certificate of Incorporation and Bylaws.

If you do not wish to submit a proposal or information about a proposed director candidate for inclusion in next year’s proxy materials, but instead wish to present it directly at the 2016 Annual Meeting of Stockholders, you must give timely written notice of the proposal to our Secretary. To be timely, the notice must be received no earlier than February 25, 2016 and no later than March 26, 2016. The notice must describe the stockholder proposal in reasonable detail and provide certain other information required by our Bylaws, a copy of which is available upon request from our Secretary at the above address.

**MISCELLANEOUS AND OTHER MATTERS**

The Board knows of no other matters to be presented for stockholder action at the Annual Meeting. However, if other matters do properly come before the Annual Meeting or any adjournment or postponements thereof, the Board intends that the persons named in the proxies will vote upon such matters in accordance with their best judgment.

By Order of the Board of Directors,



Michael A. Newman  
*Executive Vice President, Chief Financial Officer  
and Secretary*

San Diego, California  
April 30, 2015

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE ANNUAL MEETING. THANK YOU FOR YOUR ATTENTION TO THIS MATTER. YOUR PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE ANNUAL MEETING.

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**NOVATEL WIRELESS, INC.**  
**2009 Omnibus Incentive Compensation Plan**

**1. Purpose.** The purpose of the Novatel Wireless, Inc. 2009 Omnibus Incentive Compensation Plan is to promote the long-term success of the Company and the creation of stockholder value by offering directors, officers, employees and consultants of the Company an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications.

**2. Definitions.** As used in the Plan,

(a) “Affiliate” means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries owns not less than 50 percent of such entity.

(b) “Aggregate Share Limit” means the aggregate maximum number of shares available under the Plan pursuant to Section 3(a)(i) of the Plan.

(c) “Annual Incentive Award” means a cash award granted pursuant to Section 8 of the Plan, where such award is based on Management Objectives and a Performance Period of one year or less.

(d) “Appreciation Right” means a right granted pursuant to Section 5 of the Plan.

(e) “Award” means any Annual Incentive Award, Option Right, Restricted Stock, Restricted Stock Unit, Appreciation Right, Performance Share, Performance Unit or Other Award granted pursuant to the terms of the Plan.

(f) “Base Price” means the price to be used as the basis for determining the Spread upon the exercise of an Appreciation Right.

(g) “Beneficial Owner” or “Beneficial Ownership” has the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

(h) “Board” means the Board of Directors of NWI, as constituted from time to time.

(i) “Change in Control” means, except as may otherwise be provided in an Evidence of Award, the first to occur of the following events:

(i) any Person is or becomes the Beneficial Owner of 50 percent or more of the combined voting power of the then-outstanding Voting Stock of NWI; provided, however, that:

(1) the following acquisitions will not constitute a Change in Control: (A) any acquisition of Voting Stock of NWI directly from NWI that is approved by a majority of the Incumbent Directors, (B) any acquisition of Voting Stock of NWI by the Company, (C) any acquisition of Voting Stock of NWI by the trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by the Company, and (D) any acquisition of Voting Stock of NWI by any Person pursuant to a Business Transaction that complies with clauses (A), (B) and (C) of Section 2(i)(iii) below;

(2) if any Person is or becomes the Beneficial Owner of 50 percent or more of the combined voting power of the then-outstanding Voting Stock of NWI as a result of a transaction described in clause (A) of Section 2(i)(i)(1) above and such Person thereafter becomes the Beneficial Owner of any additional shares of Voting Stock of NWI representing one percent or more of the then-outstanding Voting Stock of NWI, other than in an acquisition directly from NWI that is approved by a majority of

the Incumbent Directors or other than as a result of a stock dividend, stock split or similar transaction effected by NWI in which all holders of Voting Stock are treated equally, such subsequent acquisition will be treated as a Change in Control;

(3) a Change in Control will not be deemed to have occurred if a Person is or becomes the Beneficial Owner of 50 percent or more of the Voting Stock of NWI as a result of a reduction in the number of shares of Voting Stock of NWI outstanding pursuant to a transaction or series of transactions that is approved by a majority of the Incumbent Directors unless and until such Person thereafter becomes the Beneficial Owner of any additional shares of Voting Stock of NWI representing one percent or more of the then-outstanding Voting Stock of NWI, other than as a result of a stock dividend, stock split or similar transaction effected by NWI in which all holders of Voting Stock are treated equally; and

(4) if at least a majority of the Incumbent Directors determine in good faith that a Person has acquired Beneficial Ownership of 50 percent or more of the Voting Stock of NWI inadvertently, and such Person divests as promptly as practicable but no later than the date, if any, set by the Incumbent Board a sufficient number of shares so that such Person has Beneficial Ownership of less than 50 percent of the Voting Stock of NWI, then no Change in Control will have occurred as a result of such Person's acquisition; or

(ii) a majority of the Board ceases to be comprised of Incumbent Directors; or

(iii) the consummation of a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets of NWI or the acquisition of the stock or assets of another corporation, or other transaction (each, a "Business Transaction"), unless, in each case, immediately following such Business Transaction (A) the Voting Stock of NWI outstanding immediately prior to such Business Transaction continues to represent (either by remaining outstanding or by being converted into Voting Stock of the surviving entity or any parent thereof), more than 50 percent of the combined voting power of the then outstanding shares of Voting Stock of the entity resulting from such Business Transaction (including, without limitation, an entity which as a result of such transaction owns NWI or all or substantially all of NWI's assets either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to such Business Transaction, of the Voting Stock of NWI, (B) no Person (other than NWI, such entity resulting from such Business Transaction, or any employee benefit plan (or related trust) sponsored or maintained by the Company or such entity resulting from such Business Transaction) has Beneficial Ownership, directly or indirectly, of 50 percent or more of the combined voting power of the then outstanding shares of Voting Stock of the entity resulting from such Business Transaction, and (C) at least a majority of the members of the Board of Directors of the entity resulting from such Business Transaction were Incumbent Directors at the time of the execution of the initial agreement or of the action of the Board providing for such Business Transaction; or

(iv) approval by the stockholders of NWI of a complete liquidation or dissolution of NWI, except pursuant to a Business Transaction that complies with clauses (A), (B) and (C) of Section 2(i)(iii).

(j) "Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, as such law and regulations may be amended from time to time.

(k) "Committee" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 12) to administer the Plan.

(l) "Company" means, collectively, NWI and its Subsidiaries.

(m) "Covered Employee" means a Participant who is, or is determined by the Board to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Code (or any successor provision).

(n) "Date of Grant" means the date specified by the Board on which a grant of an Award will become effective (which date with respect to an Option Right or an Appreciation Right will not be earlier than the date on which the Board takes action with respect thereto).

(o) “Director” means a member of the Board of Directors of NWI.

(p) “EBIT” means earnings before interest and taxes.

(q) “EBITDA” means earnings before interest, taxes, depreciation and amortization.

(r) “EBT” means earnings before taxes.

(s) “Effective Date” means the date that the Plan is approved by the stockholders of NWI.

(t) “Evidence of Award” means an agreement, certificate, resolution, notification or other type or form of writing or other evidence approved by the Board that sets forth the terms and conditions of the Awards granted. An Evidence of Award may be in an electronic medium, may be limited to notation on the books and records of NWI and, unless otherwise determined by the Board, need not be signed by a representative of NWI or a Participant.

(u) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, as such law, rules and regulations may be amended from time to time.

(v) “Existing Plan” means the Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan.

(w) “GAAP” means accounting principles generally accepted in the United States of America as in effect from time to time.

(x) “Incentive Stock Options” means Option Rights that are intended to qualify as “incentive stock options” under Section 422 of the Code or any successor provision.

(y) “Incumbent Directors” means the individuals who, as of the date hereof, are Directors of NWI and any individual becoming a Director subsequent to the date hereof whose election, nomination for election by NWI’s stockholders, or appointment, was approved by a vote of at least two-thirds of the then Incumbent Directors (either by a specific vote or by approval of the proxy statement of NWI in which such person is named as a nominee for director, without objection to such nomination); provided, however, that an individual will not be an Incumbent Director if such individual’s election or appointment to the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(z) “Management Objectives” means the performance objective or objectives established pursuant to the Plan for Participants who have received grants of Annual Incentive Awards, Performance Shares or Performance Units or, when so determined by the Board, Option Rights, Appreciation Rights, Restricted Stock, Restricted Stock Units, dividend equivalents or Other Awards pursuant to the Plan. Management Objectives may be described in terms of NWI-wide objectives or objectives that are related to the performance of the individual Participant or a Subsidiary, division, business unit, region or function within NWI or any Subsidiary. The Management Objectives may be made relative to the performance of other companies. The Management Objectives applicable to any Qualified Performance-Based Award to a Covered Employee will be based on specified levels of or changes in one or more of the following criteria:

(i) **Profits:** Operating income, EBIT, EBT, net income, cash net income, earnings per share, residual or economic earnings or economic profit;

(ii) **Cash Flow:** EBITDA, free cash flow, free cash flow with or without specific capital expenditure targets or ranges, including or excluding divestments and/or acquisitions, total cash flow, cash flow in excess of cost of capital, residual cash flow or cash flow return on investment;

(iii) **Returns:** Economic value added (EVA) or profits or cash flow returns on: sales, assets, invested capital, net capital employed or equity;

(iv) **Working Capital:** Working capital divided by sales, days’ sales outstanding, days’ sales inventory or days’ sales in payables;

(v) **Profit Margins:** Profits divided by revenues or sales, gross margins divided by revenues or sales, or operating margin divided by revenues or sales;

(vi) **Liquidity Measures:** Debt-to-capital ratios, debt-to-EBITDA ratios or total debt;

(vii) **Sales Growth, Margin Growth, Unit Growth, Cost Initiative and Stock Price Metrics:** Revenues, revenue growth, sales, sales growth, gross margin, operating margin, shipment volume, unit growth, stock price appreciation, total return to stockholders, expense targets, productivity targets or ratios, sales and administrative expenses divided by sales, or sales and administrative expenses divided by profits; and

(viii) **Strategic Initiative Key Deliverable Metrics:** Consisting of one or more of the following: product development or launch, strategic partnering, research and development, regulatory compliance or submissions, vitality or sustainability index, market share or penetration, geographic business expansion goals, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, or goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures.

At the Board's discretion, any Management Objective may be measured before special items, and may or may not be determined in accordance with GAAP. The Board shall have the authority to make equitable adjustments to the Management Objectives (and to the related minimum, target and maximum levels of achievement or performance) as follows: in recognition of unusual or non-recurring events affecting NWI or any Subsidiary or Affiliate or the financial statements of NWI or any Subsidiary or Affiliate; in response to changes in applicable laws or regulations; to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles; or in recognition of any events or circumstances (including, without limitation, changes in the business, operations, corporate or capital structure of the Company or the manner in which it conducts its business) that render the Management Objectives unsuitable; provided, however, that no such adjustment shall be made to any Management Objective applicable to a Qualified Performance-Based Award to the extent such adjustment would cause such Award to fail to meet the requirements for "qualified performance-based compensation" under Section 162(m) of the Code, unless the Board determines that the satisfaction of such requirements is neither necessary or appropriate.

(aa) "Market Value per Share" means as of any particular date the closing sale price of a Share as reported on the Nasdaq Stock Market or, if not listed on such exchange, on any other national securities exchange on which the Shares are listed. If the Shares are not traded as of any given date, the Market Value per Share means the closing price for the Shares on the principal exchange on which the Shares are traded for the immediately preceding date on which the Shares were traded. If there is no regular public trading market for the Shares, the Market Value per Share of the Shares shall be the fair market value of the Shares as determined in good faith by the Board. The Board is authorized to adopt another fair market value pricing method, provided such method is in compliance with the fair market value pricing rules set forth in Section 409A of the Code.

(bb) "NWI" means Novatel Wireless, Inc., a Delaware corporation, and any successors thereto.

(cc) "Optionee" means the optionee named in an Evidence of Award evidencing an outstanding Option Right.

(dd) "Option Price" means the purchase price payable on exercise of an Option Right.

(ee) "Option Right" means the right to purchase Shares upon exercise of an option granted pursuant to Section 4 of the Plan.

(ff) "Other Award" means an Award granted pursuant to Section 9 of the Plan.

(gg) "Participant" means a person who is selected by the Board to receive Awards under the Plan and who is (i) an employee of the Company or any one or more of its Affiliates, (ii) a member of the Board, or (iii) an individual who performs bona fide services to the Company or any one or more of its Affiliates.



(hh) "Performance Period" means, in respect of an Award, a period of time within which the Management Objectives relating to such Award are to be achieved.

(ii) "Performance Share" means an Award under the Plan equivalent to the right to receive one Share awarded pursuant to Section 8 of the Plan.

(jj) "Performance Unit" means a unit awarded pursuant to Section 8 of the Plan that is equivalent to \$1.00 or such other value as is determined by the Board.

(kk) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act or any successor provision thereto, as modified and used in Sections 13(d) and 14(d) thereof and the rules thereunder.

(ll) "Plan" means this Novatel Wireless, Inc. 2009 Omnibus Incentive Compensation Plan.

(mm) "Qualified Performance-Based Award" means any Award or portion of an Award that is intended to satisfy the requirements for "qualified performance-based compensation" under Section 162(m) of the Code.

(nn) "Restricted Stock" means Shares granted pursuant to Section 6 of the Plan as to which neither the substantial risk of forfeiture nor the prohibition on transfers has expired.

(oo) "Restriction Period" means the period of time during which Restricted Stock or Restricted Stock Units may be subject to restrictions, as provided in Section 6 and Section 7 of the Plan.

(pp) "Restricted Stock Unit" means an Award made pursuant to Section 7 of the Plan.

(qq) "Secondary Committee" means one or more senior officers of NWI (who need not be members of the Board), acting as a committee established by the Board pursuant to Section 12(b) of the Plan, subject to such conditions and limitations as the Board shall prescribe.

(rr) "Shares" means the shares of common stock, par value \$0.001 per share, of NWI or any security into which such Shares may be changed by reason of any transaction or event of the type referred to in Section 11 of the Plan.

(ss) "Spread" means the excess of the Market Value per Share on the date when an Appreciation Right is exercised, or on the date when Option Rights are surrendered in payment of the Option Price of other Option Rights, over the Option Price or Base Price provided for in the related Option Right or Appreciation Right, respectively.

(tt) "Subsidiary" means a corporation, company or other entity (i) more than 50 percent of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50 percent of whose ownership interest representing the right generally to make decisions for such other entity is, now or hereafter, owned or controlled, directly or indirectly, by NWI; except that, for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, "Subsidiary" means any corporation in which at the time NWI owns or controls, directly or indirectly, more than 50 percent of the total combined voting power represented by all classes of stock issued by such corporation.

(uu) "Voting Stock" means securities entitled to vote generally in the election of directors.

### **3. Shares Available Under the Plan.**

#### **(a) Maximum Shares Available Under Plan.**

(i) Subject to adjustment as provided in Section 11 of the Plan, the maximum number of Shares that may be issued (A) upon the exercise of Option Rights or Appreciation Rights, (B) in payment or settlement of Restricted Stock and released from substantial risks of forfeiture thereof, (C) in payment or settlement of

Restricted Stock Units, (D) in payment or settlement of Performance Shares or Performance Units that have been earned, (E) in payment or settlement of Other Awards, or (F) in payment of dividend equivalents paid with respect to Awards made under the Plan, in the aggregate will not exceed ~~10,000,000~~ 12,000,000 Shares (the "Aggregate Share Limit"), plus an additional 323,000 Shares that may be issued for inducement grants pursuant to Nasdaq Listing Rule 5635 ("Inducement Shares"). Shares issued under any plan assumed by NWI in any corporate transaction will not count against the Aggregate Share Limit.

(ii) Shares covered by an Award granted under the Plan shall not be counted against the Aggregate Share Limit unless and until they are actually issued and delivered to a Participant and, therefore, the total number of Shares available under the Plan as of a given date shall not be reduced by any Shares relating to prior Awards that have expired or have been forfeited or cancelled, and to the extent of payment in cash of the benefit provided by any Award granted under the Plan, any Shares that were covered by that Award will be available for issue or transfer hereunder. If, under the Plan, a Participant has elected to give up the right to receive compensation in exchange for Shares based on fair market value, such Shares will not count against the Aggregate Share Limit. In addition, upon the full or partial payment of any Option Price by the transfer to the Company of Shares or upon satisfaction of tax withholding provisions in connection with any such exercise or any other payment made or benefit realized under this Plan by the transfer or relinquishment of Shares, there shall be deemed to have been issued under this Plan only the net number of Shares actually issued by the Company.

(iii) Subject to adjustment as provided in Section 11 of the Plan, the aggregate number of Shares actually issued by the Company upon the exercise of Incentive Stock Options will not exceed 7,000,000 Shares.

**(b) Individual Participant Limits.** Notwithstanding anything in this Section 3, or elsewhere in the Plan, to the contrary, and subject to adjustment as provided in Section 11 of the Plan:

(i) No Participant will be granted Option Rights or Appreciation Rights, in the aggregate, for more than 1,000,000 Shares during any calendar year;

(ii) No Participant will be awarded Qualified Performance Based-Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Other Awards, in the aggregate, for more than 500,000 Shares during any calendar year;

(iii) In no event will any Participant in any calendar year receive a Qualified Performance-Based Award of Performance Units having an aggregate maximum value in excess of \$2,500,000;

(iv) In no event will any Participant in any calendar year receive a Qualified Performance-Based Award that is an Annual Incentive Award having an aggregate maximum value in excess of \$2,500,000; and

(v) In no event will any Participant in any calendar year receive a Qualified Performance-Based Award in the form of Other Awards of cash under Section 9(b) having an aggregate maximum value in excess of \$2,500,000.

**4. Option Rights.** The Board may, from time to time, authorize the granting to Participants of Option Rights upon such terms and conditions consistent with the following provisions as it may determine:

(a) Each grant will specify the number of Shares to which it pertains subject to the limitations set forth in Section 3 of the Plan.

(b) Each grant will specify an Option Price per share, which may not be less than the Market Value per Share on the Date of Grant.

(c) Each grant will specify whether the Option Price will be payable (i) in cash or by check acceptable to NWI or by wire transfer of immediately available funds, (ii) by the actual or constructive transfer to NWI of

Shares owned by the Optionee (or other consideration authorized pursuant to Section 4(d)) having a value at the time of exercise equal to the total Option Price, (iii) by withholding by NWI from the Shares otherwise deliverable to the Optionee upon the exercise of such Option, a number of Shares having a value at the time of exercise equal to the total Option Price, (iv) by a combination of such methods of payment, or (v) by such other methods as may be approved by the Board.

(d) To the extent permitted by law, any grant may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker on a date satisfactory to NWI of some or all of the Shares to which such exercise relates.

(e) Successive grants may be made to the same Participant whether or not any Option Rights previously granted to such Participant remain unexercised.

(f) Each grant will specify the period or periods of continuous service by the Optionee with NWI or any Subsidiary that is necessary before the Option Rights or installments thereof will become exercisable.

(g) Any grant of Option Rights may specify Management Objectives that must be achieved as a condition to the exercise of such rights.

(h) Option Rights granted under the Plan may be (i) Incentive Stock Options, (ii) options that are not intended to qualify as Incentive Stock Options, or (iii) combinations of the foregoing. Incentive Stock Options may only be granted to Participants who are "employees" (under Section 3401(c) of the Code) of NWI or a subsidiary of NWI (under Section 424 of the Code).

(i) The Board may substitute, without receiving Participant permission, Appreciation Rights payable only in Shares (or Appreciation Rights payable in Shares or cash, or a combination of both, at the Board's discretion) for outstanding Option Rights; provided, however, that the terms of the substituted Appreciation Rights are substantially the same as the terms for the Option Rights at the date of substitution and the difference between the Market Value Per Share of the underlying Shares and the Base Price of the Appreciation Rights is equivalent to the difference between the Market Value Per Share of the underlying Shares and the Option Price of the Option Rights. If the Board determines, based upon advice from NWI's accountants, that this provision creates adverse accounting consequences for NWI, it shall be considered null and void.

(j) No Option Right will be exercisable more than 10 years from the Date of Grant.

(k) No grant of Option Rights may provide for dividends, dividend equivalents or other similar distributions to be paid on such Option Rights.

**5. Appreciation Rights.** The Board may, from time to time, authorize the granting to any Participant of Appreciation Rights upon such terms and conditions consistent with the following provisions as it may determine:

(a) An Appreciation Right will be a right of the Participant to receive from NWI an amount determined by the Board, which will be expressed as a percentage of the Spread (not exceeding 100 percent) at the time of exercise.

(b) Each grant will specify the Base Price, which may not be less than the Market Value Per Share on the Date of Grant.

(c) Any grant may specify that the amount payable on exercise of an Appreciation Right may be paid by NWI in cash, in Shares or in any combination thereof and may retain for the Board the right to elect among those alternatives.

(d) Any grant may specify that the amount payable on exercise of an Appreciation Right may not exceed a maximum specified by the Board at the Date of Grant.

(e) Any grant may specify waiting periods before exercise and permissible exercise dates or periods.

(f) Each grant will specify the period or periods of continuous service by the Participant with NWI or any Subsidiary that is necessary before such Appreciation Right or installments thereof will become exercisable.

(g) Any grant of Appreciation Rights may specify Management Objectives that must be achieved as a condition of the exercise of such Appreciation Rights.

(h) Successive grants may be made to the same Participant regardless of whether any Appreciation Rights previously granted to the Participant remain unexercised.

(i) No Appreciation Right granted under the Plan may be exercised more than 10 years from the Date of Grant.

(j) No grant of Appreciation Rights may provide for dividends, dividend equivalents or other similar distributions to be paid on such Appreciation Rights.

**6. Restricted Stock.** The Board may, from time to time, authorize the granting of Restricted Stock to Participants upon such terms and conditions consistent with the following provisions as it may determine:

(a) Each such grant will constitute an immediate transfer of the ownership of Shares to the Participant in consideration of the performance of services, entitling such Participant to voting, dividend and other ownership rights, but such rights shall be subject to such restrictions and the fulfillment of such conditions (which may include the achievement of Management Objectives) during the Restriction Period as the Board may determine.

(b) Each such grant may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(c) Each such grant will provide that the Restricted Stock covered by such grant that vests upon the passage of time will be subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code for a Restriction Period to be determined by the Board at the Date of Grant or upon achievement of Management Objectives referred to in subparagraph (e) below.

(d) Each such grant will provide that during, and may provide that after, the Restriction Period, the transferability of the Restricted Stock will be prohibited or restricted in the manner and to the extent prescribed by the Board at the Date of Grant (which restrictions may include, without limitation, rights of repurchase or first refusal in NWI or provisions subjecting the Restricted Stock to a continuing substantial risk of forfeiture in the hands of any transferee).

(e) Any grant of Restricted Stock may specify Management Objectives that, if achieved, will result in termination or early termination of the restrictions applicable to such Restricted Stock.

(f) Notwithstanding anything to the contrary contained in the Plan, any grant of Restricted Stock may provide for the earlier termination of restrictions on such Restricted Stock in the event of the retirement, death or disability, or other termination of employment of a Participant, or a Change in Control; provided, however, that no Award intended to be a Qualified Performance-Based Award shall provide for such early termination of restrictions in the event of retirement or other termination of employment to the extent such provision would cause such Award to fail to be a Qualified Performance-Based Award.

(g) Any such grant of Restricted Stock may require that any or all dividends or other distributions paid thereon during the Restriction Period be automatically deferred and reinvested in additional shares of Restricted Stock or paid in cash, which may be subject to the same restrictions as the underlying Award; provided, however, that dividends or other distributions on Restricted Stock subject to

Management Objectives shall be deferred and paid in cash upon the achievement of the applicable Management Objectives and the lapse of all restrictions on such Restricted Stock.

(h) Unless otherwise directed by the Board, (i) all certificates representing shares of Restricted Stock will be held in custody by NWI until all restrictions thereon will have lapsed, together with a stock power or powers executed by the Participant in whose name such certificates are registered, endorsed in blank and covering such Shares, or (ii) all shares of Restricted Stock will be held at NWI's transfer agent in book entry form with appropriate restrictions relating to the transfer of such shares of Restricted Stock.

**7. Restricted Stock Units.** The Board may, from time to time, authorize the granting of Restricted Stock Units to Participants upon such terms and conditions consistent with the following provisions as it may determine:

(a) Each such grant will constitute the agreement by NWI to deliver Shares or cash to the Participant in the future in consideration of the performance of services, but subject to such restrictions and the fulfillment of such conditions (which may include the achievement of Management Objectives) during the Restriction Period as the Board may specify.

(b) Each such grant may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(c) Notwithstanding anything to the contrary contained in the Plan, any grant of Restricted Stock Units may provide for the earlier lapse or modification of the Restriction Period in the event of the retirement, death or disability, or other termination of employment of a Participant, or a Change in Control; provided, however, that no Award intended to be a Qualified Performance-Based Award shall provide for such early lapse or modification in the event of retirement or other termination of employment to the extent such provision would cause such Award to fail to be a Qualified Performance-Based Award.

(d) During the Restriction Period, the Participant will have no right to transfer any rights under his or her Award and will have no rights of ownership in the Restricted Stock Units and will have no right to vote them, but the Board may at the Date of Grant, authorize the payment of dividend equivalents on such Restricted Stock Units on either a current, deferred or contingent basis either in cash, additional Restricted Stock Units or in additional Shares; provided, however, that dividend equivalents on Restricted Stock Units subject to Management Objectives shall be deferred and paid in cash upon the achievement of the applicable Management Objectives and the lapse of all restrictions on such Restricted Stock Units.

(e) Each grant of Restricted Stock Units will specify the time and manner of payment of the Restricted Stock Units that have been earned.

**8. Annual Incentive Awards, Performance Shares and Performance Units.** The Board may, from time to time, authorize the granting of Annual Incentive Awards, Performance Shares and Performance Units that will become payable to a Participant upon achievement of specified Management Objectives during the Performance Period, upon such terms and conditions consistent with the following provisions as it may determine:

(a) Each grant will specify either the number of shares, or amount of cash, payable with respect to Annual Incentive Awards, Performance Shares or Performance Units to which it pertains, which number or amount payable may be subject to adjustment to reflect changes in compensation or other factors.

(b) The Performance Period with respect to each Annual Incentive Award, Performance Share or Performance Unit will be such period of time (not less than one year in the case of each Performance Share and Performance Unit), as will be determined by the Board at the time of grant, which Performance Period may be subject to earlier lapse or other modification in the event of the retirement, death or disability, or other termination of employment of a Participant, or a Change in Control; provided, however, that no Award intended to be a Qualified Performance-Based Award shall provide for such early lapse or modification in the event of retirement or other termination of employment to the extent such provision would cause such Award to fail to be a Qualified Performance-Based Award.

(c) Any grant of Annual Incentive Awards, Performance Shares or Performance Units will specify Management Objectives that, if achieved, will result in payment or early payment of the Award and may set forth a formula for determining the number of shares, or amount of cash, payable with respect to Annual Incentive Awards, Performance Shares or Performance Units that will be earned if performance is at or above the minimum or threshold level or levels.

(d) Each grant will specify the time and manner of payment of Annual Incentive Awards, Performance Shares or Performance Units that have been earned. Any grant of Performance Shares or Performance Units may specify that the amount payable with respect thereto may be paid by NWI in cash, in Shares or in any combination thereof and will retain in the Board the right to elect among those alternatives.

(e) Any grant of Annual Incentive Awards, Performance Shares or Performance Units may specify that the amount payable or the number of Shares issued with respect thereto may not exceed maximums specified by the Board at the Date of Grant.

(f) The Board may at the Date of Grant of Performance Shares provide for the payment of dividend equivalents to the holder thereof on either a current, deferred or contingent basis, either in cash or in additional Shares; provided, however, that dividend equivalents on Performance Shares shall be deferred and paid in cash upon the achievement of the applicable Management Objectives.

#### **9. Other Awards.**

(a) The Board may, subject to limitations under applicable law, grant to any Participant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares or factors that may influence the value of such Shares, including, without limitation, awards consisting of securities or other rights convertible or exchangeable into Shares, purchase rights for Shares, awards with value and payment contingent upon performance of the Company or specified Subsidiaries, Affiliates or other business units thereof or any other factors designated by the Board, and awards valued by reference to the book value of Shares or the value of securities of, or the performance of specified Subsidiaries or Affiliates or other business units of NWI. The Board shall determine the terms and conditions of such awards. Shares delivered pursuant to an award in the nature of a purchase right granted under this Section 9 shall be purchased for such consideration, paid for at such time, by such methods, and in such forms, including, without limitation, cash, Shares, Other awards, notes or other property, as the Board shall determine.

(b) Except as otherwise provided in Section 15(b), cash awards, as independent awards or as an element of or supplement to any other Award granted under the Plan, may also be granted pursuant to this Section 9.

(c) The Board may grant Shares as a bonus, or may grant other Awards in lieu of obligations of NWI or a Subsidiary to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Board in a manner that complies with Section 409A of the Code.

#### **10. Transferability.**

(a) Except as otherwise determined by the Board, no Awards granted under the Plan shall be transferable by the Participant except by will or the laws of descent and distribution, and in no event shall any such Award granted under the Plan be transferred for value. Except as otherwise determined by the Board, Option Rights and Appreciation Rights will be exercisable during the Participant's lifetime only by him or her or, in the event of the Participant's legal incapacity to do so, by his or her guardian or legal representative acting on behalf of the Participant in a fiduciary capacity under state law and/or court supervision.

(b) The Board may specify at the Date of Grant that part or all of the Shares that are to be issued by the Company upon the exercise of Option Rights or Appreciation Rights, upon the termination of the Restriction Period applicable to Restricted Stock or Restricted Stock Units or upon payment under any grant of Performance Shares, Performance Units or Other Awards will be subject to further restrictions on transfer.

**11. Adjustments.** The Board shall make or provide for such adjustments in the numbers of Shares covered by outstanding Option Rights, Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units granted hereunder and, if applicable, in the number of Shares covered by Other Awards, in the Option Price and Base Price provided in outstanding Option Rights or Appreciation Rights, and in the kind of Shares covered thereby, as the Board, in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants or Optionees that otherwise would result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event or in the event of a Change in Control, the Board, in its discretion, may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration (including cash), if any, as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced in a manner that complies with Section 409A of the Code. In addition, for each Option Right or Appreciation Right with an Option Price or Base Price greater than the consideration offered in connection with any such transaction or event or Change in Control, the Board may in its sole discretion elect to cancel such Option Right or Appreciation Right without any payment to the person holding such Option Right or Appreciation Right. The Board shall also make or provide for such adjustments in the numbers of shares specified in Section 3 of the Plan as the Board in its sole discretion, exercised in good faith, may determine is appropriate to reflect any transaction or event described in this Section 11; provided, however, that any such adjustment to the number specified in Section 3(a)(iii) will be made only if and to the extent that such adjustment would not cause any Option Right intended to qualify as an Incentive Stock Option to fail so to qualify.

**12. Administration of the Plan.**

(a) The Plan will be administered by the Board, which may from time to time delegate all or any part of its authority under the Plan to the Committee. To the extent of any such delegation, references in the Plan to the Board will be deemed to be references to such Committee. A majority of the Committee will constitute a quorum, and the action of the members of the Committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the Committee.

(b) To the extent permitted by applicable law, including any rule of the Nasdaq Stock Market, the Board or Committee may delegate its duties under the Plan to a Secondary Committee, subject to such conditions and limitations as the Board or Committee shall prescribe; provided, however, that: (i) only the Board or Committee may grant an Award to a Participant who is subject to Section 16 of the Exchange Act; (ii) only the Board or Committee may grant an Award designed to be a Qualified Performance-Based Award; (iii) no Secondary Committee may grant an Award to a member of such Secondary Committee; (iv) the resolution providing for such delegation sets forth the total number of Shares and/or the pool dollar value of the Awards such Secondary Committee may grant; and (v) the Secondary Committee shall report periodically to the Board or the Committee, as the case may be, regarding the nature and scope of the Awards granted pursuant to the authority delegated. To the extent of any such delegation, references or deemed references in the Plan to the Committee will be deemed to be references to such Secondary Committee. A majority of the Secondary Committee will constitute a quorum, and the action of the members of the Secondary Committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the Secondary Committee.

(c) The Board shall have full and exclusive discretionary power to interpret the terms and the intent of this Plan and any Evidence of Award or other agreement or document ancillary to or in connection with this Plan, to determine eligibility for Awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering this Plan as the Board may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in an Evidence of Award, granting Awards as an alternative to or as the form of payment for

grants or rights earned or due under compensation plans or arrangements of the Company, construing any ambiguous provision of the Plan or any Evidence of Award, and, subject to Sections 15 and 18, adopting modifications and amendments to this Plan or any Evidence of Award, including without limitation, any that are necessary to comply with the laws of the countries and other jurisdictions in which NWI, its Affiliates, and/or its Subsidiaries operate. The grant of any Award that specifies Management Objectives that must be achieved before such Award can be earned or paid will specify that, before such Award will be earned and paid, the Board must certify that the Management Objectives have been satisfied.

(d) The interpretation and construction by the Board of any provision of this Plan or of any Evidence of Award or other agreement or document ancillary to or in connection with this Plan and any determination by the Board pursuant to any provision of the Plan or of any such Evidence of Award or other agreement or document ancillary to or in connection with this Plan will be final and conclusive. No member of the Board will be liable for any such action or determination made in good faith.

**13. Non U.S. Participants.** In order to facilitate the making of any grant or combination of grants under the Plan, the Board may provide for such special terms for Awards to Participants who are foreign nationals or who are employed by NWI or any Subsidiary outside of the United States of America, as the Board may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Board may approve such supplements to or amendments, restatements or alternative versions of the Plan (including without limitation, sub-plans) as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of the Plan as in effect for any other purpose, and the Secretary or other appropriate officer of NWI may certify any such document as having been approved and adopted in the same manner as the Plan. No such special terms, supplements, amendments or restatements, however, will include any provisions that are inconsistent with the terms of the Plan as then in effect unless the Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of NWI.

**14. Withholding Taxes.** To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under the Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Board) may include relinquishment of a portion of such benefit. If a Participant's benefit is to be received in the form of Shares, and such Participant fails to make arrangements for the payment of tax, the Company shall withhold such Shares having a value that shall not exceed the statutory minimum amount required to be withheld. Notwithstanding the foregoing, when a Participant is required to pay the Company an amount required to be withheld under applicable income and employment tax laws, the Participant may elect, or the Company may require the Participant, to satisfy the obligation, in whole or in part, by electing to have withheld, from the Shares required to be delivered to the Participant, Shares having a value equal to the amount required to be withheld, or by delivering to the Company other Shares held by such Participant. The Shares used for tax withholding will be valued at an amount equal to the Market Value per Share of such Shares on the date the benefit is to be included in Participant's income. In no event will the Market Value per Share of the Shares to be withheld or delivered pursuant to this Section 14 to satisfy applicable withholding taxes exceed the minimum amount of taxes required to be withheld. Participants shall also make such arrangements as the Company may require for the payment of any withholding tax obligation that may arise in connection with the disposition of Shares acquired upon the exercise of Option Rights.

### **15. Amendments, Etc.**

(a) The Board may at any time and from time to time amend the Plan in whole or in part; provided , however , that if an amendment to the Plan must be approved by the stockholders of NWI in order to comply with applicable law or the rules of the Nasdaq Stock Market or, if the Shares are not traded on the Nasdaq Stock Market, the principal national securities exchange upon which the Shares are traded or quoted, then, such amendment will be subject to stockholder approval and will not be effective unless and until such approval has been obtained.



(b) Except in connection with a corporate transaction or event described in Section 11 of the Plan, the terms of outstanding Awards may not be amended to reduce the Option Price of outstanding Option Rights or the Base Price of outstanding Appreciation Rights, and no outstanding Option Rights or Appreciation Rights may be cancelled in exchange for other Awards, or cancelled in exchange for Option Rights or Appreciation Rights with an Option Price or Base Price, as applicable, that is less than the Option Price of the original Option Rights or Base Price of the original Appreciation Rights, as applicable, or cancelled in exchange for cash, without stockholder approval. This Section 15(b) is intended to prohibit (without stockholder approval) the repricing of “underwater” Option Rights and Appreciation Rights and will not be construed to prohibit the adjustments provided for in Section 11 of the Plan. Notwithstanding any provision of the Plan to the contrary, this Section 15(b) may not be amended without approval by NWI’s stockholders.

(c) If permitted by Section 409A of the Code and Section 162(m) in the case of a Qualified Performance-Based Award, in case of termination of employment by reason of death, disability or normal or early retirement, or in the case of unforeseeable emergency or other special circumstances, of a Participant who holds an Option Right or Appreciation Right not immediately exercisable in full, or any Shares of Restricted Stock or any Restricted Stock Units as to which the Restriction Period has not been completed, or any Annual Incentive Awards, Performance Shares or Performance Units which have not been fully earned, or any Other Awards subject to any vesting schedule or transfer restriction, or who holds Shares subject to any transfer restriction imposed pursuant to Section 10(b) of the Plan, the Board may, in its sole discretion, accelerate the time at which such Option Right, Appreciation Right or Other Award may be exercised or the time when such Restriction Period will end or the time at which such Annual Incentive Awards, Performance Shares or Performance Units will be deemed to have been fully earned or the time when such transfer restriction will terminate or may waive any other limitation or requirement under any such Award.

(d) Subject to Section 16(b) of the Plan, the Board may amend the terms of any award theretofore granted under the Plan prospectively or retroactively, but subject to Section 11 of the Plan, no such amendment shall impair the rights of any Participant without his or her consent, except as necessary to comply with changes in law or accounting rules applicable to NWI. The Board may, in its discretion, terminate the Plan at any time.

Termination of the Plan will not affect the rights of Participants or their successors under any Awards outstanding hereunder on the date of termination.

## **16. Compliance with Section 409A of the Code.**

(a) To the extent applicable, it is intended that the Plan and any grants made hereunder comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to the Participants. The Plan and any grants made hereunder shall be administered in a manner consistent with this intent. Any reference in the Plan to Section 409A of the Code will also include any regulations or any other formal guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

(b) Neither a Participant nor any of a Participant’s creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A of the Code) payable under the Plan and grants hereunder to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A of the Code, any deferred compensation (within the meaning of Section 409A of the Code) payable to a Participant or for a Participant’s benefit under the Plan and grants hereunder may not be reduced by, or offset against, any amount owing by a Participant to the Company or any of its Affiliates.

(c) If, at the time of a Participant’s separation from service (within the meaning of Section 409A of the Code), (i) the Participant shall be a specified employee (within the meaning of Section 409A of the Code and

using the identification methodology selected by NWI from time to time) and (ii) NWI shall make a good faith determination that an amount payable hereunder constitutes deferred compensation (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to avoid taxes or penalties under Section 409A of the Code, then NWI shall not pay such amount on the otherwise scheduled payment date but shall instead pay it, without interest, on the tenth business day of the month after such six-month period.

(d) Notwithstanding any provision of the Plan and grants hereunder to the contrary, in light of the uncertainty with respect to the proper application of Section 409A of the Code, NWI reserves the right to make amendments to the Plan and grants hereunder as NWI deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A of the Code. In any case, a Participant shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on a Participant or for a Participant's account in connection with the Plan and grants hereunder (including any taxes and penalties under Section 409A of the Code), and neither the Company nor any of its Affiliates shall have any obligation to indemnify or otherwise hold a Participant harmless from any or all of such taxes or penalties.

**17. Governing Law.** The Plan and all grants and Awards and actions taken thereunder shall be governed by and construed in accordance with the internal substantive laws of the State of Delaware, without regard to principles of conflicts of laws.

**18. Effective Date/Termination.** The Plan will be effective as of the Effective Date. No grants will be made on or after the Effective Date under the Existing Plan, except that outstanding Awards granted under the Existing Plan will continue unaffected, in accordance with the terms of the Existing Plan as in effect on the Effective Date, following the Effective Date. No grant will be made under the Plan more than 10 years after the Effective Date, but all grants made on or prior to such date will continue in effect thereafter subject to the terms of the Evidence of Award conveying such grants and of the Plan.

**19. Miscellaneous.**

(a) Each grant of an Award will be evidenced by an Evidence of Award and will contain such terms and provisions, consistent with the Plan, as the Board may approve.

(b) NWI will not be required to issue any fractional Shares pursuant to the Plan. The Board may provide for the elimination of fractional Shares or for the settlement of fractional Shares in cash.

(c) The Plan will not confer upon any Participant any right with respect to continuance of employment or other service with NWI or any Subsidiary, nor will it interfere in any way with any right NWI or any Subsidiary would otherwise have to terminate such Participant's employment or other service at any time.

(d) No person shall have any claim to be granted any Award under the Plan. Without limiting the generality of the foregoing, the fact that a target Award is established for the job value or level for an employee shall not entitle any employee to an Award hereunder. Except as provided specifically herein, a Participant or a transferee of an Award shall have no rights as a stockholder with respect to any Shares covered by any Award until the date as of which he or she is actually recorded as the holder of such Shares upon the stock records of the Company.

(e) Determinations by the Board or the Committee under the Plan relating to the form, amount and terms and conditions of grants and Awards need not be uniform, and may be made selectively among persons who receive or are eligible to receive grants and Awards under the Plan, whether or not such persons are similarly situated.

(f) To the extent that any provision of the Plan would prevent any Option Right that was intended to qualify as an Incentive Stock Option from qualifying as such, that provision will be null and void with respect to such Option Right. Such provision, however, will remain in effect for other Option Rights and there will be no further effect on any provision of the Plan.

(g) No Award under the Plan may be exercised by the holder thereof if such exercise, and the receipt of cash or stock thereunder, would be, in the opinion of counsel selected by the Board, contrary to law or the regulations of any duly constituted authority having jurisdiction over the Plan.

(h) Absence or leave approved by a duly constituted officer of NWI or any of its Subsidiaries shall not be considered interruption or termination of service of any employee for any purposes of the Plan or Awards granted hereunder.

(i) The Board may condition the grant of any Award or combination of Awards authorized under the Plan on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by NWI or a Subsidiary to the Participant.

(j) If any provision of the Plan is or becomes invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Board, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Board, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(k) Any Evidence of Award may: (i) provide for recoupment by the Company of all or any portion of an Award upon such terms and conditions as the Board or Committee may specify in such Evidence of Award; or (ii) include restrictive covenants, including, without limitation, non-competition, non-disparagement and confidentiality conditions or restrictions, that the Participant must comply with during employment by or service to the Company and/or within a specified period after termination as a condition to the Participant's receipt or retention of all or any portion of an Award. This Section 19(k) shall not be the Company's exclusive remedy with respect to such matters. This Section 19(k) shall not apply after a Change in Control, unless otherwise specifically provided in the Evidence of Award.

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# Form 10-K



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-K**

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

For fiscal year ended December 31, 2014  
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)

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

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

92121  
(Zip Code)

Registrant's telephone number, including area code: (858) 812-3400  
Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.001 per share

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

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

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

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

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 30, 2014, as reported by The Nasdaq Global Select Market, was approximately \$63,195,226. For the purposes of this calculation, shares owned by officers and directors (and their affiliates) have been

excluded. This exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant. The registrant does not have any non-voting stock issued or outstanding.

The number of shares of the registrant's common stock outstanding as of March 3, 2015 was 45,939,859.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K to the extent stated herein.



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## Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the views of our senior management with respect to our current expectations, assumptions, estimates and projections about Novatel Wireless, Inc. and our industry. These forward-looking statements speak only as of the date of this report. We disclaim any undertaking to publicly update or revise any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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 those related to:

- our ability to compete in the market for wireless broadband data access products and machine-to-machine (“M2M”) products;
- our ability to develop and timely introduce new products successfully;
- our dependence on a small number of customers for a substantial portion of our revenues;
- our ability to integrate the operations of any business, products, technologies or personnel that we may acquire in the future;
- our ability to introduce and sell new products that comply with current and evolving industry standards and government regulations;
- our ability to develop and maintain strategic relationships to expand into new markets;
- our ability to properly manage the growth of our business to avoid significant strains on our management and operations and disruptions to our business;
- our reliance on third parties to procure components and manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture and timely delivery of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- the continuing impact of uncertain global economic conditions on the demand for our products;
- our ability to be cost competitive while meeting time-to-market requirements for our customers;
- our ability to meet the product performance needs of our customers in both mobile broadband and M2M markets;
- demand for broadband wireless access to enterprise networks and the Internet;
- our dependence on wireless telecommunication operators delivering acceptable wireless services;
- the outcome of pending or future litigation, including intellectual property litigation;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development and sale of our products;
- the introduction of new products that could contain errors or defects;
- doing business abroad, including foreign currency risks;
- our ability to make focused investments in research and development; and
- our ability to hire, retain and manage additional qualified personnel to maintain and expand our business.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission, including the information in “Item 1A. Risk Factors” in Part I of this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Unless the context requires otherwise, in this Annual Report on Form 10-K the terms “we,” “us,” “our” and “Company” refer to Novatel Wireless, Inc. and its wholly owned and indirect subsidiaries.

**Trademarks**

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

## PART I

### Item 1. Business

#### Overview

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

Our mainstream Mobile Computing Products currently support Long Term Evolution ("LTE") platforms and other major cellular wireless technology platforms as required by our global carrier customers. Our mobile hotspots, embedded modules, and USB modems provide subscribers with secure and convenient high-speed access to corporate, public and personal information through the Internet and enterprise networks. Our mobile computing customer base is comprised of wireless operators, including Verizon Wireless, AT&T and Sprint ; and other original equipment manufacturers, ("OEMs") as well as distributors.

Our M2M products enable devices to communicate with each other and with server or cloud-based application infrastructures. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers, application service providers, system integrators and distributors. Our solutions address multiple vertical markets for our customers including commercial telematics, after-market telematics, remote monitoring and control, security and connected home. We have strategic relationships with several of these customers that provide input and validation of our product requirements across the various vertical markets.

For the years ended December 31, 2014, 2013 and 2012, net revenues recognized from sales of our products were \$185.2 million, \$335.1 million and \$344.3 million, respectively.

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

#### Our Strategy

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

- *Lead the Intelligent Mobile Hotspot Product Category.* We invented and developed the MiFi<sup>®</sup> Intelligent Mobile Hotspot, a new category in wireless mobile data devices. In May 2009, the first nationwide commercial deployment of MiFi hotspots was launched by Verizon Wireless. In 2014, we announced certain software enhancements to the MiFi technology platform that allowed us to differentiate our MiFi family of products based on key performance indicators such as usage time, throughput and value added software applications. During 2014, we shipped MiFi Intelligent Mobile Hotspots to all three leading US carriers: Verizon Wireless, AT&T and Sprint.
- *Leverage Our Mobile Computing Expertise and Technology Platforms to Expand Our M2M Portfolio.* We are leveraging our Mobile Computing technology expertise, such as cellular wireless engineering radio development and the MiFi<sup>®</sup> Intelligent Mobile Hotspot technology platform, to expand our M2M portfolio. This enables us to leverage our development efforts, improve time-to-market and expand our portfolio in key markets. In 2014, the M2M-grade MiFi Powered SA 2100, available for telematics and telemetry applications, shipped through our global distribution channels targeting a number of M2M vertical markets.
- *Broaden Our M2M Product Offerings.* We intend to diversify and continue to broaden our integrated solutions and embedded module product lines for commercial telematics, after-market telematics, remote monitoring and control, security and connected home applications.
- *Enhance Our M2M Software Support Through Our Device Manager or Service Delivery Platform.* Through our N4A<sup>™</sup> Device Manager ("DM") and N4A<sup>™</sup> Communication and Management Software ("CMS"), we enable our customers' applications to support their specific business needs. Automotive vehicle data such as driver location, driving behavior, driver ID, vehicle status, and device status is gathered from our integrated products and delivered to our software applications or service delivery platform.
- *Align Our Mobile Computing Product Offerings With Key Carrier Customers and Distributors.* Leveraging our expertise in delivering wireless broadband solutions, we support our key customers with innovation and product portfolio flexibility, enabling them to address both premium and value segments for their markets. Our products operate on the major wireless technology platforms, including Second Generation (2G) networks: GSM, CDMA, GPRS; Third Generation (3G) networks: CDMA2000<sup>®</sup> 1xEV-DO, HSDPA and HSUPA; and Fourth Generation (4G) networks: LTE, dual carrier HSPA+ and WiMAX.

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

## Our Segments

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

- The Mobile Computing Products-segment includes our MiFi brand of Intelligent Mobile Hotspot devices, USB modems and embedded modules that enable internet access and data transmission and services via cellular wireless networks.
- The M2M Products and Solutions-segment includes our M2M embedded modules, integrated M2M communications devices and our service delivery platform, the N4A™ DM and N4A™ CMS that provides easy device management and service enablement.

Historically, our business units have had their own management teams and have offered different products and services. The business units have been aggregated into two reportable business segments based upon the nature of the products or services produced, the type of customer for the products, the similarity of economic characteristics and the manner in which management reviews results, among other considerations.

Due to the restructuring activities, changes in executive management, re-assignments of responsibilities, product transfers between some of our subsidiaries and increasing synergies between our existing segments and the continued integration and consolidation of our mobile computing business with our M2M business, we are currently reevaluating our reportable segments composition.

For additional information on our segments, see Note 13 to our consolidated financial statements.

### Mobile Computing Products

We have a growing portfolio of leading-edge technology solutions that enable data transmission and services via cellular wireless networks. In 2014, we launched new products in our line of MiFi mobile hotspots that provided multi-mode support for CDMA and GSM networks. On September 29, 2014, we launched the new Verizon Jetpack® Mobile Hotspot 4G LTE/XLTE MiFi® 6620L. The MiFi 6620L is the first Verizon Wireless Jetpack that securely connects up to 15 devices to the Verizon XLTE network supporting up to 20 hours of use on a single charge and in some cases more. The MiFi 6620L is global ready, supporting a number of bands for connectivity in over 200 countries.

Below are our major Mobile Computing product lines:

**MiFi® Brand of Intelligent Mobile Hotspot** is our flagship product. Introduced in 2009, it quickly became a leading brand in mobile communications. MiFi hotspots have gained acceptance as a standard connectivity option for Wi-Fi-enabled devices such as the iPad, Kindle, tablets, PCs, MP3 players, and gaming devices. MiFi hotspots function by connecting to a

cellular-wireless network and creating a secure Wi-Fi signal that can connect to as many as 15 devices simultaneously. MiFi hotspots accounted for 69%, 74% and 72% of our revenue in 2014, 2013 and 2012, respectively.

Our strategy for the MiFi platform is to innovate, focusing on ease of use, key performance indicators and value added features that take the device beyond just basic connectivity. Our MiFi 6620L securely connects up to 15 devices to the Verizon XLTE network supporting up to 20 hours of use on a single charge, and in some cases more. The MiFi 6620L is global ready, supporting a number of bands for connectivity in over 200 countries.

**4G LTE Gateway** branded MiFi Home™, available through Verizon Wireless and branded as the 4G LTE Broadband Router with Voice, is a wireless solution that supports both wireless voice and data. The wireless data support provides internet access over LTE and 1xRTT voice, which is software upgradeable to support high definition voice as VoLTE support becomes available on the carrier network.

**Modems** continue to be used to access wireless broadband networks. We originally introduced USB and PC-Card / ExpressCard® modems in North America, Europe, the Middle East and Africa and continue to provide advanced wireless access in the industry. USB and PC-Card modems accounted for 9%, 9% and 11% of our revenue in 2014, 2013 and 2012, respectively.

**Expedite® Embedded Modules** are utilized in a wide range of computing devices, such as laptop PCs, netbooks, tablets and various other electronic products to provide wireless broadband access. Embedded modules accounted for 3%, 5% and 5% of our revenue in 2014, 2013 and 2012, respectively.

### **M2M Products and Solutions**

During 2014, we expanded our M2M portfolio significantly by adding additional technologies and features to our line of M2M devices and embedded modules to improve performance and strengthen the competitive advantages of our solutions. M2M products and solutions accounted for 21%, 11% and 9% of our revenue in 2014, 2013 and 2012, respectively. M2M product lines consist of the following:

**MT and SA Integrated Solutions** bring together essential elements for telematics and telemetry applications that service a number of vertical market segments. The telemetry solutions monitor, manage and provide two-way communication to mobile and fixed assets and the telematics solutions provide vehicle tracking and diagnostics, along with workforce tracking and management functions. We add value by developing solutions to meet the needs of specific customers, with a particular emphasis on select vertical markets including: transportation and logistics, usage-based insurance, security and asset tracking, digital signage, industrial automation and smart grid and remote patient monitoring. These solutions can be scaled from a small fleet customer to company-wide enterprise deployments. Our M2M solutions are programmable and can be customized to collect specific types of data as required by a customer. Combining the device with our robust N4A™ DM and N4A CMS platform, assets can easily be monitored, managed and reconfigured remotely from almost anywhere in the world. By combining the N4A CMS platform with the intelligence of the integrated M2M devices, customers will gain a solution that offers ease-of-deployment and superior, reliable performance in small and flexible packages.

In 2014, we achieved network certification for some of our advanced M2M solutions through Verizon Wireless and AT&T, in addition to certifications from a number of regulatory bodies including Conformite Europeenne (CE), Global Certification Forum (GCF) and PTCRB to operate in Europe, the Middle East and Africa.

**N4A™ Software and Design Services** include our N4A™ DM and N4A™ CMS and design services that we provide to other companies, primarily for asset management solutions. Our N4A CMS 4.1 platform is a next-generation service delivery platform that eases the development, deployment, and operation of asset-management applications. N4A CMS provides a standardized, scalable way to connect and manage remote assets and improve business operations. The platform is flexible and supports both on-premise server or cloud-based deployments and is the basis for delivery of a wide range of M2M services.

**Enabler® and Expedite Embedded Module Solutions** are integrated into various products or equipment so that those assets may communicate with other computers. These M2M applications enable back-end IT systems to send and receive data from remote assets. These modules are ideal for markets including but not limited to security, advertising, telemetry, POS, mHealth, AVL and AMI/AMR market segments looking for high reliability and a common design across multiple technologies. A common example is modules for smart meters that transmit data about location, energy consumption, and abnormal situations to an energy supplier for usage monitoring and billing purposes. In 2014, the Enabler module HS 3001 was recognized as a best in class smart merchandising solution through award-winning innovations developed by our partners, including an “Interactive Tap Handle” deployed by a leading American brewer designed to display dynamic messages and a Cellular Billboard Timer that enables outdoor billboard companies to operate their signs remotely.

## Customers

Our customer base is comprised of wireless operators, distributors, OEMs and various companies in vertical markets. Our tier-one wireless-operator customers include Verizon Wireless, AT&T and Sprint. Our M2M customer base is a mix across various verticals including customers such as RAC Monitoring Services, Telogis, Modus Group, Premier Wireless, Linear Technology, Vehicle Tracking Solutions LLC, Fleetmatics, DigiCore Holdings Ltd. and Nextraq.

We also have strategic technology, development and marketing relationships with several of our customers. Our strong customer relationships provide us with the opportunity to expand our market reach and sales.

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

## Strategic Relationships

We continue to develop and maintain strategic relationships with wireless and computer industry leaders such as QUALCOMM, Verizon Wireless, AT&T, Sprint, and major software vendors. Through strategic relationships, we have been able to increase market penetration by leveraging the resources, knowledge and technology of our channel partners.

## Sales and Marketing

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

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

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

A significant portion of our revenue comes from a small number of customers. Our revenues from sales to Verizon Wireless represented approximately 52% of our total revenues for the year ended December 31, 2014.

A substantial majority of our revenue is derived from sales in the U.S. See Note 13 to our consolidated financial statements for a discussion of our revenue and asset concentrations by geographic location.

## Product Research and Development

Our research and development efforts are focused on developing innovative new wireless products and improving the functionality, design and performance of our existing products. Our research and development expenses for the years ended December 31, 2014, 2013 and 2012 were \$34.3 million, \$48.2 million and \$60.4 million, respectively.

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

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

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

- *Advanced Radio Frequency and Hardware Design.* Advanced RF design is a key technology that determines the performance of wireless devices. We have specialized in 700/800/900/1800/1900/2100/2500 MHz and AWS designs for digital cellular, packet data, CDMA, HSPA, WiMAX and LTE technologies. Our expertise in RF, baseband, and firmware technology contributes to the performance, cost advantages and small size of our products.
- *Miniaturization and System Integration.* Our expertise includes the integration of RF and baseband chipsets and printed circuit board, or PCB technologies. We will continue to augment our miniaturization technology, working to further reduce the size and cost of current and future products.
- *Software Development.* We specialize in integrating and customizing 3G and 4G software to meet carrier and regulatory requirements. We supply end-to-end solutions to enable our customers to achieve a time-to-market advantage. This includes firmware that runs on a modem processor, drivers for various host operating systems, software development kits, modem-manager software that controls modem operation and server applications for over-the-air updates.
- *Embedded Operating System.* We have developed an embedded operating system that runs applications on our mobile hotspot products and allows us to introduce innovative applications.
- *M2M Solutions.* We have developed customized asset-tracking systems and service-delivery platforms that utilize advanced radio-frequency technology and specialized software that interfaces with the information technology systems of our customers.

## **Manufacturing and Operations**

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control and fulfillment. Our current contract manufacturers include:

### **Mobile Computing Products and M2M Products and Solutions**

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

### **M2M Products and Solutions**

- Benchmark Electronics

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

We outsource our manufacturing in an effort to:

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

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



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

### **Intellectual Property**

Our solutions rely on and benefit from our portfolio of intellectual property, including patents and trademarks. We currently own 30 United States patents. In addition, we currently have 21 patent applications pending. From time to time, we also seek to have our patents registered in selected foreign jurisdictions. The patents that we currently own expire at various times between 2020 and 2031.

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

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

We also hold a number of trademarks including “Novatel Wireless”, the Novatel Wireless logo, “MiFi”, “MiFi Intelligent Mobile Hotspot”, “MiFi OS”, “MiFi Powered”, “MiFi Home”, “MobiLink”, “Ovation”, “Expedite”, “MiFi Freedom. My Way.”, “Enfora”, the Enfora logo, “Spider”, “Enabling Information Anywhere”, “Enabler” and “N4A”.

### **Backlog**

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

### **Competition**

The market for wireless broadband access and M2M solutions is rapidly evolving and highly competitive. It is likely to continue to be significantly affected by the evolution of new wireless technology standards, additional companies entering the market, new product introductions and the product pricing and other market activities of industry participants.

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

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

- wireless data modem and mobile hotspot providers, such as Huawei, ZTE, Sierra Wireless, PCD, LG Innotek, Samsung, Franklin Wireless and NetGear;
- wireless handset manufacturers, such as HTC, Apple, Motorola, Nokia and Samsung;
- wireless M2M solution providers, such as Sierra Wireless, Cradlepoint, Telit Wireless Solutions, Gemalto, CalAmp and Huawei.

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

**Employees**

As of December 31, 2014, we had 240 employees. By segment, Mobile Computing Products had 196 employees, including corporate functions and M2M Products and Solutions had 44 employees. By function, we had 127 employees in research and development, 48 in sales and marketing, 30 in operations and 35 in general and administrative functions. We also use the services of consultants and temporary workers from time to time. Our employees are not represented by any collective bargaining unit and we consider our relationship with our employees to be good.

**Website Access to SEC Filings**

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

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

*An investment in our common stock involves various risks. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere in this report and in the documents incorporated by reference herein and therein. The risks and uncertainties described below are those that we currently deem to be material, and do not represent all of the risks that we face. Additional risks and uncertainties not presently known to us or that we currently do not consider material may in the future become material and impair our business operations. If any of the following risks actually occur, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. As a result, the trading price of our securities could decline, and you might lose all or part of your investment. You should also refer to the other information contained in this Form 10-K, including our consolidated financial statements and the related notes.*

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

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

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

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

- wireless data modem and mobile hotspot providers, such as Huawei, ZTE, Sierra Wireless, PCD, LG Innotek, Samsung, Franklin Wireless and NetGear;
- wireless handset manufacturers, such as HTC, Apple, Motorola, Nokia and Samsung; and
- wireless M2M solution providers, such as Sierra Wireless, Cradlepoint, Telit Wireless Solutions, Gemalto, CalAmp and Huawei.

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

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

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

desire the technological innovations of these products and may not purchase them or might purchase them in smaller quantities than we had expected.

Further, as part of our business, we may enter into contracts with some customers in which we would agree to develop products that we would sell to such customers. Our ability to generate future revenue and operating income under any such contracts would depend upon, among other factors, our ability to timely and profitably develop products that are suitable for manufacturing in a cost effective manner and that meet defined product design, technical and performance specifications.

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

***We expect to continue to depend upon only a small number of our customers for a substantial portion of our revenues. Our business could be negatively affected by an adverse change in our dealings with these customers.***

A significant portion of our net revenues come from only a few customers. For instance, sales to Verizon Wireless accounted for 52% of our revenue in 2014 and 58% of our revenue in 2013. Our revenue could be materially adversely affected if we are unable to maintain currently-existing levels of business with any of our significant customers, including Verizon Wireless, and if we are unable to offset this loss fully from alternative customers. We expect that a small number of customers will continue to account for a substantial portion of our revenue for the foreseeable future and any impairment of our relationship with, or the material financial impairment of, these customers could adversely affect our business.

In addition, a majority of our current customers purchase our products pursuant to contracts that do not require them to purchase any specific minimum quantity of units other than the number of units ordered on an individual purchase order that might be issued to us from time to time. These customers have no contractual obligation to continue to purchase our products and if they do not continue to make purchases consistent with their historical purchase levels, our net revenue would decline if we are unable to increase sales from other existing or new customers.

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

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

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

As part of our business strategy, we review and intend to continue to review, acquisition opportunities that we believe would be advantageous or complementary to the development of our business. Based on these opportunities, we may acquire additional businesses, assets, or technologies in the future. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations or share price:

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

Acquired businesses may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In particular, to the extent that prior owners of any acquired businesses or properties failed to comply with or otherwise violated applicable laws or regulations, or failed to fulfill their contractual obligations to customers, we, as the successor owner, may be financially responsible for these violations and failures and may suffer reputational harm or otherwise be adversely affected. Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairment in the future that could harm our financial results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted, which could affect the market price of

our stock. Acquisitions and/or the related equity financings could also impact our ability to utilize our net operating loss carryforwards.

Numerous other risks of engaging in acquisitions include: difficulties in assimilating acquired operations, products, technologies and personnel; unanticipated costs; diversion of management's attention from existing operations; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which we have limited or no prior experience; and potential loss of key employees from either our existing business or the acquired organization. Acquisitions may result in substantial accounting charges for restructuring and other expenses, amortization of purchased technology and intangible assets and stock-based compensation expense, any of which could materially adversely affect our operating results. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. Even if we do properly evaluate acquisitions or investments, we may not be able to realize the anticipated benefits of, or successfully integrate with our existing business, the businesses, products, technologies or personnel that we acquire, and our failure to do so could harm our business and operating results.

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

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

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

Various risks arise if companies and industries quickly evolve. If our business or industry develops more quickly than our ability to respond, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development, certification or production delays as we seek to meet demand for our products or unanticipated product requirements. Our failure to properly manage the developments that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations and our reputation with our current or potential customers.

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

We currently outsource our manufacturing to companies including: Inventec Appliances Corporation, Hon Hai Precision Industry Co., Ltd. and Benchmark Electronics. These contract manufacturers have operations in China and Thailand and, in 2011, severe flooding in Thailand caused damage to infrastructure and factories and affected our supply of products from our contract manufacturer located in Thailand, which constrained our revenue in 2011. If one of these third-party manufacturers were to experience delays, disruptions, capacity constraints or quality control problems in its manufacturing operations, product shipments to our customers could be delayed or rejected or our customers could consequently elect to cancel the underlying product purchase order. These disruptions would negatively impact our revenues, competitive position and reputation. Further, if we are unable to manage successfully our relationship with a manufacturer, the quality and availability of our products may be harmed. None of our third-party manufacturers is obligated to supply us with a specific quantity of products, except as may be provided in a particular purchase order that we have submitted to, and that has been accepted by, such third-party manufacturer. Our third-party manufacturers could, under some circumstances, decline to accept new purchase orders from us or otherwise reduce their business with us. If a manufacturer stopped manufacturing our products for any reason or reduced manufacturing capacity, we may be unable to replace the lost manufacturing capacity on a timely and comparatively cost effective basis, which would adversely impact our operations. In addition, we generally do not enter into long-term contracts with our manufacturers. As a result, we are subject to price increases due to availability, and subsequent price volatility, in the marketplace of the components and materials needed to manufacture our products. If a third-party manufacturer were to negatively change the product pricing and other terms under which it agrees to manufacture for us and we were unable to locate a suitable alternative manufacturer, our manufacturing costs could significantly increase.

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

- unexpected increases in manufacturing costs;

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

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

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

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

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

Our products contain a variety of components, some of which are procured from single suppliers. These components include both tooled parts and industry-standard parts, some of which are also used in cellular telephone handsets. From time to time, certain components used in our products have been in short supply worldwide or their anticipated commercial introduction has been delayed or their availability has been subsequently interrupted for reasons outside our control. For example, some of our product components are manufactured in Japan, which experienced a significant earthquake in 2011. Although our suppliers' facilities were undamaged, some manufacturers experienced temporary suspension of production due to power outages. If there is a shortage or interruption in the availability to us of any such components and we cannot timely obtain a commercially and technologically suitable substitute or make sufficient and timely design or other product modifications to permit the use of such a substitute component, we may not be able to timely deliver sufficient quantities of our products to satisfy our contractual obligations and particular revenue expectations. Moreover, even if we timely locate a substitute part (or locate the originally specified component from a parts broker) but its price materially exceeds the original cost of the component, then our results of operations would be adversely affected.

***Our failure to predict carrier and end user customer preferences among the many evolving wireless industry standards could hurt our ability to introduce and sell new products.***

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

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

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

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

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

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

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

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

The success of our business depends, in part, on the capacity, affordability, reliability and prevalence of wireless data networks provided by wireless telecommunications operators and on which our products operate. Currently, various wireless telecommunications operators, either individually or jointly with us, sell our products in connection with the sale of their wireless data services to their customers. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services that customers consider valuable at acceptable prices, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services or fail to market their services effectively.

In addition, our future growth depends on the successful deployment of next generation wireless data networks provided by third parties, including those networks for which we are currently developing products. If these next generation networks are not deployed or widely accepted, or if deployment is delayed, there will be no market for the products we are developing to operate on these networks. If any of these events occurs, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline or remain stagnant and our business could be harmed.

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

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

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

A number of putative patent infringement claims have been filed by various plaintiffs in a number of U.S. District Courts against us and/or numerous third parties, some of whom are our customers. These cases generally allege that the defendants' use, sale and importation of specified products and/or processes constitutes infringement of certain U.S. patents allegedly

owned or exclusively licensed by each plaintiff. Under certain circumstances, we may have an obligation to indemnify and/or defend our customers against these lawsuits.

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

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

***Our products, including our proprietary or third party software contained in our products, may contain errors or defects, which could prevent or decrease their market acceptance and lead to unanticipated costs or other adverse business consequences.***

Our products are technologically complex and must meet stringent industry, regulatory and customer requirements. We must develop our hardware and software products quickly to keep pace with the rapidly changing and technologically advanced wireless communications market. Products as sophisticated as ours may contain undetected errors or defects, especially when first introduced or when new models or versions are released. Our products may not be free from errors or defects at the time commercial shipments have begun, which could result in the rejection of our products, the loss of an existing or potential customer or the failure to obtain one, damage to our reputation, lost revenue, diverted development resources, increased customer service and support costs, unanticipated warranty claims, and the payment of monetary damages to our customers. Furthermore, correcting problems could require additional capital expenditures, result in increased design and development costs, and force us to divert resources from other efforts. Failure to remediate problems could result in lost revenue, harm our reputation, and lead to costly warranty or other legal claims against us by our customers, and could have a material adverse impact on our financial condition and operating results.

***Product liability, product replacement, or recall costs could adversely affect our business and financial performance.***

We are subject to product liability and product recall claims if any of our products and services are alleged to have resulted in injury to persons or damage to property. If any of our products proves to be defective, we may need to recall and/or redesign them. In addition, any claim or product recall that results in significant adverse publicity may negatively affect our business, financial condition, or results of operations. We maintain product liability insurance, but this insurance may not adequately cover losses related to product liability claims brought against us. We may also be a defendant in class action litigation, for which no insurance is available. Product liability insurance could become more expensive and difficult to maintain and may not be available on commercially reasonable terms, if at all. In addition, we do not maintain any product recall insurance, so any product recall we are required to initiate could have a significant impact on our financial position, results of operations or cash flows. We regularly investigate potential quality issues as part of our ongoing effort to deliver quality products to our customers.

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

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

- *Decreases in revenue or increases in operating expenses.* We budget our operating expenses based on anticipated sales, and a significant portion of our sales and marketing, research and development and general and administrative costs are fixed, at least in the short term. If revenue decreases, due to pricing pressures or otherwise, or does not increase as planned and we are unable to reduce our operating costs quickly and sufficiently, our operating results could be materially adversely affected.
- *Product mix.* The product mix of our sales affects profit margins in any given quarter. As our business evolves and the revenue from the product mix of our sales varies from quarter to quarter, our operating results will likely fluctuate in ways that might not be directly proportionate to the fluctuation in revenue.
- *New product introductions.* As we introduce new products, the timing of these introductions within any given quarter will affect our quarterly operating results. We may have difficulty predicting the timing of new product introductions and the market acceptance of these new products. If products and services are introduced earlier or



later than anticipated, or if market acceptance is unexpectedly high or low, our quarterly operating results may fluctuate unexpectedly.

- *Lengthy sales cycle.* The length of time between the date of initial contact with a potential customer and the execution of and product delivery under a contract may take several months or longer, and is subject to delays or interruptions over which we have little or no control. The sale of our products is subject to delays from, among other things, our customers' budgeting, product testing and vendor approval mechanics, and competitive evaluation processes that typically accompany significant information technology purchasing decisions. As a result, our ability to anticipate the timing and volume of sales to specific customers is limited, and the delay or failure to complete one or more large transactions could cause our operating results to vary significantly from quarter to quarter.
- *Foreign currency.* We are exposed to market risk from changes in foreign currency exchange rates. Our attempts to minimize the effects of volatility in foreign currencies on cash flows may not be successful.

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

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

In addition to our manufacturing activities in Asia, we have staff located in Canada, China and Europe. We also sell our products outside the U.S. These international business activities expose the Company to additional business risks, including:

- difficulty in managing sales, research and development operations and post-sales logistics and support across these continents;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets, and changes in diplomatic and trade relationships;
- less effective protection of intellectual property and general exposure to different legal processes, standards and expectations;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- increased expenses associated with customizing products for different countries;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- longer collection cycles and difficulties in collecting accounts receivable;
- longer sales cycles;
- international terrorism;
- loss or damage to products in transit;
- international dock strikes or other transportation delays; and
- court-ordered injunctions in a given jurisdiction in connection with alleged intellectual property rights infringement by our products or components contained within our products which might prohibit the importation, sale or offer for sale of our products in the jurisdiction subject to such injunction.

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

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

A portion of our revenues are generated from sales agreements denominated in foreign currencies, and we expect to enter into additional such agreements as we expand our international customer base. As a result, we are exposed to changes in foreign currency exchange rates. At times, we may attempt to manage this risk, in part, by minimizing the effects of volatility on cash flows by identifying forecasted transactions exposed to these risks and using foreign exchange forward contracts. Since there is a high correlation between the hedging instruments and the underlying exposures, the gains and losses on these underlying exposures are generally offset by reciprocal changes in the value of the hedging instruments. We may use derivative financial instruments as risk management tools and not for trading or speculative purposes. Nevertheless, there can be no assurance that we will not incur foreign currency losses or that foreign exchange forward contracts we may enter into to reduce the risk of such losses will be successful.

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

Our success in the future depends in part on the continued contribution of our executive, technical, engineering, sales, marketing, operations and administrative personnel. Recruiting and retaining skilled personnel in the wireless communications industry, including software and hardware engineers, is highly competitive. The success of any acquisition also depends in part on our retention and integration of key personnel from the acquired company or business.

Although we may enter into employment agreements with members of our senior management and other key personnel, these arrangements do not prevent any of our management or key personnel from leaving the company. If we are not able to attract or retain qualified personnel in the future, or if we experience delays in hiring required personnel, particularly qualified engineers, we may not be able to maintain and expand our business.

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

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

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

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

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

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

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

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

circumvention of our controls, policies and procedures could have a material adverse effect on our business, results of operations and financial position.

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our principal executive offices are located in San Diego, California where we lease approximately 96,000 square feet under an arrangement that expires in December 2016. We also currently lease approximately 21,000 square feet in Richardson, Texas under a lease arrangement that expires in June 2020. We further lease space in various geographic locations abroad primarily for sales and support personnel, for research and development, or for temporary facilities. We believe that our existing facilities are adequate to meet our current needs and that we can renew our existing leases or obtain alternative space on terms that would not have a material impact on our financial condition.

**Item 3. Legal Proceedings**

We are engaged in numerous legal actions arising in the ordinary course of our business and, while there can be no assurance, we believe that the ultimate outcome of these legal actions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

The disclosure in Note 13, "Commitments and Contingencies," in the accompanying consolidated financial statements includes a discussion of our legal proceedings and is incorporated herein by reference.

**Item 4. Mine Safety Disclosures**

None.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Common Stock Data

Shares of our common stock are quoted and traded on The Nasdaq Global Select Market under the symbol "MIFI" and, prior to October 15, 2014, under the symbol "NVTL". The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by The Nasdaq Global Select Market.

	<u>High (\$)</u>	<u>Low (\$)</u>
<b>2014</b>		
First quarter	3.40	1.66
Second quarter	2.18	1.51
Third quarter	3.91	1.67
Fourth quarter	3.76	2.26
<b>2013</b>		
First quarter	2.44	1.27
Second quarter	4.14	1.90
Third quarter	4.43	2.57
Fourth quarter	3.36	1.95

#### Number of Stockholders of Record

Our outstanding capital stock consists of a single class of common stock. As of March 3, 2015, there were approximately 43 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

#### Dividends

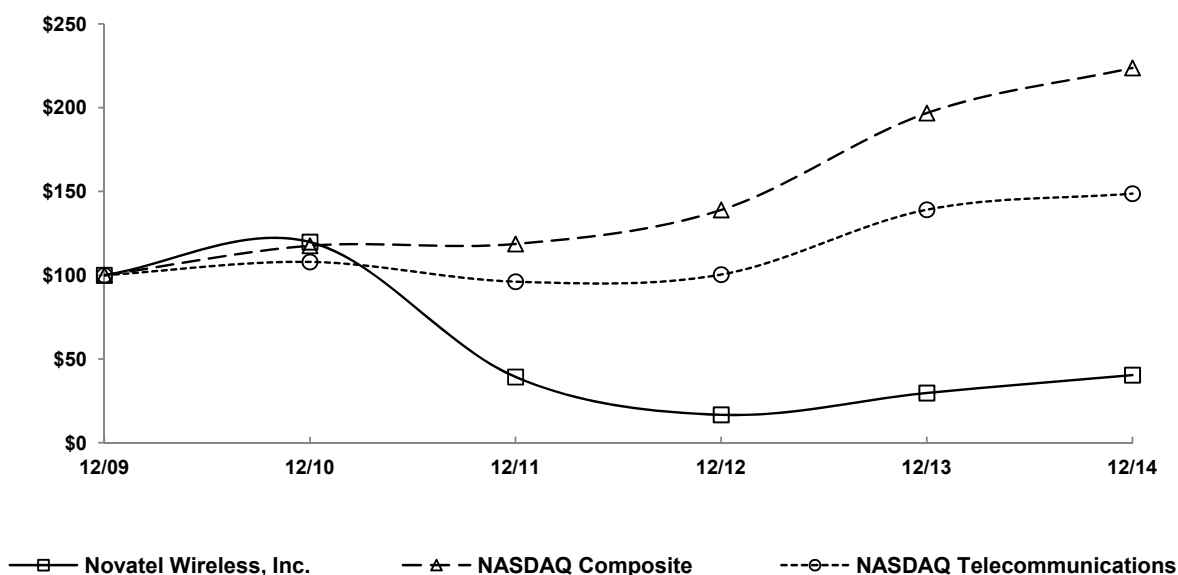
We have never declared or paid cash dividends on any shares of our capital stock. We currently intend to retain all available funds for use in the operation and development of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant. Under the terms of our \$25 million senior secured revolving credit facility with Wells Fargo Bank, NA, we are prohibited from declaring or paying any cash dividends on our common stock.

## Performance Graph

The following graph compares the cumulative total stockholder return on the Company's common stock between December 31, 2009 and December 31, 2014 with the cumulative total return of (i) the Nasdaq Stock Market (U.S.) Index or the Nasdaq Composite Index and (ii) the Nasdaq Telecommunications Index, or the Nasdaq Telecom Index, over the same period. This graph assumes the investment of \$100.00 on December 31, 2009 in the common stock of the Company, the Nasdaq Composite Index and the Nasdaq Telecom Index and assumes the reinvestment of any dividends. The stockholder return shown on the graph below should not be considered indicative of future stockholder returns and the Company will not make or endorse any predictions as to future stockholder returns.

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

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



\*\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	Cumulative Total Return					
	12/09	12/10	12/11	12/12	12/13	12/14
<b>Novatel Wireless, Inc.</b>	100.00	119.82	39.27	16.69	29.74	40.40
<b>NASDAQ Composite</b>	100.00	117.61	118.70	139.00	196.83	223.74
<b>NASDAQ Telecommunications</b>	100.00	107.95	96.16	100.40	139.11	148.69

## Unregistered Sales of Equity Securities

None, except as to (i) the description of our issuance of unregistered shares of common stock in connection with the settlement of our recent stockholder litigation and (ii) the description of our sale and issuance of common stock, shares of our Series C Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock") and a warrant to purchase 4,117,647 shares of our common stock at an exercise price of \$2.26 per share (the "Warrant"), as disclosed in our Current Reports on Form 8-K filed on July 2, 2014 and September 8, 2014, respectively, each of which is incorporated herein by reference.

## Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report. The selected consolidated statements of operations data presented below for each of the years ended December 31, 2014, 2013 and 2012, and the consolidated balance sheet data at December 31, 2014 and 2013 are derived from our consolidated financial statements included elsewhere in this report. The selected consolidated statements of operations data for the years ended December 31, 2011 and 2010 and consolidated balance sheet data at December 31, 2012, 2011 and 2010 are derived from the audited consolidated financial statements not included in this report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 185,245	\$ 335,053	\$ 344,288	\$ 402,862	\$ 338,942
Cost of net revenues	148,198	266,759	271,845	318,270	272,648
Gross profit	37,047	68,294	72,443	84,592	66,294
Operating costs and expenses:					
Research and development	34,314	48,246	60,422	61,392	48,906
Sales and marketing	13,792	20,898	27,501	29,830	20,978
General and administrative	15,402	24,179	22,668	21,600	21,233
Goodwill and intangible assets impairment	—	—	49,521	3,277	—
Amortization of purchased intangible assets	562	562	1,074	2,220	179
Shareholder litigation loss	790	14,326	—	—	—
Restructuring charges	7,760	3,304	—	—	—
Total operating costs and expenses	72,620	111,515	161,186	118,319	91,296
Operating loss	(35,573)	(43,221)	(88,743)	(33,727)	(25,002)
Other income (expense):					
Change in fair value of warrant liability	(3,280)	—	—	—	—
Interest income (expense), net	(85)	113	291	384	(2,518)
Other expense, net	(167)	(222)	(203)	(1,052)	1,963
Loss before income taxes	(39,105)	(43,330)	(88,655)	(34,395)	(25,557)
Income tax provision	124	83	611	(9,503)	7,893
Net loss	(39,229)	(43,413)	(89,266)	(24,892)	(33,450)
Recognition of beneficial conversion feature	(445)	—	—	—	—
Net loss attributable to common shareholders	\$ (39,674)	\$ (43,413)	\$ (89,266)	\$ (24,892)	\$ (33,450)
Net loss per share attributable to common shareholders:					
Basic and diluted	\$ (1.05)	\$ (1.28)	\$ (2.72)	\$ (0.78)	\$ (1.06)
Weighted average shares outstanding:					
Basic and diluted	37,959	33,948	32,852	32,043	31,494
	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents and marketable securities <sup>(1)</sup>	\$ 17,853	\$ 25,532	\$ 55,309	\$ 88,831	\$ 97,826
Working capital	29,397	40,928	67,199	81,113	87,174
Total assets	95,020	111,465	161,531	249,179	302,108
Stockholders’ equity	30,546	44,916	85,447	166,025	185,403
Long-term liabilities	6,090	11,848	2,552	4,080	12,886

(1) Includes restricted marketable securities in 2013.

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

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

### **Business Overview and Background**

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

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 infrastructures. Our M2M products and solutions include our M2M embedded modules, integrated M2M communications devices and our service delivery platform, the N4A™ DM and N4A™ CMS, that provides easy device management and service enablement.

Our mobile-hotspot and modem customer base is comprised of wireless operators, including Verizon Wireless, AT&T, and Sprint, as well as distributors and various companies in other vertical markets. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers, application service providers, system integrators and distributors. Our solutions address multiple vertical markets for our customers including commercial telematics, after-market telematics, remote monitoring and control, security and connected home. We have strategic relationships with several of these customers that provide input and validation of our product requirements across the various vertical markets.

We sell our wireless broadband solutions primarily to wireless operators either directly or through strategic relationships. Most of our mobile-computing product sales to wireless operators 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 technology, ease-of-use, performance, size, weight, cost and power consumption. We manage our products through a structured life cycle process, from identifying initial customer requirements through development and commercial introduction to eventual phase-out. During product development, emphasis is placed on innovation, time-to-market, performance, meeting industry standards and customer product specifications, ease of integration, cost reduction, manufacturability, quality and reliability.

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control and fulfillment. Our contract manufacturers include: Inventec Appliances Corporation, Hon Hai Precision Industry Co., Ltd. and Benchmark Electronics. Under our manufacturing agreements, contract manufacturers provide us with services including component procurement, product manufacturing, final assembly, testing, quality control and fulfillment.

### **Strategic and Operations Overview**

In 2014, we restructured our operations in an effort to increase future revenue levels and gross margins, lower our operating costs and achieve profitability. In the mobile computing business, we are focusing our development efforts only on those products that we believe have the greatest potential sales volume and will generate the highest gross profits and return on development investment. These products are targeted at the tier one telecommunications operators in North America with derivative products for other markets. We expect this strategy to reduce the number of products developed for sale in the mobile computing segment and result in an improved return on investment from development costs expended. Operating loss also improved throughout the year with a \$18.4 million loss in the first half of the year as compared to a \$5.0 million loss in the second half of the year.

Additionally, we have invested significant resources in our M2M product and services portfolio. This investment has allowed us to engage with new development partner customers in targeted verticals, including commercial and after-market telematics, and remote monitoring, control and security. We are currently integrating our products and services into their business processes, which we believe will contribute to future revenue growth.

Net revenues from our Mobile Computing Products segment decreased 51.1% in the year ended December 31, 2014, compared to 2013. However, despite the \$152.0 million reduction in revenue, operating loss from Mobile Computing Products improved by \$4.6 million, or 16.5%, compared to 2013. Net revenues from Mobile Computing Products increased in the second half of 2014 from the first half of the year, in part due to the launch of the MiFi® 6620L in the third quarter, and are expected to continue to increase in 2015.

Net revenues in our M2M Products and Solutions segment grew \$2.2 million or 5.8% in the year ended December 31, 2014, compared to 2013. Operating loss from M2M Products and Solutions improved from a \$15.3 million loss for the prior year to a \$12.2 million loss for the year ended December 31, 2014. Net revenues from M2M Products and Solutions for the full fiscal year 2015 are anticipated to exceed the revenue in 2014, primarily based upon the increased adoption of our new products.

We have restructured our research and development process by reducing the size of our in-house engineering staff. This change replaced some of our fixed research and development costs (due primarily to a decrease in our employee headcount and related compensation expenses) with variable costs and is expected to result in a lower overall cost of research and development and a more variable cost structure going forward. We expect to continue to make focused investments in research and development.

We have also been focused on completing the integration of our mobile computing business with our M2M business to increase operational efficiencies and reduce our operating expenses. The total operating expenses incurred for the twelve months ended December 31, 2014 were \$72.6 million compared to \$111.5 million for 2013, a 34.9% year over year reduction. This reduction is primarily due to a reduction of employee headcount and related compensation expenses, as well as reduced shareholder litigation loss. Our current employee headcount at December 31, 2014 was 240 as compared to 316 at December 31, 2013 and 459 at December 31, 2012.

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

*Net Revenues.* We believe that our future net revenues will be influenced largely by the speed and breadth of the demand for wireless access to data through the use of next generation networks, including demand for 3G and 4G products, 3G and 4G data access services (particularly in North America, Latina 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 device 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 3G and 4G products;
- product pricing; and
- changes in technologies.

Our revenues are also significantly dependent upon the availability of materials and components used in our products.

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

*Cost of Net Revenues.* All costs associated with our contract manufacturers, as well as distribution, fulfillment and repair services, are included in our cost of net revenues. Cost of net revenues also includes warranty costs, amortization of intangible assets, royalties, operations overhead, costs associated with our 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, Latin America, Europe and Asia. We will likely develop new products to serve these markets, resulting in increased research and development expenses. We have incurred these expenses in the past and expect to continue to incur these expenses in future periods prior to recognizing net revenues from sales of these products.

Our operating costs consist of three primary categories: research and development; sales and marketing; and general and administrative costs.

Research and development are at the core of our ability to produce innovative, leading-edge products. This category consists primarily of engineers and technicians who design and test our highly complex products and the acquisition of testing and certification services.

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, SEC filings, stock-exchange fees, and investor-relations expense. Although general and administrative expenses are not directly related to revenue levels, certain expenses such as, legal expenses and provisions for bad debts may cause significant volatility in future general and administrative expenses.

We have undertaken certain restructuring activities and cost reduction initiatives in an effort to better align our organizational structure and costs with our strategy. Restructuring activities consist primarily of severance costs incurred in connection with the reduction of our workforce and facility exit related costs.

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. Given our current cash position and recent losses, any acquisitions we make would likely involve issuing stock and/or borrowing additional funds in order to provide the purchase consideration for the acquisitions. 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.

## Results of Operations

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

	Year Ended December 31,		
	2014	2013	2012
	(as a percent of net revenues)		
Net revenues	100.0 %	100.0 %	100.0 %
Cost of net revenues	80.0	79.6	79.0
Gross profit	20.0	20.4	21.0
Operating costs and expenses:			
Research and development	18.5	14.4	17.5
Sales and marketing	7.4	6.2	8.0
General and administrative	8.3	7.2	6.6
Goodwill and intangible assets impairment	0.0	—	14.4
Amortization of purchased intangible assets	0.3	0.2	0.3
Shareholder litigation loss	0.4	4.3	0.0
Restructuring charges	4.2	1.0	0.0
Total operating costs and expenses	39.2	33.3	46.8
Operating loss	(19.2)	(12.9)	(25.8)
Change in fair value of warrant liability	(1.8)	—	—
Interest income (expense), net	0.0	—	0.1
Other expense, net	(0.1)	(0.1)	(0.1)
Loss before income taxes	(21.1)	(12.9)	(25.8)
Income tax provision	0.1	—	0.2
Net loss	(21.4)%	(13.0)%	(25.9)%

### Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

**Net revenues.** Net revenues were approximately \$185.2 million during 2014, a decrease of approximately \$149.8 million or 44.7% compared to 2013. However, our operating loss improved by 17.7% from \$43.2 million in 2013 to \$35.6 million in 2014.

The following table summarizes net revenues by reportable segment and product categories during the years ended December 31, 2014 and 2013 (in thousands):

	Year Ended December 31,		Change	
	2014	2013	\$	%
<b>Net revenues by reportable segment:</b>				
Mobile Computing Products	\$ 145,500	\$ 297,499	\$ (151,999)	(51.1)%
M2M Products and Solutions	39,745	37,554	2,191	5.8 %
Total	\$ 185,245	\$ 335,053	\$ (149,808)	(44.7)%
<b>Net revenues by product categories:</b>				
Mobile Broadband Devices	\$ 143,309	\$ 277,415	\$ (134,106)	(48.3)%
Embedded Solutions	20,949	36,689	(15,740)	(42.9)%
Asset Management Solutions and Services	20,987	20,949	38	0.2 %
Total	\$ 185,245	\$ 335,053	\$ (149,808)	(44.7)%

*Mobile Computing Products.* Net revenues from our Mobile Computing Products segment for the year ended December 31, 2014 were \$145.5 million, a decrease of \$152.0 million or 51.1% compared to the same period in 2013. The decrease is primarily attributable to legacy products reaching their end of their life cycle. Revenues for this segment increased sequentially in the third and fourth quarters primarily as a result of the launch of the MiFi 6620L during the latter part of the third quarter of 2014, and we expect to increase revenues from Mobile Computing Products throughout 2015 as compared to 2014.

*M2M Products and Solutions.* Net revenues from our M2M Products and Solutions segment for the year ended December 31, 2014 were \$39.7 million, an increase of \$2.2 million, or 5.8%, compared to the same period in 2013. The increase is primarily due to increased adoption of our new M2M products. We expect to increase revenues from M2M Products and Solutions throughout 2015 as compared to 2014.

*Product Categories.* We have categorized the combined product portfolios of the mobile computing and M2M businesses into three categories (i) Mobile Broadband Devices, (ii) Embedded Solutions and (iii) 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 and USB modems. These devices are sold primarily through wireless operator enterprise and retail channels, telecommunications equipment distributors and consumer retail chains.

The Embedded Solutions product category 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 N4A DM and/or N4A CMS software which transmit information about the assets into which these products are integrated. These hardware and software products can be bundled or sold separately.

*Cost of net revenues.* Cost of net revenues for the year ended December 31, 2014 was approximately \$148.2 million, or 80.0% of net revenues, as compared to approximately \$266.8 million, or 79.6% of net revenues in 2013. Cost of net revenues declined in 2014 due to the corresponding decline in revenues described above.

*Gross profit.* Gross profit for the year ended December 31, 2014 was approximately \$37.0 million, or 20.0% of net revenues, as compared to approximately \$68.3 million, or 20.4% of net revenues, in 2013. While our gross profit percentage was relatively flat in 2014 as compared to 2013, we expect that our gross profit percentage will increase throughout 2015 based on expected increased sales from our newer, higher margin products.

*Research and development expenses.* Research and development expenses for the year ended December 31, 2014 were approximately \$34.3 million, or 18.5% of net revenues, compared to approximately \$48.2 million, or 14.4% of net revenues in 2013. Research and development expenses for the year ended December 31, 2014 were lower as compared to the same period in 2013 primarily due to reduced labor costs attributed to headcount reductions and lower outside service costs and depreciation expenses.

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

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

*Sales and marketing expenses.* Sales and marketing expenses for the year ended December 31, 2014 were approximately \$13.8 million, or 7.4% of net revenues, compared to approximately \$20.9 million, or 6.2% of net revenues, in 2013. Sales and marketing expenses were lower as compared to the same period in 2013, primarily due to headcount reductions, resulting in a decrease in salaries and related expenditures and share-based compensation expenses.

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

*General and administrative expenses.* General and administrative expenses for the year ended December 31, 2014 were approximately \$15.4 million, or 8.3% of net revenues, compared to approximately \$24.2 million, or 7.2% of net revenues, in

2013. The decrease in general and administrative expenses was due primarily to lower legal and professional fees coupled with lower salaries and related expenditures attributed to headcount reductions, and decreased share-based compensation expense.

**Amortization of purchased intangible assets.** The amortization of purchased intangible assets for the year ended December 31, 2014 was approximately \$562,000, the same as in 2013.

**Shareholder litigation loss.** The loss for litigation for the year ended December 31, 2014 was \$790,000 and related to the *In re Novatel Wireless Securities Litigation* described in Note 13, “Commitments and Contingencies” in the accompanying consolidated financial statements, compared to \$14.3 million in 2013.

**Restructuring charges.** Restructuring expenses for the year ended December 31, 2014 were approximately \$7.8 million compared to approximately \$3.3 million in 2013. Restructuring charges for the year ended December 31, 2014 primarily consisted of severance costs and expenses related to the departure of our former Chief Executive Officer, including expenses relating to the accelerated vesting of restricted stock units and options, other severance costs and expenses incurred in connection with the reduction of our workforce, and facility exit costs. Restructuring charges for the year ended December 31, 2013 primarily consisted of severance costs incurred in connection with the reduction of our workforce and facility exit related costs.

**Change in fair value of warrant liability.** During the year ended December 31, 2014, we incurred a non-cash loss of \$3.3 million related to the fair value measurement of the warrant that we issued in connection with the financing transaction that closed on September 8, 2014.

**Interest income (expense), net.** Interest expense, net, for the year ended December 31, 2014 was \$85,000 as compared to interest income, net of \$113,000 for the same period in 2013.

**Other expense, net.** Other expense, net for the year ended December 31, 2014 was \$167,000 as compared to \$222,000 for the same period in 2013.

**Income tax provision.** Income tax expense was approximately \$124,000 for fiscal 2014, compared to \$83,000 in 2013. The difference between the federal and state statutory combined benefit rate of 36% and our effective tax rate for 2014 is primarily due to a full valuation allowance on the Canadian-based deferred tax assets generated in 2014. The income tax expense for 2013 was primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2013.

**Beneficial conversion feature.** For the year ended December 31, 2014, we recognized the fair value of an embedded beneficial conversion feature for \$445,000 on the convertible Series C preferred shares issued in connection with the financing transaction that closed on September 8, 2014.

**Net loss.** For the year ended December 31, 2014, we reported a net loss of approximately \$39.7 million, as compared to net loss of approximately \$43.4 million in 2013. Net loss for the year ended December 31, 2014 was impacted by changes in net revenue and restructuring charges recognized during the year. Net loss for the year ended December 31, 2013 was significantly impacted by expenses associated with the shareholder litigation settlement of \$14.3 million, accrued in the fourth quarter of 2013, and restructuring charges recognized during the year.

#### Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

**Net revenues.** Net revenues were approximately \$335.1 million during 2013, a decrease of approximately \$9.2 million or 2.7% compared to 2012.

The following table summarizes net revenues by reportable segment and product categories during the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,	
	2013	2012
<b>Net revenues by reportable segment:</b>		
Mobile Computing Products	\$ 297,499	\$ 312,508
M2M Products and Solutions	37,554	31,780
Total	<u>\$ 335,053</u>	<u>\$ 344,288</u>

	Year Ended December 31,	
	2013	2012
<b>Net revenues by product categories:</b>		
Mobile Broadband Devices	\$ 277,415	\$ 287,572
Embedded Solutions	36,689	29,960
Asset Management Solutions and Services	20,949	26,756
Total	\$ 335,053	\$ 344,288

**Mobile Computing Products.** Net revenues from our Mobile Computing Products segment for the year ended December 31, 2013 were \$297.5 million, a decrease of \$15.0 million or 4.8% compared to the same period in 2012. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by increased market competition at our largest customer and lower average sales prices during the period.

**M2M Products and Solutions.** Net revenues from our M2M Products and Solutions segment for the year ended December 31, 2013 were \$37.6 million, an increase of \$5.8 million or 18.2% compared to the same period in 2012. The increase is primarily due to increased sales of our HS3001 module launched in the first quarter of 2013.

**Cost of net revenues.** Cost of net revenues for the year ended December 31, 2013 was approximately \$266.8 million, or 79.6% of net revenues, as compared to approximately \$271.8 million, or 79.0% of net revenues in 2012.

**Gross profit.** Gross profit for the year ended December 31, 2013 was approximately \$68.3 million, or 20.4% of net revenues, as compared to approximately \$72.4 million, or 21.0% of net revenues in 2012. The gross profit percentage decrease compared to the same period in 2012 was primarily attributable to the changes in net revenues.

**Research and development expenses.** Research and development expenses for the year ended December 31, 2013 were approximately \$48.2 million, or 14.4% of net revenues, compared to approximately \$60.4 million, or 17.5% of net revenues in 2012. Research and development expenses for the year ended December 31, 2013 were lower as compared to the same period in 2012 due to reduced labor cost attributed to headcount reductions, as well as lower share-based compensation expense.

**Sales and marketing expenses.** Sales and marketing expenses for the year ended December 31, 2013 were approximately \$20.9 million, or 6.2% of net revenues, compared to approximately \$27.5 million or 8.0% of net revenues in 2012. Sales and marketing expenses were lower as compared to the same period in 2012, primarily due to headcount reductions, resulting in a decrease in salaries and related expenditures and share-based compensation expenses.

**General and administrative expenses.** General and administrative expenses for the year ended December 31, 2013 were approximately \$24.2 million, or 7.2% of net revenues, compared to approximately \$22.7 million, or 6.6% of net revenues in 2012. The increase was due primarily to litigation settlements reached during the year, as well as increased legal fees and an increase to our allowance for doubtful accounts receivable, partially offset by reduced salaries and related expenditures attributed to headcount reductions and decreased share-based compensation expense.

**Goodwill and intangible assets impairments.** No impairments were recorded during the year ended December 31, 2013. During the first and third quarters of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices and forecasted sales volumes, customer product and technology selections, and the loss of certain customers, we 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, we recorded a pre-tax goodwill impairment charge of \$6.6 million and a purchased intangible asset charge of \$22.8 million. Based on the fair value tests performed during the third quarter of 2012, we recorded a preliminary pre-tax goodwill impairment charge of \$13.2 million and a preliminary purchased intangible asset charge of \$7.3 million. During the fourth quarter of 2012, we completed the third quarter impairment analysis and reduced the purchased intangible asset impairment by \$300,000.

**Amortization of purchased intangible assets.** The amortization of purchased intangible assets for the year ended December 31, 2013 was approximately \$562,000, compared to approximately \$1.1 million in 2012. The decrease in amortization expense was due to the lower net asset value of the intangible assets resulting from impairment charges in the first and third quarters of 2012.

**Shareholder litigation loss.** The contingent loss for litigation for the year ended December 31, 2013 was \$14.3 million related to the *In re Novatel Wireless Securities Litigation* described in Note 13, "Commitments and Contingencies" in the accompanying consolidated financial statements.

**Restructuring charges.** Restructuring expenses for the year ended December 31, 2013 were \$3.3 million, and predominantly consisted of severance costs incurred in connection with the reduction of our workforce and facility exit related costs. In September 2013, We commenced certain restructuring initiatives, including the closure of our development site in Calgary, Canada, and the consolidation of certain supply chain management activities, resulting in a reduction in force of 72 employees across all functional areas of the Company.

**Interest income, net.** Interest income, net, for the year ended December 31, 2013 was \$113,000 as compared to \$291,000 for the same period in 2012. Our net interest income during 2013 and 2012 was primarily related to interest earned on our marketable securities. The decrease in our interest income during 2013 was primarily related to the decrease in net asset values of our marketable securities compared to the same period in 2012.

**Other expense, net.** Other expense, net for the year ended December 31, 2013 was \$222,000 as compared to \$203,000 for the same period in 2012.

**Income tax expense.** Income tax expense was approximately \$83,000 for fiscal 2013, compared to an expense of \$611,000 in 2012. The difference between the federal and state statutory combined benefit rate of 36% and our effective tax rate for 2013 is primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2013. The income tax expense for 2012 was primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2012, and a \$0.4 million expense related to an increase in our valuation allowance on the Canadian-based deferred tax assets.

**Net loss.** For the year ended December 31, 2013, we reported a net loss of approximately \$43.4 million, as compared to net loss of approximately \$89.3 million in 2012. Net loss for the year ended December 31, 2013 was significantly impacted by the shareholder litigation loss of \$14.3 million. Net loss for the year ended December 31, 2012 was significantly impacted due to the impairment charges recognized in the first and third quarters of 2012.

## **Liquidity and Capital Resources**

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

### *Financing Transaction*

On September 3, 2014, we entered into a Purchase Agreement with HC2 Holdings 2, Inc., a Delaware corporation (the "Investor"), pursuant to which, on September 8, 2014, we sold to the Investor (i) 7,363,334 shares of our common stock, par value \$0.001 per share, (ii) the Warrant to purchase 4,117,647 shares of our common stock at an exercise price of \$2.26 per share and (iii) 87,196 shares of our Series C Preferred Stock, all at a purchase price of (a) \$1.75 per share of common stock plus, in each case, the related Warrant and (b) \$17.50 per share of Series C Preferred Stock, for aggregate gross proceeds of approximately \$14.4 million. As of December 31, 2014, all warrant shares remain unexercised.

### *Credit Facilities*

On October 31, 2014, we entered into a senior secured revolving credit facility with Wells Fargo Bank, National Association (the "Revolver"). The amount of borrowings that may be made under the Revolver are based on a borrowing base and are comprised of a specified percentage of eligible receivables. If, at any time during the term of the Revolver, the amount of borrowings outstanding under the Revolver exceeds the borrowing base then in effect or the maximum revolver amount of \$25.0 million, we would be required to repay such borrowings in an amount sufficient to eliminate such excess. The Revolver includes \$3.0 million of availability for letters of credit. At December 31, 2014, the balance of the revolving credit facility was approximately \$5.2 million and we had available borrowings of approximately \$12.1 million. See Note 12 to our consolidated financial statements for a discussion of the Revolver.

On November 19, 2014, we terminated our existing margin credit facility with one of the banks that held our marketable securities. Borrowings under this facility were collateralized by our cash and cash equivalents and marketable securities on deposit at the bank. During the twelve months ended December 31, 2014, we did not borrow against the facility and had no outstanding borrowings under this facility at December 31, 2014.

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

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

	Year Ended December 31,		
	2014	2013	Increase / (Decrease)
	(in thousands)		
Working capital (1)	\$ 29,397	\$ 40,928	\$ (11,531)
Cash and cash equivalents (2)	\$ 17,853	\$ 2,911	\$ 14,942
Short-term marketable securities (2)(3)	—	16,612	(16,612)
Long-term marketable securities	—	3,443	(3,443)
Total cash and cash equivalents and marketable securities	\$ 17,853	\$ 22,966	\$ (5,113)

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

(2) Included in working capital.

(3) Excludes restricted marketable securities.

Our decrease in working capital as of December 31, 2014 compared to December 31, 2013 was primarily due to losses from operations incurred, an investment in inventory and capital expenditures in 2014.

As of December 31, 2014, our cash, cash equivalents and marketable securities decreased \$5.1 million as compared to December 31, 2013, primarily due to \$16.3 million of cash used in operating activities and capital expenditures of \$1.8 million, partially offset by the net proceeds of \$14.2 million received from the Investor in the financing transaction described above. See the discussion of market risk in Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*.

### Historical Cash Flows

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

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Net cash used in operating activities	\$ (16,267)	\$ (26,627)
Net cash provided by investing activities	20,432	11,624
Net cash provided by financing activities	10,908	2,014
Effect of exchange rates on cash and cash equivalents	(131)	(144)
Net increase (decrease) in cash and cash equivalents	14,942	(13,133)
Cash and cash equivalents, beginning of period	2,911	16,044
Cash and cash equivalents, end of period	\$ 17,853	\$ 2,911

**Operating activities.** Net cash used in operating activities was \$16.3 million for 2014 compared to \$26.6 million of net cash used in 2013. Net cash used in operating activities for the year ended December 31, 2014 was primarily attributable to the net losses incurred in 2014. Net cash used in operating activities for the year ended December 31, 2013 was primarily attributable to the net losses incurred in 2013 and the unfavorable working capital impacts of a \$19.2 million reduction in accounts payable.

**Investing activities.** Net cash provided by investing activities for 2014 was approximately \$20.4 million compared to \$11.6 million used in investing activities in 2013. The net cash provided by investing activities in 2014 was primarily related to the net sales and maturities of our marketable securities of \$22.6 million, partially offset by purchases of property and equipment of \$1.8 million.

**Financing activities.** Net cash provided by financing activities for 2014 was \$10.9 million, compared to net cash provided by financing activities of \$2.0 million for 2013. Net cash provided by financing activities in 2014 was primarily related to proceeds received from the equity issued to the Investor in September 2014, partially offset by payments made in 2014 to settle our shareholder litigation. Net cash provided by financing activities in 2013 was primarily related to proceeds received from borrowing on our margin credit facility, partially offset by principal repayments on our margin credit facility borrowings, and payroll taxes paid on behalf of employees for restricted stock units which vested during the period.

### *Contractual Obligations and Commercial Commitments*

The following table summarizes our contractual obligations and commercial commitments at December 31, 2014, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Fiscal Year						Total
	2015	2016	2017	2018	2019	Thereafter	
Operating leases	\$ 2,744	\$ 2,749	\$ 537	\$ 436	\$ 433	\$ 221	\$ 7,120
Committed purchase orders	55,000	—	—	—	—	—	55,000
Total contractual obligations	\$ 57,744	\$ 2,749	\$ 537	\$ 436	\$ 433	\$ 221	\$ 62,120

Our liability for uncertain tax benefits, including interest, as of December 31, 2014 was \$0, compared to approximately \$61,000 as of December 31, 2013. The decrease was primarily due to the expiration of the applicable statutes of limitations for certain tax years. Our tax liability for uncertain tax benefits is not included in our table of contractual obligations and commercial commitments.

### *Other Liquidity Needs*

We have recently incurred operating losses and had a net loss of \$39.7 million during the year ended December 31, 2014. As of December 31, 2014, we had available cash and cash equivalents totaling \$17.9 million, and working capital of \$29.4 million. We also have availability for borrowings under the Revolver. Borrowings under this facility are secured by a first priority lien on substantially all of our assets and the assets of certain of our subsidiaries, subject to certain exceptions and permitted liens. During the twelve months ended December 31, 2014, we borrowed \$5.2 million against the revolving credit facility and had available borrowings of approximately \$12.1 million.

Our ability to transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned research and development activities, incur additional restructuring charges or reduce other operating expenses which could have an adverse impact on our ability to achieve our intended business objectives. We believe that our cash and cash equivalents and our availability under the Revolver, 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. In addition, in order to obtain additional borrowings we must comply with certain requirements under the Revolver. If additional funds are raised by the issuance of equity securities, our shareholders could experience dilution of their ownership interests and securities issued may have rights senior to those of the holders of our common stock. If additional funds are raised by the issuance of debt securities, we may be subject to certain limitations on our operations. If adequate funds are not available or not available on acceptable terms, we may be unable to take advantage of acquisition opportunities, develop or enhance products or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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, fair value of warrant liability, accruals relating to litigation, restructuring, and retention bonus, provision for warranty costs, income taxes and share-based compensation expense.



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

Predominantly all of the revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. We record revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations, such as warranty obligations. We consider the four basic revenue recognition criteria discussed under Staff Accounting Bulletin No. 104 when assessing appropriate revenue recognition as follows:

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

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

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

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

For the years ended December 31, 2014, 2013, and 2012, we have not recorded any significant revenues from multiple element or software arrangements.

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

*Provision for Excess and Obsolete Inventory.* Inventories are stated at the lower of cost (first-in, first-out method) or market. We review the components of our inventory and our inventory purchase commitments on a regular basis for excess and

obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by us or our customers that vary from our current expectations. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if market conditions improve.

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

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

We actively engage in product improvement programs and processes to limit our warranty costs, but our warranty obligation is affected by the complexity of our product, product failure rates and costs incurred to correct those product failures. The industry in which we operate is subject to rapid technological change, and as a result, we periodically introduce newer, more complex products. Depending on the quality of our product design and manufacturing, actual product failure rates or actual warranty costs could be materially greater than our estimates, which could harm our financial condition and results of operations.

*Fair value of warrant liability.* We evaluate stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for under the relevant sections of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815-40, *Derivative Instruments and Hedging: Contracts in Entity’s Own Equity*. The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative financial instrument and is marked-to-market at each balance sheet date and recorded as an asset or liability. In the event that the fair value is recorded as an asset or liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion, exercise or expiration of a derivative financial instrument, the instrument is marked to fair value and then that fair value is reclassified to equity.

*Litigation.* We are currently involved in certain legal proceedings. We will record a loss when we determine information available prior to the issuance of the financial statements indicates the loss is both probable and estimable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the claim. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates, if necessary. Our policy is to expense litigation costs as incurred.

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

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

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

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

### **Interest Rate Risk**

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits our credit exposure to any single issuer. The fair value of our cash equivalents and marketable debt securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. At December 31, 2014, we had \$17.9 million in cash and cash equivalents. Changes in market interest rates would not be expected to have a material impact on the fair value of our \$2.1 million in cash equivalents at December 31, 2014, as these consisted of money market funds and certificates of deposit with the value of all of our cash equivalents determined based on "Level 1" and "Level 2" inputs, which consist of quoted prices in active markets for identical assets.

As of December 31, 2014, we do not hold any debt securities nor do we utilize derivative instruments or other financial contracts to manage our exposure to changes in interest rates in our investment portfolio.

### **Credit Risk**

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

We place our cash investments in instruments that meet credit quality standards specified in our investment policy guidelines at the time the investments are made. At December 31, 2014, we have cash and cash equivalents of \$17.9 million, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of our \$2.1 million in cash equivalents at December 31, 2014, as these consisted of money market funds and certificates of deposit with maturities of less than three months, with the value of all of our cash equivalents determined based on "Level 1" and "Level 2" inputs, which consist of quoted prices in active markets for identical assets.

Money market funds attempt to maintain a net asset value, ("NAV"), of \$1 per unit of investment. Should the underlying investments held by these money market funds suffer significant losses to market value due to interest rate changes or perceived counterparty risk, the NAV of these money market funds may suffer declines below the targeted \$1 NAV. We hold money market funds that target a balance of investment return and preservation of invested capital through diversified holdings. As such, we do not believe we currently have significant exposure to NAV declines for our money market holdings.

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

We generate Euro-denominated accounts receivable from sales to customers that are members of the European Union. During the year ended December 31, 2014, Euro-denominated revenue was approximately \$133,000 which represents less than 1% of our total net revenues compared to less than 1% in the same period last year. Although we are exposed to market risk arising from changes in foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar, as Euro-denominated revenue is not considered significant, we did not enter into any foreign exchange contracts during the year ended December 31, 2014. If our net revenues increase in the foreseeable future, we may enter into foreign exchange contracts to mitigate this risk. These forward currency foreign exchange contracts would cover a portion, generally 50% to 80%, but may cover up to 100%, of our Euro-based financial assets.

At December 31, 2014, we had no outstanding forward contracts. During the year ended December 31, 2014, we recorded approximately \$2,700 in unrealized foreign currency losses related to our outstanding Euro-denominated accounts receivable balances. Both the unrealized gain on the outstanding forward contracts and the unrealized gains on outstanding Euro-denominated receivables were recorded in other income (expense), net in our consolidated statement of operations.

Assuming a translation of our Euro-denominated revenue for the year ended December 31, 2014 at an average Euro-to-U.S. Dollar exchange rate of \$1.33 and a uniform ten percent strengthening or weakening of this exchange rate, we estimate that income before income taxes for the year ended December 31, 2014 would increase or decrease, respectively, by approximately \$53,000. This analysis does not give effect to any forward currency foreign exchange contracts that may be used to hedge foreign currency risk.

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

Our sales to non-European Union countries are typically denominated in U.S. Dollars. Competitive conditions in the markets in which we operate may limit our ability to increase prices in the event of adverse changes in currency exchange rates.

Sales of these products are affected by the value of the U.S. Dollar relative to other currencies, in particular, the Euro. Any long-term strengthening of the U.S. Dollar could depress the demand for these U.S. manufactured products, reduce sales, or cause us to reduce per unit selling prices.

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

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

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

None.

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

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

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC rules, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014, the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of December 31, 2014.

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

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

##### **Management's Annual Report on Internal Control Over Financial Reporting**

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework) in *Internal Control—Integrated Framework*. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited our internal control over financial reporting as of December 31, 2014, as stated in their report which is included herein.

#### **Item 9B. Other Information**

None

## Report of Independent Registered Public Accounting Firm

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

We have audited Novatel Wireless Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Novatel Wireless Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Novatel Wireless, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014, of Novatel Wireless, Inc. and our report dated March 9, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California  
March 9, 2015

### PART III

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

(a) *Identification of Directors.* The information under the caption “Election of Directors” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

(b) *Identification of Executive Officers.* The information under the caption “Executive Officers” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

(e) *Audit Committee.* The information under the caption “The Board, Its Committees and Its Compensation—Audit Committee” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

#### **Item 11. Executive Compensation**

The information under the headings “Executive Compensation,” “The Board, Its Committees and Its Compensation—Director Compensation,” “Compensation Discussion and Analysis” and “Compensation Committee Report” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information under the headings “Security Ownership of Management and Certain Beneficial Owners” and “Equity Compensation Plan Information” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information under the headings “Review and Approval of Transactions with Related Parties” and “The Board, Its Committees and Its Compensation—Director Independence” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information under the heading “Independent Public Accountants” appearing in the Proxy Statement to be filed for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) 1. Index to consolidated financial statements

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

2. Index to financial statement schedules

The following financial statement schedules for the years ended December 31, 2014, 2013, and 2012 should be read in conjunction with the consolidated financial statements, and related notes thereto.

<u>Schedule</u>	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts	F- 31

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

(b) Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed March 27, 2001).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed November 14, 2002).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.4**	Certificate of Amendment to Amended and Restated Certificate of Incorporation.
3.5	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.6	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.7	Certificate of Designation of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
3.8	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 19, 2015).
4.1	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000, as amended).
4.2	Form of Securities Purchase Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.3	Registration Rights Agreement, dated as of March 12, 2003, entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K, filed March 28, 2003).

<u>Exhibit Number</u>	<u>Description</u>
4.4	Registration Rights Agreement, dated as of January 13, 2004, entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.5	Stipulation of Settlement, dated January 31, 2014 and effective as of June 20, 2014 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.6	Promissory Note, dated July 3, 2014 (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.7	Security Agreement, dated July 3, 2014 (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.8	Final Judgment and Order of Dismissal With Prejudice, dated June 23, 2014 (incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.9	Order Granting Motion to Amend the Judgment Date, dated July 8, 2014 (incorporated by reference to Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.10	Warrant to Purchase Common Stock issued to HC2 Holdings 2, Inc., dated September 8, 2014 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
4.11	Investors' Rights Agreement, dated September 8, 2014, by and between Novatel Wireless, Inc. and HC2 Holdings 2, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed September 8, 2014).
10.1	Credit and Security Agreement, dated as of October 31, 2014, by and among Novatel Wireless, Inc. and Enfora, Inc., as Borrowers, and Wells Fargo Bank, National Association, as Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.2	Purchase Agreement, dated September 3, 2014, by and between Novatel Wireless, Inc. and HC2 Holdings 2, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
10.3	Memorandum of Understanding: In re Novatel Wireless Secs. Litig., Civil Action No. 08-CV-01689-AJB (RBB) United States District Court for the Southern District of California, executed December 6, 2013 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K, filed March 12, 2014).
10.4	Letter Agreement, dated as of April 29, 2014, by and among the Company and each of Cobb H. Sadler, Edward T. Shadek, Robert Ellsworth, Alex Mashinsky, Richard A. Karp, Maguire Financial, LP, a Delaware limited partnership, Maguire Asset Management, LLC, a Delaware limited liability company, and Timothy Maguire (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 6, 2014).
10.5	Confirmation Letter, dated July 3, 2014, by and among the Company and each of Cobb H. Sadler, Edward T. Shadek, Robert Ellsworth, Maguire Financial, LP, a Delaware limited partnership, Maguire Asset Management, LLC, a Delaware limited liability company, and Timothy Maguire (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 10, 2014).
10.6*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.7*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.8*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.9*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.10*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).



<u>Exhibit Number</u>	<u>Description</u>
10.11*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.12*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.13*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2, 2011).
10.14*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.15*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.16*	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.17*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.18*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A, filed October 14, 2014).
10.19*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed April 30, 2013).
10.20*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.21*	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.22*	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
10.23*	2013 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 22, 2013).
10.24**	2014 Retention Bonus Plan.
10.25*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.26*	Letter Agreement, dated as of April 29, 2014, by and between the Company and Peter V. Leparulo (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed May 6, 2014).
10.27*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010).
10.28*	Employment Agreement, dated August 4, 2014, by and between the Company and Alex Mashinsky (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 6, 2014).
10.29*	Offer Letter, dated November 2, 2014, by and between Novatel Wireless, Inc. and Alex Mashinsky (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.30*	Offer letter, effective September 2, 2014, by and between the Company and Michael Newman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 4, 2014).

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.31*	Change in Control and Severance Agreement, effective September 2, 2014, by and between the Company and Michael Newman (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed September 4, 2014).
21	Subsidiaries of Novatel Wireless, Inc. (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed March 12, 2014).
23.1**	Consent of Independent Registered Public Accounting Firm.
24**	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.
*	Management contract, compensatory plan or arrangement
**	Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 9, 2015

NOVATEL WIRELESS, INC.

By                     /s/ ALEX MASHINSKY                      
**Alex Mashinsky**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

## POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Alex Mashinsky and Michael Newman, or either of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ ALEX MASHINSKY          </u> <b>Alex Mashinsky</b>	Chief Executive Officer (Principal Executive Officer)	March 9, 2015
<u>          /s/ MICHAEL NEWMAN          </u> <b>Michael Newman</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2015
<u>          /s/ PHILIP FALCONE          </u> <b>Philip Falcone</b>	Director	March 9, 2015
<u>          /s/ RUSSELL C. GERNS          </u> <b>Russell C. Gerns</b>	Director	March 9, 2015
<u>          /s/ JAMES LEDWITH          </u> <b>James Ledwith</b>	Director	March 9, 2015
<u>          /s/ ROBERT PONS          </u> <b>Robert Pons</b>	Director	March 9, 2015
<u>          /s/ SUE SWENSON          </u> <b>Sue Swenson</b>	Director	March 9, 2015
<u>          /s/ DAVID A. WERNER          </u> <b>David A. Werner</b>	Director	March 9, 2015

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## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Novatel Wireless, Inc.

We have audited the accompanying consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novatel Wireless, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Novatel Wireless, Inc.'s internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 9, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California  
March 9, 2015

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

	As of December 31,	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,853	\$ 2,911
Marketable securities	—	16,612
Restricted marketable securities	—	2,566
Accounts receivable, net of allowance for doubtful accounts of \$217 in 2014 and \$2,449 in 2013	24,213	39,985
Inventories	37,803	27,793
Prepaid expenses and other	7,912	5,762
Total current assets	<u>87,781</u>	<u>95,629</u>
Property and equipment	5,279	9,901
Marketable securities	—	3,443
Intangible assets, net of accumulated amortization of \$14,050 in 2014 and \$12,983 in 2013	1,493	2,131
Other assets	467	361
Total assets	<u>\$ 95,020</u>	<u>\$ 111,465</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,540	\$ 24,538
Accrued expenses	23,844	23,271
Current portion of shareholder litigation	—	4,326
Short-term margin loan facility	—	2,566
Total current liabilities	<u>58,384</u>	<u>54,701</u>
Revolving credit facility	5,158	—
Other long-term liabilities	932	1,848
Non-current portion of shareholder litigation	—	10,000
Total liabilities	<u>64,474</u>	<u>66,549</u>
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding	—	—
Common stock, par value \$0.001; 100,000 shares authorized, 45,742 and 34,097 shares issued and outstanding at December 31, 2014 and 2013, respectively	46	34
Additional paid-in capital	466,665	441,368
Accumulated other comprehensive income	—	5
Accumulated deficit	(411,165)	(371,491)
	<u>55,546</u>	<u>69,916</u>
Treasury stock at cost; 2,436 common shares at December 31, 2014 and 2013	(25,000)	(25,000)
Total stockholders' equity	<u>30,546</u>	<u>44,916</u>
Total liabilities and stockholders' equity	<u>\$ 95,020</u>	<u>\$ 111,465</u>

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2014	2013	2012
Net revenues	\$ 185,245	\$ 335,053	\$ 344,288
Cost of net revenues	148,198	266,759	271,845
Gross profit	<u>37,047</u>	<u>68,294</u>	<u>72,443</u>
Operating costs and expenses:			
Research and development	34,314	48,246	60,422
Sales and marketing	13,792	20,898	27,501
General and administrative	15,402	24,179	22,668
Goodwill and intangible assets impairment	—	—	49,521
Amortization of purchased intangible assets	562	562	1,074
Shareholder litigation loss	790	14,326	—
Restructuring charges	7,760	3,304	—
Total operating costs and expenses	<u>72,620</u>	<u>111,515</u>	<u>161,186</u>
Operating loss	(35,573)	(43,221)	(88,743)
Other income (expense):			
Change in fair value of warrant liability	(3,280)	—	—
Interest income (expense), net	(85)	113	291
Other expense, net	(167)	(222)	(203)
Loss before income taxes	(39,105)	(43,330)	(88,655)
Income tax provision	124	83	611
Net loss	(39,229)	(43,413)	(89,266)
Recognition of beneficial conversion feature	(445)	—	—
Net loss attributable to common shareholders	<u>\$ (39,674)</u>	<u>\$ (43,413)</u>	<u>\$ (89,266)</u>
Per share data:			
Net loss per share attributable to common shareholders:			
Basic and diluted	<u>\$ (1.05)</u>	<u>\$ (1.28)</u>	<u>\$ (2.72)</u>
Weighted average shares used in computation of basic and diluted net loss per share attributable to common shareholders:			
Basic and diluted	<u>37,959</u>	<u>33,948</u>	<u>32,852</u>

See accompanying notes to consolidated financial statements



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

	Year Ended December 31,		
	2014	2013	2012
Net loss attributable to common shareholders	\$ (39,674)	\$ (43,413)	\$ (89,266)
Unrealized gain (loss) on cash equivalents and marketable securities, net of tax	(5)	(9)	22
Total comprehensive loss	<u>\$ (39,679)</u>	<u>\$ (43,422)</u>	<u>\$ (89,244)</u>

See accompanying notes to consolidated financial statements

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

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2011	32,262	\$ 32	\$ 429,813	\$ (25,000)	\$ (238,812)	\$ (8)	\$ 166,025
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	1,393	2	1,597	—	—	—	1,599
Taxes withheld on net settled vesting of restricted stock units	—	—	(433)	—	—	—	(433)
Share-based compensation	—	—	7,500	—	—	—	7,500
Net loss	—	—	—	—	(89,266)	—	(89,266)
Other comprehensive income (loss)	—	—	—	—	—	22	22
Balance, December 31, 2012	33,655	34	438,477	(25,000)	(328,078)	14	85,447
Exercise of stock options and vesting of restricted stock units	442	—	102	—	—	—	102
Taxes withheld on net settled vesting of restricted stock units	—	—	(654)	—	—	—	(654)
Share-based compensation	—	—	3,443	—	—	—	3,443
Net loss	—	—	—	—	(43,413)	—	(43,413)
Other comprehensive income (loss)	—	—	—	—	—	(9)	(9)
Balance, December 31, 2013	34,097	34	441,368	(25,000)	(371,491)	5	44,916
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	689	2	246	—	—	—	248
Taxes withheld on net settled vesting of restricted stock units	—	—	(1,067)	—	—	—	(1,067)
Issuance of common shares in connection with litigation settlement	2,407	2	4,998	—	—	—	5,000
Issuance of common shares in connection with financing transaction, net of issuance costs	7,363	7	7,929	—	—	—	7,936
Issuance of common shares in connection with the conversion of Series C preferred shares	872	1	939	—	—	—	940
Beneficial conversion feature of convertible Series C preferred shares	—	—	445	—	—	—	445
Reclassification of warrant liability	—	—	8,219	—	—	—	8,219
Share-based compensation	314	—	3,588	—	—	—	3,588
Net loss attributable to common shareholders	—	—	—	—	(39,674)	—	(39,674)
Other comprehensive income (loss)	—	—	—	—	—	(5)	(5)
Balance, December 31, 2014	45,742	\$ 46	\$ 466,665	\$ (25,000)	\$ (411,165)	\$ —	\$ 30,546

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss attributable to common shareholders	\$ (39,674)	\$ (43,413)	\$ (89,266)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	7,408	8,949	12,337
Loss on goodwill and purchased intangible assets impairment	—	—	49,521
Impairment loss on equipment, leasehold improvements and software license intangible assets	—	418	100
Provision for bad debts, net of recoveries	86	1,936	439
Net impairment loss on marketable securities	—	—	39
Provision for excess and obsolete inventory	3,382	4,344	2,843
Share-based compensation expense	3,588	3,443	7,500
Change in fair value of warrant liability and fair value of beneficial conversion feature on convertible Series C preferred shares	3,725	—	—
Shareholder litigation loss	—	14,326	—
Non-cash income tax expense	87	220	462
Changes in assets and liabilities:			
Accounts receivable	15,688	730	(6,242)
Inventories	(13,392)	6,879	420
Prepaid expenses and other assets	(2,403)	(489)	(1,237)
Accounts payable	10,036	(19,237)	(10,433)
Accrued expenses, income taxes, and other	(4,798)	(4,733)	3,638
Net cash used in operating activities	<u>(16,267)</u>	<u>(26,627)</u>	<u>(29,879)</u>
Cash flows from investing activities:			
Purchases of property and equipment	(1,753)	(5,011)	(4,579)
Purchases of intangible assets	(431)	—	(104)
Purchases of marketable securities	(1,359)	(24,262)	(44,216)
Marketable securities maturities / sales	23,975	40,897	46,696
Net cash provided by (used in) investing activities	<u>20,432</u>	<u>11,624</u>	<u>(2,203)</u>
Cash flows from financing activities:			
Proceeds from the issuances of Series C preferred and common stock, net of issuance costs	14,163	—	—
Proceeds from the issuance of short-term debt, net of issuance costs	—	20,300	14,000
Principal repayments of short-term debt	(2,566)	(17,734)	(14,000)
Repayment of litigation settlement note payable, including interest	(5,026)	—	—
Borrowings on revolving credit facility	5,158	—	—
Principal payments under capital lease obligations	—	—	(46)
Taxes paid on vested restricted stock units net of proceeds from stock option exercises and ESPP	(821)	(552)	1,166
Net cash provided by financing activities	<u>10,908</u>	<u>2,014</u>	<u>1,120</u>
Effect of exchange rates on cash and cash equivalents	(131)	(144)	(63)
Net increase (decrease) in cash and cash equivalents	<u>14,942</u>	<u>(13,133)</u>	<u>(31,025)</u>
Cash and cash equivalents, beginning of period	2,911	16,044	47,069
Cash and cash equivalents, end of period	<u>\$ 17,853</u>	<u>\$ 2,911</u>	<u>\$ 16,044</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 119	\$ 65	\$ 17
Income taxes	\$ 108	\$ 121	\$ 104
Supplemental disclosures of non-cash activities:			
Building rent incentives to fund leasehold improvements	\$ —	\$ 359	\$ —
Issuance of common stock for litigation settlement	\$ 5,000	\$ —	\$ —
Initial fair value of warrant liability recorded upon issuance of Series C preferred and common stock	\$ 4,939	\$ —	\$ —
Issuance of common stock for conversion of Series C preferred shares	\$ 940	\$ —	\$ —

See accompanying notes to consolidated financial statements.

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

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

Novatel Wireless, Inc. (the “Company,” “our” or “we”) is a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products principally includes intelligent mobile hotspots, USB modems, embedded modules, integrated asset-management and mobile tracking machine-to-machine (“M2M”) devices, communications and applications software and cloud services.

*Basis of Presentation*

We have recently incurred operating losses and had a net loss attributable to common shareholders of \$39.7 million during the year ended December 31, 2014. As of December 31, 2014, we had available cash and cash equivalents totaling \$17.9 million, and working capital of \$29.4 million. Our ability to transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned research and development activities, incur additional restructuring charges or reduce other operating expenses which could have an adverse impact on our ability to achieve our intended business objectives. These additional reductions in expenditures, if required, could have an adverse impact on our ability to achieve certain of our business objectives during 2015. We believe our working capital resources are sufficient to fund our operations through at least December 31, 2015.

*Principles of Consolidation*

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent liabilities. Actual results could differ materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, fair value of warrant liability, accruals relating to litigation, restructuring, and retention bonus, provision for warranty costs, income taxes and share-based compensation expense.

*Cash and Cash Equivalents*

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

*Allowance for Doubtful Accounts Receivable*

The Company provides an allowance for its accounts receivable for estimated losses that may result from its customers’ inability to pay. The Company determines the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and our customers’ credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, the Company reviews its customers’ credit-worthiness periodically based on credit scores generated by independent credit reporting services, its experience with its customers and the economic condition of its customers’ industries. Material differences may result in the amount and timing of expense for any period if the Company were to make different judgments or utilize different estimates.

*Marketable Securities*

Marketable securities predominantly consist of highly liquid debt investments with a maturity of greater than three months when purchased. The Company did not have any short or long-term marketable securities at December 31, 2014. All of the Company’s marketable debt securities are treated as “available-for-sale.” While it is the Company’s intent to hold its debt securities until maturity, the Company may sell certain securities for cash flow purposes. Thus, the Company’s marketable debt securities are classified as available-for-sale and are carried on the balance sheet at fair value with the related unrealized gains and losses included in accumulated other comprehensive loss, a component of stockholders’ equity. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method. The Company determines the fair value of its financial assets and liabilities by reference to the hierarchy of inputs which consists of three levels: Level 1 fair

values are valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipping and handling costs are classified as a component of cost of net revenues in the consolidated statements of operations. The Company reviews the components of its inventory and its inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by the Company or its customers that vary from its current expectations. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if market conditions improve.

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

#### *Property and Equipment*

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

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

#### *Intangible Assets*

Intangible assets include purchased intangible assets acquired from Enfora, Inc. (“Enfora”) on November 30, 2010 and the costs of non-exclusive and perpetual worldwide software technology licenses. These costs are amortized on an accelerated basis or on a straight-line basis over the estimated useful lives of the assets, depending on the anticipated utilization of the asset. The majority of intangible assets relate to the developed technologies and trade name resulting from the acquisition of Enfora. Developed technologies are amortized on a straight-line basis over the remaining one year useful life. Trade name is amortized on a straight-line basis over the remaining useful life of three years.

#### *Long-Lived Assets*

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

#### *Goodwill*

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill is allocated as of the date of the business combination to the reporting units that are expected to benefit from the synergies of the business combination. Goodwill is considered to be impaired if the Company determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds its estimated fair value. As of December 31, 2014, all historical goodwill had been fully impaired.

### *Revenue Recognition*

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

Predominantly all of our revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. The Company records revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations such as warranty obligations. The Company considers the four basic revenue recognition criteria discussed under Staff Accounting Bulletin No. 104 when assessing appropriate revenue recognition as follows:

Criterion #1—Persuasive evidence of an arrangement must exist;

Criterion #2—Delivery has occurred;

Criterion #3—The Company's price to the buyer must be fixed or determinable; and,

Criterion #4—Collectability is reasonably assured.

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

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

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

For the years ended December 31, 2014, 2013 and 2012, we have not recorded any significant revenues from multiple element or software arrangements.

### *Research and Development Costs*

Research and development costs are expensed as incurred.

### *Warranty Costs*

The Company accrues warranty costs based on estimates of future warranty related replacement, repairs or rework of products. Our warranty policy generally provides one to three years of coverage for products following the date of purchase. The Company's policy is to accrue the estimated cost of warranty coverage as a component of cost of revenue in the

accompanying consolidated statements of operations at the time revenue is recognized. In estimating our future warranty obligations the Company considers various factors, including the historical frequency and volume of claims and the cost to replace or repair products under warranty. The warranty provision for our products is determined by using a financial model to estimate future warranty costs. The Company's financial model takes into consideration actual product failure rates; estimated replacement, repair or rework expenses; and potential risks associated with our different products. The risk levels, warranty cost information and failure rates used within this model are reviewed throughout the year and updated, if and when, these inputs change.

#### *Income Taxes*

The Company recognizes federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Uncertain tax positions are recognized in the first subsequent financial reporting period in which that threshold is met or from changes in circumstances such as the expiration of applicable statutes of limitations.

#### *Litigation*

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

#### *Share-Based Compensation*

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

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

The expected term of stock options granted is estimated using historical experience. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options and employee stock purchase rights.

The dividend yield assumption is based on the Company's history and expectation of no dividend payouts. The Company estimates forfeitures at the time of grant and revises these estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates its forfeiture rate assumption for all types of share based compensation awards based historical forfeiture rates related to each category of award.

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

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

The Company evaluates the assumptions used to value stock awards on a quarterly basis. If factors change and the Company employs different assumptions, share-based compensation expense may differ significantly from what it has recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense.

#### *Computation of Net Loss Per Share Attributable to Common Shareholders*

The Company computes basic and diluted per share data for all periods for which a statement of operations is presented. Basic net loss per share excludes dilution and is computed by dividing the net loss by the weighted-average number of shares that were outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to acquire common stock were exercised or converted into common stock. Potential dilutive securities are excluded from the diluted EPS computation in loss periods as their effect would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

#### *Fair Value of Financial Instruments*

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

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

#### *Comprehensive Loss*

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

#### *Recent Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the "FASB"), which are adopted by the Company as of the specified date. Unless otherwise discussed, management believes the impact of recently issued standards, which are not yet effective, will not have a material impact on its consolidated financial statements upon adoption.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Under the new guidance, management will be required to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods beginning after December 15, 2016, and for annual and interim periods thereafter. The Company is currently evaluating the potential changes from this ASU to its future financial reporting and disclosures.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Entities are required to apply the standard for annual periods and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is currently assessing the impact of this new guidance.



In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires a reporting entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This standard will be effective for annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of this new guidance.

## 2. Fair Value Measurement of Assets and Liabilities

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

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

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

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

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

At December 31, 2014, the Company did not have any securities in the Level 3 category. The Company reviews the fair value hierarchy classification on a quarterly basis. We validate the quoted market prices provided by our primary pricing service by comparing their assessment of the fair values of our investments by using a third party investment manager. The third party investment manager uses similar techniques to our primary pricing service to derive the pricing describe above. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

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, 2014 (in thousands):

Description	Balance as of December 31, 2014	Level 1	Level 2
Assets:			
Cash equivalents			
Money market funds	\$ 1,134	\$ 1,134	\$ —
Certificates of deposit	980	—	980
Total cash equivalents	\$ 2,114	\$ 1,134	\$ 980

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, 2013 (in thousands):

<u>Description</u>	<u>Balance as of December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Assets:</b>			
Cash equivalents			
US Treasury securities	\$ 487	\$ —	\$ 487
Total cash equivalents	487	—	487
Short-term marketable securities:			
Available-for-sale:			
Government agency securities	2,351	—	2,351
Municipal bonds	2,829	—	2,829
Certificates of deposit	3,360	—	3,360
Corporate debentures / bonds	10,638	—	10,638
Total short-term marketable securities	19,178	—	19,178
Long-term marketable securities:			
Available-for-sale:			
Certificates of deposit	1,300	—	1,300
Corporate debentures / bonds	2,143	—	2,143
Total long-term marketable securities	3,443	—	3,443
Total financial assets	\$ 23,108	\$ —	\$ 23,108

As of December 31, 2014, the Company had no short- or long-term marketable securities.

As of December 31, 2014 and 2013, the Company had no outstanding foreign currency exchange forward contracts.

During the years ended December 31, 2014, 2013 and 2012, the Company recorded foreign currency losses on foreign currency denominated transactions of approximately \$176,000, \$183,000 and \$51,000, respectively. The loss during the years ended December 31, 2014 and 2013 primarily related to foreign currency losses on foreign currency denominated bank accounts. The loss during the year ended December 31, 2012 primarily related to foreign currency losses on South Korean won denominated trade payables.

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

### ***Other Financial Instruments***

Carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets are as follows (in thousands):

<u>Description</u>	<u>As of December 31, 2014</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Revolving credit facility	\$ 5,158	\$ 5,158
Total other financial instruments	\$ 5,158	\$ 5,158

### **3. Financial Statement Details**

#### *Marketable Securities*

The Company did not have any short-term or long-term marketable securities at December 31, 2014.

The following table summarizes the Company's portfolio of available-for-sale securities by contractual maturity as of December 31, 2013 (in thousands):

December 31, 2013	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:					
Government agency securities	1 or less	\$ 2,350	\$ 1	\$ —	\$ 2,351
Municipal bonds	1 or less	2,828	1	—	2,829
Certificates of deposit	1 or less	3,360	—	—	3,360
Corporate debentures / bonds	1 or less	10,635	3	—	10,638
Total short-term marketable securities		<u>19,173</u>	<u>5</u>	<u>—</u>	<u>19,178</u>
Available-for-sale:					
Certificates of deposit	1 to 2	1,300	—	—	1,300
Corporate debentures / bonds	1 to 2	2,143	—	—	2,143
Total long-term marketable securities		<u>3,443</u>	<u>—</u>	<u>—</u>	<u>3,443</u>
		<u>\$ 22,616</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 22,621</u>

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

At December 31, 2014 and 2013, the Company recorded net unrealized gains of \$0 and \$5,000, respectively. The Company's net unrealized loss is the result of market conditions affecting its fixed-income debt securities, which are included in accumulated other comprehensive income on the consolidated balance sheet for the periods then ended.

#### *Inventories*

Inventories consist of the following (in thousands):

	December 31,	
	2014	2013
Finished goods	\$ 33,045	\$ 20,870
Raw materials and components	4,758	6,923
	<u>\$ 37,803</u>	<u>\$ 27,793</u>

#### *Property and Equipment*

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

	December 31,	
	2014	2013
Test equipment	\$ 53,019	\$ 52,108
Computer equipment and purchased software	11,247	10,814
Product tooling	3,535	3,204
Furniture and fixtures	1,824	2,015
Leasehold improvements	4,103	4,094
	<u>73,728</u>	<u>72,235</u>
Less—accumulated depreciation and amortization	(68,449)	(62,334)
	<u>\$ 5,279</u>	<u>\$ 9,901</u>

For the years ended December 31, 2014, 2013 and 2012, the Company recorded \$0, \$70,000 and \$100,000, respectively, in its cost of net revenues as a result of its impairment analysis of property and equipment.

Depreciation expense relating to property and equipment was \$6.3 million, \$7.9 million and \$9.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2014	2013
Royalties	\$ 4,035	\$ 4,243
Payroll and related expenses	8,038	4,828
Product warranty	1,196	2,244
Market development funds and price protection	2,502	3,059
Professional fees	780	1,040
Deferred revenue	962	2,999
Restructuring	1,886	610
Other	4,445	4,248
	<u>\$ 23,844</u>	<u>\$ 23,271</u>

### Accrued Warranty Obligations

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

	December 31,	
	2014	2013
Warranty liability at beginning of period	\$ 2,244	\$ 2,329
Additions charged to operations	1,345	5,055
Deductions from liability	(2,393)	(5,140)
Warranty liability at end of period	<u>\$ 1,196</u>	<u>\$ 2,244</u>

## 4. Intangible Assets

The Company's amortizable purchased intangible assets resulting from its 2010 acquisition of Enfora are composed of (in thousands):

	Years ended December 31,							
	2014				2013			
	Gross	Accumulated Amortization	Accumulated Impairment	Net	Gross	Accumulated Amortization	Impairment	Net
Developed technologies	\$ 26,000	\$ (6,453)	\$ (19,547)	\$ —	\$ 26,000	\$ (6,120)	\$ (19,547)	\$ 333
Trade name	12,800	(3,183)	(8,582)	1,035	12,800	(2,665)	(8,582)	1,553
Other	3,720	(2,011)	(1,620)	89	3,720	(1,967)	(1,620)	133
Total amortizable purchased intangible assets	<u>\$ 42,520</u>	<u>\$ (11,647)</u>	<u>\$ (29,749)</u>	<u>\$ 1,124</u>	<u>\$ 42,520</u>	<u>\$ (10,752)</u>	<u>\$ (29,749)</u>	<u>\$ 2,019</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):

	Years ended December 31,	
	2014	2013
Cost of net revenues	\$ 333	\$ 334
General and administrative expenses	562	562
Total amortization expense	<u>\$ 895</u>	<u>\$ 896</u>

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

Fiscal year:	Amount
2015	\$ 562
2016	562
Total	<u>\$ 1,124</u>

Additionally, at December 31, 2014 and 2013, the Company had net acquired software licenses and other intangibles of \$369,000 and \$112,000, respectively, net of accumulated amortization of \$2.4 million and \$2.2 million, respectively. The acquired software licenses represent rights to use certain software necessary for the development and commercial sale of the Company's products.

The Company monitors its intangible and long-lived asset balances and conducts formal tests when impairment indicators are present. There was no impairment loss recorded for the year ended December 31, 2014 and 2013. For the year ended December 31, 2012, the Company recorded an impairment loss of \$49.5 million.

Amortization expense relating to acquired software licenses and other intangibles was \$173,000, \$113,000 and \$196,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Amortization expense related to licenses obtained for research purposes is recorded within research and development expense in the consolidated statements of operations. Amortization expense related to licenses obtained for commercial products is recorded in cost of net revenues in the consolidated statements of operations.

At December 31, 2014, the weighted average remaining useful life of the Company's long-lived intangible assets including acquired software licenses is 2.0 years.

## 5. Derivative Financial Instruments

The Company evaluates stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for under the relevant sections of FASB Accounting Standards Codification. The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative financial instrument and is marked-to-market at each balance sheet date and recorded as an asset or liability. In the event that the fair value is recorded as an asset or liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion, exercise or expiration of a derivative financial instrument, the instrument is marked to fair value and then that fair value is reclassified to equity.

Certain of the Company's outstanding warrants were treated as derivative liabilities for accounting purposes due to insufficient authorized shares to settle these outstanding contracts at the time of issuance. These common stock purchase warrants did not trade in an active securities market. The Company estimated the fair value of these warrant liabilities using a Monte Carlo simulation option pricing model.

## 6. Revolving Credit Facility

On October 31, 2014, the Company and one of its subsidiaries entered into a five-year senior secured revolving credit facility in the amount of \$25.0 million (the "Revolver") with Wells Fargo Bank, National Association, as lender.

The amount of borrowings that may be made under the Revolver is based on a borrowing base comprised of a specified percentage of eligible receivables. If, at any time during the term of the Revolver, the amount of borrowings outstanding under the Revolver exceeds the borrowing base then in effect or the maximum revolver amount of \$25.0 million, the Company is required to repay such borrowings in an amount sufficient to eliminate such excess. The Revolver includes \$3.0 million of availability for letters of credit.

The Company may borrow funds under the Revolver from time to time, with interest payable monthly at a base rate determined by using the daily three month LIBOR rate, plus an applicable margin of 2.50% to 3.00% depending on the Company's liquidity as determined on the last day of each calendar month. The Revolver is secured by a first priority lien on substantially all of the assets of the Company and certain of its subsidiaries, subject to certain exceptions and permitted liens. The Revolver includes customary representations and warranties, as well as customary reporting and financial covenants.

At December 31, 2014, the balance of the revolving credit facility was approximately \$5.2 million, with a weighted average effective interest rate of 2.8% and the Company had available borrowings of approximately \$12.1 million. At December 31, 2014, the Company was in compliance with all financial covenants contained in the credit agreement.

## 7. Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. Potentially dilutive securities (consisting of warrants, options and restricted stock units (“RSUs”) and employee stock purchase plan (“ESPP”) withholdings calculated 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.

Weighted average options, restricted stock units, warrants and ESPP shares to acquire a total of 8,130,000 shares, 4,424,000 shares and 5,793,000 shares of common stock for the years ended December 31, 2014, 2013 and 2012, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands except per share amounts)		
<b>Numerator</b>			
Net loss attributable to common shareholders:	\$ (39,674)	\$ (43,413)	\$ (89,266)
<b>Denominator</b>			
Weighted-average common shares outstanding	37,959	33,948	32,852
Basic and diluted net loss per share attributable to common shareholders	\$ (1.05)	\$ (1.28)	\$ (2.72)

## 8. Stockholders' Equity

### *Preferred Stock*

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

### *Common Shares Reserved for Future Issuance*

The Company has reserved shares of common stock for possible future issuance as of December 31, 2014 and 2013 as follows (in thousands):

	Shares	
	2014	2013
Common stock warrants outstanding	4,118	—
Stock options outstanding under the 2009 Omnibus Incentive Compensation Plan and previous plans	3,065	3,933
Restricted stock units outstanding	1,629	1,108
Future grants of awards under the 2009 Omnibus Incentive Compensation Plan	4,463	3,668
Shares available under the Employee Stock Purchase Plan	1,385	1,500
Total shares of common stock reserved for issuance	14,660	10,209

## 9. Stock Incentive and Employee Stock Purchase Plans

During the year ended December 31, 2014, the Company granted awards under the 2009 Omnibus Incentive Compensation Plan (the “2009 Plan”). The Compensation Committee of the Board of Directors administers the plan.

Under the 2009 Plan, a maximum of 10.0 million shares of common stock may be issued upon the exercise of stock options, in the form of restricted stock, or in settlement of restricted stock units or other awards, including awards with alternative vesting schedules such as performance-based criteria.

For the years ended December 31, 2014, 2013 and 2012, the following table presents total share-based compensation expense in each functional line item on our consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Cost of revenues	\$ 5	\$ 84	\$ 747
Research and development	654	1,114	3,042
Sales and marketing	247	669	1,403
General and administrative	2,682	1,576	2,308
<b>Totals</b>	<b>\$ 3,588</b>	<b>\$ 3,443</b>	<b>\$ 7,500</b>

Included in share-based compensation for the year ended December 31, 2014 is approximately \$1.3 million of share-based compensation related to the departure of the Company's former Chief Executive Officer and the vesting of all of his restricted stock units and options immediately upon his departure in accordance with the terms of his employment agreement.

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

	Employee Stock Options			Employee Stock Purchase Rights		
	2014	2013	2012	2014	2013	2012
Expected dividend yield:	—%	—%	—%	—%	—%	—%
Risk-free interest rate:	1.4%	0.8%	0.9%	5.4%	—%	0.2%
Volatility:	80%	63%	63%	53%	—%	68%
Expected term (in years):	4.6	6	6	0.4	0.0	1.3

#### *Stock Options*

The Compensation Committee of the Board of Directors determines eligibility, vesting schedules and exercise prices for options granted. Options granted under the 2009 Plan and previous plans generally have a term of ten years, and in the case of new hires, generally vest and become exercisable at the rate of 33.3% after one year and ratably on a monthly basis over a period of 24 months thereafter. Subsequent option grants to existing employees generally have the same terms.

A summary of stock option activity for the years ended December 31, 2014 and 2013 is presented below (dollars and shares in thousands, except per share data):

	Stock Options Outstanding	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding December 31, 2012	4,282	\$ 10.25		
Granted	425	2.10		
Exercised	(38)	2.68		
Cancelled	(736)	10.21		
Options outstanding December 31, 2013	3,933	\$ 9.45		
Granted	1,658	2.92		
Exercised	(89)	2.17		
Cancelled	(2,437)	10.52		
Balance December 31, 2014	3,065	\$ 5.27	4.92 years	\$ 1,022
Options Exercisable, December 31, 2014	1,769	\$ 6.80	4.99 years	\$ 449

The total intrinsic value of options exercised to purchase common stock during the years ended December 31, 2014, 2013 and 2012 was approximately \$96,000, \$44,000 and \$0, respectively. As of December 31, 2014, total unrecognized share-based compensation cost related to unvested stock options was \$1,777,000, which is expected to be recognized over a weighted average period of approximately 2.7 years. The total fair value of option awards recognized as expense during the years ended December 31, 2014, 2013 and 2012 was approximately \$776,000, \$0.8 million and \$1.7 million, respectively. The weighted

average fair value of option awards granted during years ended December 31, 2014, 2013 and 2012 was \$1.48, \$1.20 and \$1.97, respectively.

#### *Restricted Stock Units*

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

During 2014, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 2,658,956 RSUs at fair values ranging from \$1.60 per share to \$3.55 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment with the Company through such date. Based on the fair value of the Company’s common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately \$5.7 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

During 2013, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 447,703 RSUs at fair values ranging from \$1.74 per share to \$4.17 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment with the Company through such date. Based on the fair value of the Company’s common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately \$0.9 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

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

A summary of restricted stock unit activity for the year ended December 31, 2014 is presented below (shares in thousands):

	<u>Shares</u>
Non-vested at December 31, 2013	1,108
Granted	2,659
Vested	(1,207)
Forfeited	(931)
Non-vested at December 31, 2014	<u>1,629</u>

As of December 31, 2014, there was \$3.0 million of unrecognized compensation expense related to non-vested RSUs. That expense is expected to be recognized over a weighted average period of 2.7 years. The total fair value of RSUs recognized as expense during the years ended December 31, 2014, 2013 and 2012 was \$2.9 million, \$2.6 million and \$3.4 million, respectively.

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

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

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

The Company reinstated the ESPP program effective as of August 16, 2014. The reinstated ESPP authorizes the Company to issue 1,500,132 shares of common for purchase by eligible employees.

During the years ended December 31, 2014, 2013 and 2012, the Company issued 114,791 shares, 0 shares and 1,086,837 shares, respectively, under the ESPP. During the years ended December 31, 2014, 2013 and 2012, the Company received \$192,000, \$0 and \$1.6 million, respectively, in cash through employee withholdings.



The total fair value of ESPP awards recognized as expense during the years ended December 31, 2014, 2013 and 2012 was \$101,000, \$0 and \$1.4 million, respectively.

## **10. Securities Purchase Agreement**

On September 3, 2014, the Company entered into a Purchase Agreement (the "Purchase Agreement") with HC2 Holdings 2, Inc., a Delaware corporation (the "Investor"), pursuant to which, on September 8, 2014, the Company sold to the Investor (i) 7,363,334 shares of the Company's common stock, par value \$0.001 per share, (ii) a warrant to purchase 4,117,647 shares of common stock at an exercise price of \$2.26 per share (the "Warrant") and (iii) 87,196 shares of the Company's Series C Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), all at a purchase price of (a) \$1.75 per share of common stock plus, in each case, the related Warrant and (b) \$17.50 per share of Series C Preferred Stock, for aggregate gross proceeds of approximately \$14.4 million (collectively, the "Financing").

Certain terms of the Warrant and the Series C Preferred Stock were dependent upon the approval by the Company's stockholders of (i) an increase in the total number of authorized shares of common stock to 100,000,000 shares and (ii) the issuance and sale of the securities pursuant to the Purchase Agreement (including the issuance of all shares of common stock issuable upon the full conversion of the Series C Preferred Stock issued pursuant to the Purchase Agreement and the full exercise of the Warrant) and any change of control that may be deemed to occur as a result of such issuance and sale pursuant to the applicable rules of The NASDAQ Stock Market LLC (together, the "Stockholder Approval"). This Stockholder Approval was obtained on November 17, 2014, at a Special Meeting of the Company's stockholders.

In connection with the issuance of 7,363,334 shares of common stock to the Investor, the Company unreserved 1,651,455 shares of common stock previously approved for issuance pursuant to the Company's 2009 Omnibus Incentive Compensation Plan and 1,300,000 shares of common stock previously approved for issuance pursuant to the Company's 2000 ESPP. Accordingly, these shares were not available for grants under the respective plans until the Company's Stockholders approved an increase in the total number of authorized shares of common stock.

### ***Warrant***

In connection with the above transaction the Company issued a Warrant to purchase 4,117,647 shares of common stock at an exercise price of \$2.26 per share to the Investor. Pursuant to the terms of the Warrant, the Warrant will generally only be exercisable on a cash basis. However, the Warrant may be exercisable on a cashless basis if and only if a registration statement relating to the issuance of the shares underlying the Warrant is not then effective or an exemption from registration is not available. Subject to certain limitations, the Warrant will be exercisable into shares of common stock during the period commencing on March 8, 2015 and ending on September 8, 2019, the expiration date of the Warrant. The Warrant may be exercised by surrendering to the Company the warrant certificate evidencing the Warrant to be exercised with the accompanying exercise notice, appropriately completed, duly signed and delivered, together with cash payment of the exercise price, if applicable.

The exercise price and the number of shares of common stock issuable upon exercise of the Warrant are subject to adjustment upon certain corporate events, including certain combinations, recapitalizations, reorganizations, reclassifications, stock dividends and stock splits. In the event of an extraordinary transaction, as described in the Warrant and generally including any merger with or into another entity, sale of all or substantially all of the Company's assets, tender offer or exchange offer, or reclassification of the common stock, each Warrant will automatically be converted into the right to receive, for each share of common stock that would have been issuable upon exercise of such Warrant immediately prior to such transaction, the same kind and amount of securities, cash or property as the holder would have been entitled to receive if the holder had been the holder of common stock immediately prior to the occurrence of such transaction. No fractional shares will be issued upon exercise of the Warrant. The Warrant does not confer upon its holder any voting or other rights as a stockholder of the Company.

Due to insufficient authorized shares to satisfy the exercise of the instrument in full at the time of issuance, the Company determined that the instrument should be treated as a derivative instrument as of September 30, 2014. Liability classification was required because share settlement was not within the control of the Company and the Warrant was not considered to be "indexed to the company's own stock" and therefore did not qualify for the exemptions provided by ASC 815.

On November 17, 2014, at a Special Meeting of the Stockholders the Company received Stockholder Approval to increase the number of authorized shares of the Company's common stock from 50,000,000 shares to 100,000,000 shares, and accordingly, the Company marked to fair value the above described Warrant instrument and then reclassified that fair value of \$8,219,000 to additional paid-in-capital.

Because the Warrant has no comparable market data to determine fair value, the Company hired an independent valuation firm to assist with the valuation of the Warrant. The primary factors used to determine the fair value include: (i) the fair value of the Company's common stock; (ii) the volatility of the Company's common stock; (iii) the risk free interest rate; (iv) the estimated likelihood and timing of exercise; and (v) the estimated likelihood and timing of a future financing arrangement.

Increases in the market value of the Company's common stock and volatility, which have the most impact on the fair value of the Warrant, would cause the fair value of the Warrant to change. Because of the significant unobservable inputs used to calculate fair value the Company has classified the Warrant as a Level 3 measurement. The Warrant was measured at fair value on a recurring basis including a final remeasurement immediately preceding its reclassification to additional paid-in-capital on November 17, 2014. Unrealized gains and losses on items measured at fair value are recognized in earnings as other income/ (expense). The Company incurred an expense of \$3.3 million for the twelve months ended December 31, 2014 related to the Warrant as a result of an increase in the market value of the Company's common stock.

The following table shows the change to the fair value of the Warrant during the twelve months ended December 31, 2014 (in thousands):

Warrant Derivative Liability	
Balance at September 8, 2014 (Transaction Date)	\$ 4,939
Change in fair value	3,280
Balance at November 17, 2014 (Shareholder Approval Date)	8,219
Reclassification to additional paid-in-capital	(8,219)
Ending balance at December 31, 2014	\$ —

### ***Contingently Redeemable Convertible Series C Preferred Stock***

In connection with the Financing the Company issued 87,196 shares of Series C Preferred Stock at \$17.50 per share, initially convertible, subject to adjustments, into 871,960 shares of common stock.

On November 17, 2014, at a Special Meeting of the Stockholders, the Company received stockholder approval to increase the number of authorized shares of the Company's common stock from 50,000,000 shares to 100,000,000 shares and each share of Series C Preferred Stock then outstanding automatically converted into the number of shares of common stock by the conversion rate then in effect. Accordingly, each share of Series C Preferred Stock was converted into ten shares of common stock and upon conversion the Company reclassified the Series C Preferred Stock out of mezzanine equity into permanent equity and recognized a beneficial conversion feature ("BCF") of \$445,000 in equity due to the resolution of the contingent BCF embedded within the Series C Preferred Stock.

## **11. Income Taxes**

Income (loss) before taxes for the years ended December 31, 2014, 2013 and 2012 is comprised of the following (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Domestic	\$ (39,513)	\$ (44,142)	\$ (88,945)
Foreign	408	812	290
Loss before taxes	\$ (39,105)	\$ (43,330)	\$ (88,655)

The provision (benefit) for income taxes for the years ended December 31, 2014, 2013 and 2012 is comprised of the following (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ —	\$ (248)	\$ —
State	21	33	29
Foreign	16	(229)	74
<b>Total Current</b>	<b>37</b>	<b>(444)</b>	<b>103</b>
Deferred:			
Federal	—	53	14
State	—	—	—
Foreign	87	474	494
<b>Total Deferred</b>	<b>87</b>	<b>527</b>	<b>508</b>
<b>Provision or income taxes</b>	<b>\$ 124</b>	<b>\$ 83</b>	<b>\$ 611</b>

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

	December 31,	
	2014	2013
Deferred tax assets:		
Accrued expenses	\$ 4,566	\$ 11,292
Inventory obsolescence provision	2,352	3,539
Depreciation and amortization	4,137	4,136
Deferred rent	555	559
Net operating loss and tax credit carryforwards	76,346	55,010
Stock-based compensation	1,910	4,518
Unrecognized tax benefits	1,296	1,190
<b>Deferred tax assets</b>	<b>91,162</b>	<b>80,244</b>
Deferred tax liabilities:		
Amortization of acquired intangibles	(388)	(699)
<b>Net deferred tax assets</b>	<b>90,774</b>	<b>79,545</b>
Valuation allowance	(90,774)	(79,458)
<b>Net deferred tax assets</b>	<b>\$ —</b>	<b>\$ 87</b>

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 carryforwards. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

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

After a review of the four sources of taxable income described above and after being in a three year cumulative loss position at the end of 2014, the Company recognized a full valuation allowance.

During 2014 and 2013, the Company recognized valuation allowances of \$11.3 million and \$15.6 million, related to its U.S.-based and Canadian deferred tax assets created in those respective years. As a result, no net income tax benefits resulted in the Company's statements for operations from the operating losses created during those years.

At December 31, 2014, the deferred tax asset valuation allowance consisted of \$86.0 million relating to the Company's domestic deferred tax assets and \$4.8 million related to the Company's Canadian deferred tax assets. At December 31, 2013, the valuation allowance consisted of \$74.7 million relating to the Company's domestic deferred tax assets and \$4.7 million related to the Company's Canadian deferred tax assets.

The provision (benefit) for income taxes reconciles to the amount computed by applying the statutory federal income tax rate of 34% in 2014, 2013 and 2012 to income (loss) before provision for income taxes as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Federal tax benefit, at statutory rate	\$ (13,447)	\$ (14,732)	\$ (30,142)
State benefit, net of federal benefit	(1,054)	(922)	(757)
Change in valuation allowance	11,316	15,577	27,486
Change in fair value of warrant	1,203	—	—
Beneficial conversion feature	163	—	—
Research and development credits	3	(1,084)	(856)
Share-based compensation	2,402	2,433	1,616
Uncertain tax positions	(62)	(307)	(46)
Goodwill impairment	—	—	3,700
Change in state apportionment	(347)	(767)	—
Other	(53)	(115)	(390)
	<u>\$ 124</u>	<u>\$ 83</u>	<u>\$ 611</u>

At December 31, 2014, the Company has U.S. federal net operating loss carryforwards of approximately \$174.3 million. Federal net operating loss carryforwards expire at various dates from 2029 through 2034. The Company has California net operating loss carryforwards of approximately \$67.1 million, which expire at various dates from 2017 through 2034. The Company has California research and development tax credit carryforwards of approximately \$5.4 million. The California tax credits have no expiration date. The Company also has federal research and development tax credit carryforwards of approximately \$4.3 million. The federal tax credits expire at various dates from 2027 through 2034.

Pursuant to Internal Revenue Code (IRC) Sections 382 and 383, annual use of the Company's net operating loss and research and development credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. The Company is in the process of completing an IRC Section 382/383 analysis and expects to have this analysis completed within the next three months. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

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

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. During the years ended December 31, 2014 and 2013, the Company recognized approximately \$61,000 and \$71,000, respectively, of income tax benefit plus \$0 and \$236,000, respectively, of associated interest due to expiration of the applicable statutes of limitations applicable to certain tax years. As of December 31, 2014 and 2013, the total liability for unrecognized tax benefits was \$0 and \$61,000, respectively, and is included in other long-term liabilities.

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

	<b>Amount</b>
Unrecognized tax benefits balance at December 31, 2012	\$ 33,220
Increases related to current and prior year tax positions	2,653
Settlements and lapses in statutes of limitations	(373)
Unrecognized tax benefits balance at December 31, 2013	35,500
Increases related to current and prior year tax positions	204
Settlements and lapses in statutes of limitations	(61)
Unrecognized tax benefits balance at December 31, 2014	<u>\$ 35,643</u>

There are no tax benefits that, if recognized, would affect the effective tax rate that are included in the balances of unrecognized tax benefits at December 31, 2014.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2014, the same as in 2013, the Company recorded \$0 of accrued interest related to uncertain tax positions.

The Company and its subsidiaries file U.S., state, and foreign income tax returns in jurisdictions with various statutes of limitations. In the fourth quarter of 2014, the Company reduced its uncertain tax liability by approximately \$61,000, due to the expiration of the statute of limitations applicable to the 2009 taxable year. The Company is also subject to various federal income tax examinations for the 2003 through 2013 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.

## 12. Commitments and Contingencies

### *Operating Leases*

The Company leases its office space and certain equipment under non-cancellable operating leases with various terms through 2017. The minimum annual rent on the Company's office space is subject to increases based on stated rental adjustment terms, property taxes and operating costs and contains rent concessions. For financial reporting purposes, rent expense is recognized on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as deferred rent. Rental expense under operating leases in 2014, 2013 and 2012 was \$3.0 million, \$4.1 million and \$4.5 million, respectively. The Company's office space lease contains incentives in the form of reimbursement from the landlord for a portion of the costs of leasehold improvements incurred by the Company which are recorded to rent expense on a straight-line basis over the term of the lease.

The minimum future lease payments under non-cancellable operating leases as of December 31, 2014 are as follows (in thousands):

<b>For the Period Ending December 31,</b>	<b>Amount</b>
2015	\$ 2,744
2016	2,749
2017	537
2018	436
2019	433
Thereafter	221
Total minimum lease payments	<u>\$ 7,120</u>

### *Committed Purchase Orders*

The Company has entered into purchase commitments totaling approximately \$55.0 million with certain contract manufacturers under which the Company has committed to buy a minimum amount of designated products between January 2015 and December 2015. In certain of these agreements, the Company may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

### *Employee Retention Matters*

In connection with the Company's turnaround efforts, and to retain and encourage employees to assist the Company with its efforts, the Company's Compensation Committee approved an all-employee retention bonus plan ("2014 Retention Bonus Plan") based on achieving certain financial and cash targets. The financial metrics must be met for two consecutive quarter periods during the three quarter periods ending March 31, 2015. At December 31, 2014, the Company accrued approximately \$5.5 million of the maximum total target bonus expense based on the Company's financial results for the quarter ended December 31, 2014 and the assessment of the probability of the achievement of the remaining metrics in March 31, 2015. The bonus is being recognized over the requisite service period and the total estimated expense under the 2014 Retention Bonus Plan is \$11.0 million in the event the remaining metrics are achieved on March 31, 2015.

### *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 some 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 an evaluation of these matters and discussions with the Company's intellectual property litigation counsel, the Company believes that liabilities arising from or sums paid in settlement of these existing matters would not have a material adverse effect on its consolidated results of operations or financial condition.

On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the U.S. District Court for the Southern District of California (the "Court") on behalf of alleged stockholders of the Company. On December 11, 2008, these lawsuits were consolidated into a single action and in May 2010, the consolidated lawsuits were captioned the case *In re Novatel Wireless Securities Litigation* (the "Litigation"). The Litigation was filed on behalf of persons who purchased the Company's common stock between February 27, 2007 and September 15, 2008.

On June 23, 2014, the Court entered its judgment approving a final settlement agreement with respect to the Litigation. The settlement agreement does not admit any liability, and the Company and the individual defendants continue to deny any and all liability. Under the terms of the settlement agreement, the plaintiff class agreed to settle all claims asserted in the Litigation and granted the defendants and released parties a full and complete release in exchange for (i) a cash payment of \$6.0 million to the plaintiff's class, approximately \$1.7 million of which was to be funded by the Company's insurers, (ii) the issuance of unrestricted and freely tradable shares of the Company's stock with an aggregate value of \$5.0 million and (iii) the issuance of a \$5.0 million secured promissory note, which such note shall have a 30-month maturity, carrying interest at 5% per annum, payable quarterly, and being secured by the accounts receivable of the Company.

On July 1, 2014, the Company and the individual defendants filed a motion to amend the judgment entered on June 23, 2014, specifically requesting the Court to amend the effective date of such judgment to June 20, 2014 - the date the court held the final approval hearing. The Court granted this motion on July 8, 2014, and the judgment date was deemed entered on June 20, 2014.

On July 8, 2014, the Company funded the cash portion of the settlement with \$4.3 million of Company cash and \$1.7 million previously funded into escrow by the Company's insurers. On July 17, 2014, the Company issued 2,407,318 unrestricted shares of the Company's common stock to the class members in satisfaction of the \$5.0 million stock payment. The Company also issued a \$5.0 million secured promissory note on July 8, 2014, which was paid off by the Company during the fourth quarter of 2014.

On November 17, 2014, the Court granted Plaintiff's motion to enforce the Settlement and the Court agreed with the Plaintiffs to use an intra-day trading price of the Company's stock for valuation purposes and not the closing price, and accordingly, the Company owed \$789,600 which was paid by the Company on December 16, 2014.

As of December 31, 2014, there were no further liabilities accrued in connection with the Litigation.

### *Credit Facility*

On October 31, 2014, the Company and one of its subsidiaries entered into the Revolver with Wells Fargo Bank, National Association. The amount of borrowings that may be made under the Revolver are based on a borrowing base and are comprised of a specified percentage of eligible receivables. If, at any time during the term of the Revolver, the amount of borrowings outstanding under the Revolver exceeds the borrowing base then in effect or the maximum revolver amount of

\$25.0 million, the Company is required to repay such borrowings in an amount sufficient to eliminate such excess. the Revolver includes \$3.0 million of availability for letters of credit. At December 31, 2014, the balance of the revolving credit facility was approximately \$5.2 million and the Company had available borrowings of approximately \$12.1 million. At December 31, 2014, the Company was in compliance with all financial covenants contained in the credit agreement. (see Note 6)

Under the terms of the Revolver, we are prohibited from declaring or paying any cash dividends on our common stock.

On November 19, 2014, the Company terminated its existing margin credit facility with one of the banks that held the Company's marketable securities. Borrowings under this facility were collateralized by the Company's cash and cash equivalents and marketable securities on deposit at the bank. During the twelve months ended December 31, 2014, the Company did not borrow against the facility and had no outstanding borrowings under this facility at December 31, 2014.

### 13. Segment Information and Concentrations of Risk

#### *Segment Information*

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

The Mobile Computing Products segment includes the Company's MiFi brand of Intelligent Mobile Hotspot devices, USB modems and embedded modules that enable data transmission and services via cellular wireless networks. All products within the segment represent a single product family.

The M2M Products and Solutions segment includes the Company's M2M embedded modules, integrated M2M communications devices and our service delivery platform, the N4A™ DM and N4A™ CMS that provides easy device management and service enablement.

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

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

	Year Ended December 31,		
	2014	2013	2012
<b><u>Net revenues by reportable segment:</u></b>			
Mobile Computing Products	\$ 145,500	\$ 297,499	\$ 312,508
M2M Products and Solutions	39,745	37,554	31,780
Total	<u>\$ 185,245</u>	<u>\$ 335,053</u>	<u>\$ 344,288</u>
<b><u>Operating loss:</u></b>			
Mobile Computing Products	\$ (23,339)	\$ (27,939)	\$ (22,924)
M2M Products and Solutions	(12,234)	(15,282)	(65,819)
Total	<u>\$ (35,573)</u>	<u>\$ (43,221)</u>	<u>\$ (88,743)</u>
	Year Ended December 31,		
	2014	2013	
<b><u>Identifiable assets by reportable segment:</u></b>			
Mobile Computing Products	\$ 79,368	\$ 96,516	
M2M Products and Solutions	15,652	14,949	
Total	<u>\$ 95,020</u>	<u>\$ 111,465</u>	

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

	Year Ended December 31,	
	2014	2013
United States	\$ 91,843	\$ 108,932
Canada	587	808
Europe, Latin America and Asia	2,590	1,725
	<u>\$ 95,020</u>	<u>\$ 111,465</u>

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

	Year Ended December 31,		
	2014	2013	2012
United States and Canada	91.2%	95.6%	93.1%
Latin America	1.0	0.8	2.4
Europe, Middle East, Africa and other	6.6	3.4	4.1
Asia and Australia	1.2	0.2	0.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

#### *Concentrations of Risk*

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

A significant portion of the Company's net revenues come from a small number of customers. One customer accounted for 51.6% , 58.0% and 57.5% of 2014, 2013 and 2012 net revenues, respectively. All significant customers are included in the Company's Mobile Computing Products segment.

A significant portion of the Company's accounts receivables comes from a small number of customers. At December 31, 2014, the Company had one customer who accounted for 46.1% of total accounts receivable. At December 31, 2013, the Company had three customers who accounted for 24.5%, 12.6% and 12.0% of total accounts receivable.

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

#### **14. Retirement Savings Plan**

The Company has a defined contribution 401(K) retirement savings plan (the "Plan"). Substantially all of the Company's U.S. employees are eligible to participate in the Plan after meeting certain minimum age and service requirements. Effective August 1, 2014, the Company suspended its matching program. Employees may make discretionary contributions to the Plan subject to Internal Revenue Service limitations. Employer matching contributions under the plan amounted to approximately \$579,000, \$1.0 million and \$1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. Employer matching contributions vest over a two-year period. The Company has a registered retirement savings plan for its Canadian employees. Substantially all of the Company's Canadian employees are eligible to participate in this plan. Employees make discretionary contributions to the plan subject to local limitations. Employer contributions to the Canadian plan amounted to approximately \$26,000, \$157,000 and \$232,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

#### **15. Restructuring**

In September 2013, the Company commenced certain restructuring initiatives ("2013 Initiatives") including the closure of the Company's development site in Calgary, Canada, and the consolidation of certain supply chain management activities. During February and March 2014, the Company commenced additional reduction in force initiatives resulting in headcount reductions of 41 employees and 21 employees, respectively, and during June 2014 a further headcount reduction of five employees at its Calgary, Canada site.



In connection with the 2013 Initiatives and for the twelve months ended December 31, 2014, the Company recorded restructuring charges of \$2.9 million, which consisted of \$1.7 million in employee severance costs and \$1.2 million in facility exit related costs related to ongoing assessment of estimates of the timing and amounts of sublease income.

Total restructuring charges incurred to date relating to the 2013 Initiatives discussed above, are approximately \$6.2 million, including restructuring charges recorded during the year ended December 31, 2013 of approximately \$3.3 million.

The Company accounts for facility exit costs in accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, which requires that a liability for such costs be recognized and measured initially at fair value on the cease-use date based on remaining lease rentals, adjusted for the effects of any prepaid or deferred items recognized, reduced by the estimated sublease rentals that could be reasonably obtained even if it is not the intent to sublease.

The Company is required to estimate future sublease income and future net operating expenses of the facilities, among other expenses. The most significant of these estimates relate to the timing and extent of future sublease income which reduce lease obligations, and the probability that such sublease income will be realized. The Company based estimates of sublease income, in part, on information from third party real estate experts, current market conditions and rental rates, an assessment of the time period over which reasonable estimates could be made, and the location of the respective facility, among other factors. Further adjustments to the facility exit liability accrual will be required in future periods if actual exit costs or sublease income differ from amounts currently expected. Exit costs the Company records under these provisions are neither associated with, nor do they benefit, continuing activities.

In June 2014, the Company commenced certain restructuring initiatives relating to the reorganization of executive level management (“2014 Initiatives”), which included among other actions the replacement of the former Chief Executive Officer with the current Chief Executive Officer. In connection with the 2014 Initiatives, and for the twelve months ended December 31, 2014, the Company recorded restructuring charges of approximately \$4.9 million, including approximately \$1.3 million related to the accelerated vesting of all of former Chief Executive Officer's restricted stock units and options which vested immediately upon his departure.

The following table sets forth activity in the restructuring liability for the twelve months ended December 31, 2014 (in thousands):

	<i>2013 Initiatives</i>		<i>2014 Initiatives</i>		<b>Total</b>
	<b>Employee Severance Costs</b>	<b>Facility Exit Related Costs</b>	<b>Employment Contract Costs</b>	<b>Share-based Compensation Costs</b>	
Balance at December 31, 2013	\$ —	\$ 881	\$ —	\$ —	\$ 881
Accruals	1,713	1,170	3,579	1,298	7,760
Payments	(1,713)	(1,819)	(1,828)	—	(5,360)
Share-based compensation	—	—	—	(1,298)	(1,298)
Balance at December 31, 2014	\$ —	\$ 232	\$ 1,751	\$ —	\$ 1,983

The balance of the restructuring liability at December 31, 2014 consists of approximately \$1.9 million in current liabilities and \$60,000 in non-current liabilities. The balance of the restructuring liability at December 31, 2014 is anticipated to be fully distributed by the end of 2016, at the expiration of the Company's facility lease in San Diego.

## 16. Quarterly Financial Information (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2014 and 2013:

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share amounts)			
<b>2014</b>				
Net revenues	\$ 48,284	\$ 37,270	\$ 44,330	\$ 55,361
Gross profit	10,068	3,987	10,486	12,506
Net loss attributable to common shareholders	(8,981)	(17,415)	(8,832)	(4,446)
Basic net loss per common share	(0.26)	(0.51)	(0.23)	(0.10)
Diluted net loss per common share	(0.26)	(0.51)	(0.23)	(0.13)
<b>2013</b>				
Net revenues	\$ 85,921	\$ 91,124	\$ 92,673	\$ 65,335
Gross profit	16,848	19,024	20,383	12,039
Net loss attributable to common shareholders	(9,122)	(7,892)	(5,093)	(21,306)
Basic and diluted net loss per common share	(0.27)	(0.23)	(0.15)	(0.63)

**SCHEDULE II**  
**NOVATEL WIRELESS, INC.**

**Valuation and Qualifying Accounts**

**For the Years Ended December 31, 2014, 2013 and 2012 (in thousands):**

	<b>Balance At Beginning of Year</b>	<b>Additions Charged to Operations</b>	<b>Deductions From Reserves</b>	<b>Balance At End of Year</b>
<b>Allowance for Doubtful Accounts:</b>				
December 31, 2014	\$ 2,449	\$ 86	\$ 2,318	\$ 217
December 31, 2013	627	1,936	114	2,449
December 31, 2012	245	439	57	627
<b>Warranty:</b>				
December 31, 2014	2,244	1,345	2,393	1,196
December 31, 2013	2,329	5,055	5,140	2,244
December 31, 2012	1,525	6,261	5,457	2,329
<b>Deferred Tax Asset Valuation Allowance:</b>				
December 31, 2014	79,458	11,316	—	90,774
December 31, 2013	63,881	15,577	—	79,458
December 31, 2012	36,395	27,486	—	63,881
<b>Sales Returns and Allowances:</b>				
December 31, 2014	727	—	572	155
December 31, 2013	911	196	380	727
December 31, 2012	545	497	131	911

## EXHIBIT INDEX

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

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed March 27, 2001).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed November 14, 2002).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.4**	Certificate of Amendment to Amended and Restated Certificate of Incorporation.
3.5	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.6	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.7	Certificate of Designation of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
3.8	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 19, 2015).
4.1	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000, as amended).
4.2	Form of Securities Purchase Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.3	Registration Rights Agreement, dated as of March 12, 2003, entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.4	Registration Rights Agreement, dated as of January 13, 2004, entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
4.5	Stipulation of Settlement, dated January 31, 2014 and effective as of June 20, 2014 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.6	Promissory Note, dated July 3, 2014 (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.7	Security Agreement, dated July 3, 2014 (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.8	Final Judgment and Order of Dismissal With Prejudice, dated June 23, 2014 (incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).
4.9	Order Granting Motion to Amend the Judgment Date, dated July 8, 2014 (incorporated by reference to Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed August 8, 2014).

<u>Exhibit Number</u>	<u>Description</u>
4.10	Warrant to Purchase Common Stock issued to HC2 Holdings 2, Inc., dated September 8, 2014 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
4.11	Investors' Rights Agreement, dated September 8, 2014, by and between Novatel Wireless, Inc. and HC2 Holdings 2, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed September 8, 2014).
10.1	Credit and Security Agreement, dated as of October 31, 2014, by and among Novatel Wireless, Inc. and Enfora, Inc., as Borrowers, and Wells Fargo Bank, National Association, as Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.2	Purchase Agreement, dated September 3, 2014, by and between Novatel Wireless, Inc. and HC2 Holdings 2, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 8, 2014).
10.3	Memorandum of Understanding: In re Novatel Wireless Secs. Litig., Civil Action No. 08-CV-01689-AJB (RBB) United States District Court for the Southern District of California, executed December 6, 2013 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K, filed March 12, 2014).
10.4	Letter Agreement, dated as of April 29, 2014, by and among the Company and each of Cobb H. Sadler, Edward T. Shadek, Robert Ellsworth, Alex Mashinsky, Richard A. Karp, Maguire Financial, LP, a Delaware limited partnership, Maguire Asset Management, LLC, a Delaware limited liability company, and Timothy Maguire (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 6, 2014).
10.5	Confirmation Letter, dated July 3, 2014, by and among the Company and each of Cobb H. Sadler, Edward T. Shadek, Robert Ellsworth, Maguire Financial, LP, a Delaware limited partnership, Maguire Asset Management, LLC, a Delaware limited liability company, and Timothy Maguire (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 10, 2014).
10.6*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.7*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.8*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.9*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.10*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.11*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.12*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.13*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2, 2011).
10.14*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.15*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).

<u>Exhibit Number</u>	<u>Description</u>
10.16*	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.17*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.18*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A, filed October 14, 2014).
10.19*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed April 30, 2013).
10.20*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.21*	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.22*	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
10.23*	2013 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 22, 2013).
10.24**	2014 Retention Bonus Plan.
10.25*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.26*	Letter Agreement, dated as of April 29, 2014, by and between the Company and Peter V. Leparulo (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed May 6, 2014).
10.27*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010).
10.28*	Employment Agreement, dated August 4, 2014, by and between the Company and Alex Mashinsky (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 6, 2014).
10.29*	Offer Letter, dated November 2, 2014, by and between Novatel Wireless, Inc. and Alex Mashinsky (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 6, 2014).
10.30*	Offer letter, effective September 2, 2014, by and between the Company and Michael Newman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 4, 2014).
10.31*	Change in Control and Severance Agreement, effective September 2, 2014, by and between the Company and Michael Newman (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed September 4, 2014).
21	Subsidiaries of Novatel Wireless, Inc. (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed March 12, 2014).
23.1**	Consent of Independent Registered Public Accounting Firm.
24**	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

<u>Exhibit Number</u>	<u>Description</u>
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101**	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.
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*	Management contract, compensatory plan or arrangement
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# CORPORATE INFORMATION

## Corporate Headquarters

Novatel Wireless, Inc.  
9645 Scranton Road  
San Diego, CA 92121  
Tel: (858) 812-3400  
Fax: (858) 812-3402  
website: [www.nvtl.com](http://www.nvtl.com)

## Other Locations

1505 Westec Drive  
Eugene, OR 97402

251 Renner Parkway  
Richardson, TX 75080

Regus Basingstoke  
Crockford Lane  
Pinewood Chineham Business Park  
Basingstoke RG24 8AL  
United Kingdom

4th Floor Building B, No. 1018  
East Sanliqiao Road  
Pudong New Area  
Shanghai, China 200125

## Stock Information

The Company's common stock is traded on  
The NASDAQ Global Select Market under the symbol  
"MIFI".

## Investor Relations

Requests for printed materials and other information can be  
made at our investor relations website:  
[www.investor.novatelwireless.com](http://www.investor.novatelwireless.com)

## Transfer Agent and Registrar

Computershare Investor Services  
250 Royall Street  
Canton, MA 02021  
Tel: (800) 962-4284

## Independent Registered Public Accounting Firm

Ernst & Young  
4370 La Jolla Village Drive  
Suite 500  
San Diego, CA 92122

## Annual Meeting

The Company's annual meeting of  
stockholders will be held at the  
Company's Headquarters,  
9645 Scranton Road  
San Diego, CA 92121, on June 24, 2015 at  
2:00 p.m. local time.

## **BOARD OF DIRECTORS**

Alex Mashinsky  
Chief Executive Officer of  
Novatel Wireless, Inc.

Philip Falcone  
Chairman of the Board,  
President and Chief Executive Officer  
of HC2 Holdings, Inc.

Russell Gerns  
Private Investor

James Ledwith  
Retired Partner  
CohnReznick, LLP

Robert Pons  
Director of HC2 Holdings, Inc.

Sue Swenson  
Retired President and  
Chief Executive Officer of  
Sage Software, Inc.

David A. Werner  
Co-Chief Executive Officer of  
Aerofit, Inc. and Consolidated Aerospace  
Manufacturing, LLC

## **EXECUTIVE OFFICERS**

Alex Mashinsky  
Chief Executive Officer

Slim S. Souissi  
President and Chief Operations Officer

Michael Newman  
Executive Vice President and  
Chief Financial Officer

John W. Carney  
Executive Vice President of Sales and Marketing

Stephen Sek  
Senior Vice President and Chief Technology  
Officer

novatelwireless.com

***NOVATEL WIRELESS***

9645 Scranton Road  
San Diego, CA 92121  
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Fax: 858.812.3402