

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

FORM 10-Q

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

For the quarterly period ended March 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)

86-0824673

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

9645 Scranton Road, San Diego, CA

(Address of Principal Executive Offices)

92121

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of May 2, 2014 was 34,318,974.

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

Forward-Looking Statements

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

- our ability to compete in the market for wireless broadband data access products and M2M products;
- our ability to develop and timely introduce new products successfully;
- our ability to integrate the operations of Enfora and any other business, products, technologies or personnel that we may acquire in the future;
- the continuing impact of uncertain global economic conditions on the demand for our products;
- our ability to introduce and sell new products that comply with current and evolving industry standards, including 3G and 4G standards, and government regulations;
- our ability to develop and maintain strategic relationships to expand into new markets;
- our ability to execute our cost containment initiatives and operating strategies;
- our dependence on a small number of customers for a substantial portion of our revenues;
- demand for broadband wireless access to enterprise networks and the Internet;
- the marketability of our products is dependent on wireless telecommunication operators delivering acceptable wireless services;
- our ability to properly manage the growth of our business to avoid significant strains on our management and operations and disruptions to our business;
- our reliance on third parties to procure components and manufacture our products;
- our ability to accurately forecast customer demand and order the manufacture and timely delivery of sufficient product quantities;
- our reliance on sole source suppliers for some components used in our products;
- 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;
- the outcome of pending or future litigation, including the current class action securities litigation and intellectual property litigation;
- infringement claims with respect to intellectual property contained in our products;
- our continued ability to license necessary third-party technology for the development and sale of our products;
- risks associated with doing business abroad, including foreign currency risks;
- the risk of introducing new products that could contain errors or defects;
- our ability to make focused investments in research and development; and
- our ability to hire, retain and manage additional qualified personnel to maintain and expand our business.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with or furnish to the Securities and Exchange Commission, including the information in “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2013. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

Trademarks

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2014 Unaudited	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,827	\$ 2,911
Marketable securities	15,040	16,612
Restricted marketable securities	298	2,566
Accounts receivable, net of allowance for doubtful accounts of \$2,491 at March 31, 2014 and \$2,449 at December 31, 2013	30,028	39,985
Inventories	25,129	27,793
Deferred tax assets, net	100	100
Prepaid expenses and other	2,792	5,662
Total current assets	85,214	95,629
Property and equipment, net of accumulated depreciation of \$64,207 at March 31, 2014 and \$62,334 at December 31, 2013	8,246	9,901
Marketable securities	720	3,443
Intangible assets, net of accumulated amortization of \$13,235 at March 31, 2014 and \$12,983 at December 31, 2013	1,879	2,131
Deferred tax assets, net	81	81
Other assets	731	280
Total assets	<u>\$ 96,871</u>	<u>\$ 111,465</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,187	\$ 24,538
Accrued expenses	21,141	23,271
Current portion of contingent loss for litigation	4,326	4,326
Short-term margin loan facility	298	2,566
Total current liabilities	48,952	54,701
Other long-term liabilities	1,723	1,848
Long-term portion of contingent loss for litigation	10,000	10,000
Total liabilities	<u>60,675</u>	<u>66,549</u>
Stockholders' equity:		
Preferred stock, par value \$0.001; 2,000 shares authorized and none outstanding	0	0
Common stock, par value \$0.001; 50,000 shares authorized, 34,315 and 34,097 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	34	34
Additional paid-in capital	441,628	441,368
Accumulated other comprehensive income	6	5
Accumulated deficit	(380,472)	(371,491)
Treasury stock at cost; 2,436 common shares at March 31, 2014 and December 31, 2013, respectively	61,196	69,916
	(25,000)	(25,000)
Total stockholders' equity	<u>36,196</u>	<u>44,916</u>
Total liabilities and stockholders' equity	<u>\$ 96,871</u>	<u>\$ 111,465</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2014	2013
Net revenues	\$48,284	\$85,921
Cost of net revenues	<u>38,216</u>	<u>69,073</u>
Gross profit	<u>10,068</u>	<u>16,848</u>
Operating costs and expenses:		
Research and development	8,618	13,811
Sales and marketing	3,995	5,756
General and administrative	5,076	6,326
Amortization of purchased intangible assets	140	140
Restructuring charges	<u>1,166</u>	<u>0</u>
Total operating costs and expenses	<u>18,995</u>	<u>26,033</u>
Operating loss	(8,927)	(9,185)
Other income (expense):		
Interest income, net	15	57
Other expense, net	<u>(44)</u>	<u>(77)</u>
Loss before income taxes	(8,956)	(9,205)
Income tax provision (benefit)	25	(83)
Net loss	<u>\$ (8,981)</u>	<u>\$ (9,122)</u>
Per share data:		
Net loss per share:		
Basic and diluted	<u>\$ (0.26)</u>	<u>\$ (0.27)</u>
Weighted average shares used in computation of basic and diluted net loss per share:		
Basic and diluted	<u>34,172</u>	<u>33,717</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months	
	Ended March 31,	
	<u>2014</u>	<u>2013</u>
Net loss	\$(8,981)	\$(9,122)
Unrealized gain (loss) on cash equivalents and marketable securities, net of tax	<u>1</u>	<u>(3)</u>
Total comprehensive loss	<u><u>\$(8,980)</u></u>	<u><u>\$(9,125)</u></u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (8,981)	\$ (9,122)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,125	2,310
Provision for bad debts	30	156
Inventory provision	180	65
Share-based compensation expense	477	949
Non-cash income tax benefit	(6)	(120)
Changes in assets and liabilities:		
Accounts receivable	9,928	(1,026)
Inventories	2,484	8,761
Prepaid expenses and other assets	2,418	55
Accounts payable	(1,175)	(644)
Accrued expenses, income taxes, and other	(2,085)	499
Net cash provided by operating activities	<u>5,395</u>	<u>1,883</u>
Cash flows from investing activities:		
Purchases of property and equipment	(513)	(2,852)
Purchases of marketable securities	0	(3,754)
Marketable securities maturities / sales	6,564	3,159
Net cash provided by (used in) investing activities	<u>6,051</u>	<u>(3,447)</u>
Cash flows from financing activities:		
Proceeds from the issuance of short-term debt, net of issuance costs	0	7,000
Principal repayments of short-term debt	(2,268)	(2,178)
Restricted cash relating to short-term debt	0	(661)
Proceeds from stock option exercises and ESPP net of taxes paid on vested restricted stock units	(217)	(304)
Net cash provided by (used in) financing activities	<u>(2,485)</u>	<u>3,857</u>
Effect of exchange rates on cash and cash equivalents	(45)	(65)
Net increase in cash and cash equivalents	<u>8,916</u>	<u>2,228</u>
Cash and cash equivalents, beginning of period	2,911	16,044
Cash and cash equivalents, end of period	<u>\$ 11,827</u>	<u>\$ 18,272</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 6	\$ 0
Income taxes	\$ 64	\$ 26

See accompanying notes to unaudited consolidated financial statements.

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

1. Basis of Presentation

The information contained herein has been prepared by Novatel Wireless, Inc. (the “Company”) in accordance with the rules of the Securities and Exchange Commission. The information at March 31, 2014 and the results of the Company’s operations for the three months ended March 31, 2014 and 2013 are unaudited. The condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented. These condensed consolidated financial statements and notes hereto should be read in conjunction with the audited financial statements from which they were derived and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the Company’s Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year as a whole.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues 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, litigation, provision for warranty costs, income taxes, share-based compensation expense and best estimate of selling price in a multiple element arrangement.

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

2. Balance Sheet Details

Marketable Securities

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

	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014					
Available-for-sale:					
Government agency securities	1 or less	\$ 1,150	\$ 0	\$ 0	\$ 1,150
Municipal bonds	1 or less	1,762	1	0	1,763
Certificates of deposit	1 or less	3,220	0	0	3,220
Corporate debentures / bonds	1 or less	9,200	5	0	9,205
Total short-term marketable securities		<u>15,332</u>	<u>6</u>	<u>0</u>	<u>15,338</u>
Available-for-sale:					
Certificates of deposit	1 to 2	720	0	0	720
Total long-term marketable securities		<u>720</u>	<u>0</u>	<u>0</u>	<u>720</u>
		<u>\$ 16,052</u>	<u>\$ 6</u>	<u>\$ 0</u>	<u>\$ 16,058</u>
December 31, 2013					
Available-for-sale:					
Government agency securities	1 or less	\$ 2,350	\$ 1	\$ 0	\$ 2,351
Municipal bonds	1 or less	2,828	1	0	2,829
Certificates of deposit	1 or less	3,360	0	0	3,360
Corporate debentures / bonds	1 or less	10,635	3	0	10,638
Total short-term marketable securities		<u>19,173</u>	<u>5</u>	<u>0</u>	<u>19,178</u>
Available-for-sale:					
Certificates of deposit	1 to 2	1,300	0	0	1,300
Corporate debentures / bonds	1 to 2	2,143	0	0	2,143
Total long-term marketable securities		<u>3,443</u>	<u>0</u>	<u>0</u>	<u>3,443</u>
		<u>\$ 22,616</u>	<u>\$ 5</u>	<u>\$ 0</u>	<u>\$ 22,621</u>

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

The Company has a credit facility with a bank to allow margin borrowings based on the Company's investments in cash equivalents and marketable securities held with the bank. This facility is collateralized by the Company's cash equivalents and marketable securities held with the bank. Borrowings under the facility incur an interest rate at the bank's base rate plus 1%. At March 31, 2014, the Company had approximately \$2.9 million in marketable securities held at this bank, and the Company's unused borrowing capacity at March 31, 2014 under the credit facility was \$2.2 million. Any monies borrowed and interest incurred are payable on demand, and there is no express expiration date to the credit facility. During the three months ended March 31, 2014, the Company did not borrow against the facility, and had outstanding borrowings of \$298,000 under this facility at March 31, 2014. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities have been classified by the Company as restricted marketable securities on the balance sheet at March 31, 2014. At March 31, 2014, the Company had no cash equivalents held at this bank.

As of March 31, 2014, the Company recorded a net unrealized gain of \$6,000. The Company's net unrealized gain is the result of market conditions affecting its fixed-income, debt and equity securities, which are included in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet for the period then ended.

Inventories

Inventories consist of the following (in thousands):

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Finished goods	\$ 18,506	\$ 20,870
Raw materials and components	6,623	6,923
	<u>\$ 25,129</u>	<u>\$ 27,793</u>

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Royalties	\$ 3,411	\$ 4,243
Payroll and related expenses	4,173	4,828
Product warranty	1,367	2,244
Market development funds and price protection	3,287	3,059
Professional fees	1,533	1,040
Deferred revenue	2,602	2,999
Restructuring	775	610
Other	3,993	4,248
	<u>\$ 21,141</u>	<u>\$ 23,271</u>

Accrued Warranty Obligations

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

	<u>Three Months Ended March 31, 2014</u>	<u>Three Months Ended March 31, 2013</u>
Warranty liability at beginning of period	\$ 2,244	\$ 2,329
Additions charged to operations	405	2,256
Deductions from/use of liability	(1,282)	(1,921)
Warranty liability at end of period	<u>\$ 1,367</u>	<u>\$ 2,664</u>

The Company accrues warranty costs based on estimates of future warranty-related replacement, repairs or rework of products. The Company generally provides one to three years of coverage for products following the date of purchase and the Company accrues the estimated cost of warranty coverage as a component of cost of net revenues in the condensed consolidated statements of operations at the time revenue is recognized. In estimating our future warranty obligations, we consider various relevant factors, including the historical frequency and volume of claims, and the cost to replace or repair products under warranty.

3. Intangible Assets

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

	March 31, 2014				December 31, 2013			
	Gross	Accumulated Amortization	Accumulated Impairment	Net	Gross	Accumulated Amortization	Accumulated Impairment	Net
Developed technologies	\$26,000	\$ (6,203)	\$ (19,547)	\$ 250	\$26,000	\$ (6,120)	\$ (19,547)	\$ 333
Trade name	12,800	(2,795)	(8,582)	1,423	12,800	(2,665)	(8,582)	1,553
Other	3,720	(1,978)	(1,620)	122	3,720	(1,967)	(1,620)	133
Total amortizable purchased intangible assets	<u>\$42,520</u>	<u>\$ (10,976)</u>	<u>\$ (29,749)</u>	<u>\$ 1,795</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):

	Three Months Ended March 31,	
	2014	2013
Cost of net revenues	\$ 84	\$ 84
General and administrative expenses	140	140
Total amortization expense	<u>\$ 224</u>	<u>\$ 224</u>

The following table represents details of the amortization of existing purchased intangible assets that is currently estimated to be expensed in the remainder of 2014 and thereafter (in thousands):

Fiscal year:	Amount
2014 (remaining 9 months)	\$ 671
2015	562
2016	562
Total	<u>\$1,795</u>

Additionally, at March 31, 2014 and December 31, 2013, the Company had \$84,000 and \$112,000, respectively, of acquired software licenses, net of accumulated amortization of \$2.3 million and \$2.2 million, respectively. The acquired software licenses represent rights to use certain software necessary for commercial sale of the Company's products.

4. Fair Value Measurement of Assets and Liabilities

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

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

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

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

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

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

At March 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. 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 March 31, 2014 (in thousands):

<u>Description</u>	<u>March 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>
Assets:			
Cash equivalents			
US Treasury securities	\$ 244	\$ 0	\$ 244
Total cash equivalents	<u>244</u>	<u>0</u>	<u>244</u>
Short-term marketable securities:			
Available-for-sale:			
Government agency securities	1,150	0	1,150
Municipal bonds	1,763	0	1,763
Certificates of deposit	3,220	0	3,220
Corporate debentures / bonds	9,205	0	9,205
Total short-term marketable securities	<u>15,338</u>	<u>0</u>	<u>15,338</u>
Long-term marketable securities:			
Available-for-sale:			
Certificates of deposit	720	0	720
Total long-term marketable securities	<u>720</u>	<u>0</u>	<u>720</u>
Total financial assets	<u>\$ 16,302</u>	<u>\$ 0</u>	<u>\$16,302</u>

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

The following table summarizes the Company's financial instruments measured at fair value on a recurring basis in accordance with the authoritative guidance for fair value measurements as of December 31, 2013 (in thousands):

<u>Description</u>	<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>
Assets:			
Cash equivalents			
US Treasury securities	\$ 487	\$ 0	\$ 487
Total cash equivalents	<u>487</u>	<u>0</u>	<u>487</u>
Short-term marketable securities:			
Available-for-sale:			
Government agency securities	2,351	0	2,351
Municipal bonds	2,829	0	2,829
Certificates of deposit	3,360	0	3,360
Corporate debentures / bonds	<u>10,638</u>	<u>0</u>	<u>10,638</u>
Total short-term marketable securities	<u>19,178</u>	<u>0</u>	<u>19,178</u>
Long-term marketable securities:			
Available-for-sale:			
Certificates of deposit	1,300	0	1,300
Corporate debentures / bonds	<u>2,143</u>	<u>0</u>	<u>2,143</u>
Total long-term marketable securities	<u>3,443</u>	<u>0</u>	<u>3,443</u>
Total financial assets	<u>\$ 23,108</u>	<u>\$ 0</u>	<u>\$23,108</u>

5. Share-Based Compensation

The Company included the following amounts for share-based compensation awards in the accompanying unaudited condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended	
	March 31,	
	<u>2014</u>	<u>2013</u>
Cost of net revenues (1)	\$ (30)	\$ (24)
Research and development	47	291
Sales and marketing	79	204
General and administrative	381	478
Totals	<u>\$ 477</u>	<u>\$ 949</u>

(1) Negative expense resulted from change in the estimated forfeiture rates during the first quarters of 2014 and 2013.

6. Segment Information and Concentrations of Risk

Segment Information

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

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

- Mobile Computing Products segment — includes our MiFi products, USB and PC-card modems and Embedded Modules that enable data transmission and services via cellular wireless networks.

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

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

	Three Months Ended	
	March 31,	
	2014	2013
<u>Net revenues by reportable segment:</u>		
Mobile Computing Products	\$ 36,198	\$ 75,620
M2M Products and Solutions	12,086	10,301
Total	<u>\$ 48,284</u>	<u>\$ 85,921</u>
<u>Operating loss by reportable segment:</u>		
Mobile Computing Products	\$ (6,126)	\$ (5,500)
M2M Products and Solutions	(2,801)	(3,685)
Total	<u>\$ (8,927)</u>	<u>\$ (9,185)</u>
	March 31,	December 31,
	2014	2013
<u>Identifiable assets by reportable segment:</u>		
Mobile Computing Products	\$ 80,235	\$ 96,516
M2M Products and Solutions	16,636	14,949
Total	<u>\$ 96,871</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):

	March 31, 2014	December 31, 2013
United States	\$ 94,572	\$ 108,932
Canada	857	808
Europe, Latin America and Asia	1,442	1,725
	<u>\$ 96,871</u>	<u>\$ 111,465</u>

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

	Three months ended	
	March 31,	
	2014	2013
United States and Canada	91.6%	95.2%
Latin America	1.2	0.4
Europe, Middle East and Africa	5.5	4.2
Asia and Australia	1.7	0.2
	<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 are derived from a small number of customers. For the three months ended March 31, 2014, sales to our largest customer accounted for 39% of net revenues. In the same period in 2013, sales to our largest customer accounted for 60% of net revenues. The Company outsources its manufacturing to several third-party contract manufacturers. If one or more of these manufacturers were to experience delays, disruptions, capacity constraints or quality control problems in manufacturing operations, product shipments to the Company's customers could be delayed or its customers could consequently elect to cancel the underlying product purchase order, which would negatively impact the Company's revenues and results of operations.

7. Earnings Per Share

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

As of March 31, 2014 and 2013, basic and diluted weighted-average common shares outstanding were 34,171,921 and 33,716,594, respectively. As of March 31, 2014 and 2013, weighted-average options, RSUs, and ESPP shares to acquire a total of 5,120,187 and 6,027,732 shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

8. Commitments and Contingencies

Legal Matters

The Company is, from time to time, party to various legal proceedings arising in the ordinary course of business. For example, the Company is currently named as a defendant or co-defendant in 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 evaluation of these matters and discussions with Company's intellectual property litigation counsel, the Company believes that liabilities arising from or sums paid in settlement of these existing matters would not have a material adverse effect on its consolidated results of operations or financial condition.

On September 15, 2008 and September 18, 2008, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of California (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 is being pursued on behalf of persons who purchased the Company's common stock between February 27, 2007 and September 15, 2008. As previously disclosed, on December 6, 2013, to avoid the costs, disruption and distraction of further litigation, legal counsel for the defendants entered into a binding Memorandum of Understanding ("MOU") with legal counsel for the lead plaintiffs, reflecting a proposed agreement to settle the Litigation. The proposed agreement did not admit any liability and the Company and the individual defendants continue to deny any and all liability. Under the terms of the proposed settlement, the Company would pay \$6 million in cash, \$5 million in the Company's common stock and a \$5 million secured promissory note, to resolve all claims asserted in the Litigation on behalf of class members. A portion of the \$6 million in cash would be funded by insurers for the Company. The \$5 million in shares of the Company's common stock would be unrestricted and freely tradable shares and either registered or exempt from registration at the time of issuance and distribution to class members, which would occur within 10 business days after the entry of a final order of approval by the Court. The \$5 million secured note, with a 5% interest rate, would have a 30 month maturity and be secured by the Company's accounts receivables. The Company has the right, at its sole option, to substitute cash for the note prior to the entry of final approval by the Court. The settlement is subject to the following conditions: (1) the funding by the Company of the settlement; (2) the Company's right to terminate the settlement if an agreed upon portion of the class members deliver timely and valid requests for exclusion from the class; (3) entry of final judgment by the Court approving the settlement; and (4) satisfaction of waiver of all covenants in the MOU.

On March 7, 2014, the Court entered an order giving preliminary approval to the settlement. The Court set a hearing on June 20, 2014, for final approval of the settlement of the Litigation.

Indemnification

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

9. Income Taxes

The Company recognizes federal, state and foreign current tax liabilities or assets based on its estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and 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.

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

After a review of the four sources of taxable income as of March 31, 2014 (as described above), the Company recognized increases in the valuation allowance primarily related to its U.S.-based deferred tax amounts, resulting from carryforward net operating losses generated during the three months ended March 31, 2014. These deferred tax benefits, combined with a corresponding charge to income tax expense related to an increase in the valuation allowance of \$3.6 million for the three months ended March 31, 2014, resulted in an insignificant effective income tax rate. The Company's valuation allowance was \$83.0 million on net deferred tax assets of \$83.1 million at March 31, 2014. The net unreserved portion of the Company's remaining deferred tax assets at March 31, 2014 primarily related to research and development tax credits associated with the Company's Canadian subsidiary.

For the three months ended March 31, 2014, the Company recorded an income tax expense, including discrete items, of \$25,000. This amount varies from the income tax expense that would be computed at the U.S. statutory rate resulting from its operating loss during the period primarily due to the aforementioned offsetting increase in the Company's deferred tax assets valuation allowance.

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 a IRC Section 382 analysis, and the Company expects to have this analysis completed within the next three months.

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return at the largest amount that is "more-likely-than-not" to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. As of March 31, 2014 and December 31, 2013, the total liability for unrecognized tax benefits was \$62,000 and \$62,000, respectively, and is included in other long-term liabilities. For the three months ended March 31, 2014, the Company included \$0 of interest benefit related to uncertain tax positions in its condensed consolidated statements of operations.

In the fourth quarter of 2014, the Company expects to release \$62,000 of its liability for unrecognized tax benefits due to the expiration of the statute of limitations applicable to the 2009 taxable year.

The Company and its subsidiaries file U.S., state, and foreign income tax returns in jurisdictions with various statutes of limitations. 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.

10. Restructuring

In September 2013, the Company commenced certain restructuring initiatives including the closure of the Company's development site in Calgary, Canada, and the consolidation of certain supply chain management activities. During February and March 2014, the Company commenced additional reduction in force initiatives resulting in headcount reductions of 41 employees and 21 employees, respectively. During the quarter ended March 31, 2014, the Company recorded restructuring charges of \$1.2 million consisting primarily of employee-related compensation charges, as well as ongoing expenses related to vacating all or a portion of certain facilities in the United States and Canada during the fourth quarter of 2013. The restructuring charges for the three months ended March 31, 2014 consisted of \$1.1 million in employee severance costs and \$72,000 in facility exit related costs. Of the \$1.2 million of restructuring charges for the three months ended March 31, 2014, \$1.1 million relates to the Mobile Computing Products segment, and \$42,000 relates to the M2M Products and Solutions segment. The restructuring charges incurred to date related to these restructuring initiatives total approximately \$4.5 million, including restructuring charges recorded during the year ended December 31, 2013 of \$3.3 million. Of the \$4.5 million of restructuring charges recorded to date, \$4.2 million relates to the Mobile Computing Products segment, and \$248,000 relates to the M2M Products and Solutions segment.

During the fourth quarter of 2013, as a result of the September 2013 restructuring initiatives, the Company exited its development site in Calgary, Canada, and a portion of its San Diego facility. The Company has not yet entered into sublease agreements for these facilities. The Company recorded an additional \$72,000 in restructuring expense during the three months ended March 31, 2014 relating to exiting these facilities, which is included in operating expenses in the consolidated statement of operations.

The Company accounts for facility exit costs in accordance with ASC 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 for which the sublease income can be expected. 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.

The following table sets forth activity in the restructuring liability for the three months ended March 31, 2014, which is primarily comprised of employee severance costs (in thousands):

	Employee Severance Costs	Facility Exit Related Costs	Total
Balance at December 31, 2013	\$ 0	\$ 881	\$ 881
Accruals	1,094	72	1,166
Payments	(763)	(243)	(1,006)
Balance at March 31, 2014	<u>\$ 331</u>	<u>\$ 710</u>	<u>\$ 1,041</u>

The balance of the restructuring liability at March 31, 2014 consists of \$775,000 in short-term and \$266,000 in long-term. The balance of the restructuring liability at March 31, 2014 is anticipated to be fully distributed by the end of the third quarter of 2017, at the expiration of our facility lease in Canada. We do not expect to incur significant additional expenses related to the September 2013 restructuring initiatives.

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

The following information should be read in conjunction with the condensed consolidated financial statements and the accompanying notes included in Item 1 of this report, as well as the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2013 contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

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 for machine-to-machine (M2M) and mobile computing OEMs, integrated asset-management M2M devices, and communications and applications software.

Our products currently operate on every major cellular wireless technology platform. Our mobile hotspots, embedded modules, and modems provide subscribers with secure and convenient high-speed access to corporate, public and personal information through the Internet and enterprise networks. Our M2M products enable devices to communicate with each other and with server or cloud-based application infrastructure. Our M2M products and solutions include our M2M embedded modules, integrated M2M communications devices and our service delivery platform, the N4A™ Device Manager (DM) and N4A™ Communication and Management Software (CMS), that provides easy device management and service enablement.

Our mobile-hotspot and modem customer base is comprised of wireless operators, including AT&T, Sprint, and Verizon Wireless; laptop PC and other original equipment manufacturers, or OEMs, including Dell and Hewlett-Packard; as well as distributors and various companies in other vertical markets. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers, application service providers 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, as well as to OEM partners and distributors located worldwide. Most of our mobile-computing product sales to wireless operators and OEM partners are sold directly by our sales force, or to a lesser degree, through distributors. We sell our M2M solutions primarily to enterprises in the following industries: transportation; energy and industrial automation; security and safety; and medical monitoring. We sell our M2M solutions through our direct sales force and through distributors.

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

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

Strategic and Operations Overview

We are currently restructuring 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 now 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 telecom operators in North America. 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.

As a result of this change in strategic direction, we intend to exit the mobile computing laptop business during the first half of 2014 as our current products reach end of life. We will monitor this product category for favorable changes in market conditions that may indicate a point of re-entry for new opportunities.

Additionally, we have invested significant capital 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 aftermarket telematics, remote monitoring, control and security, which we believe will experience high growth rates in the near future. These efforts have resulted in design wins with several significant M2M customers, with whom we are now integrating our products and services into their business processes. Upon the completion of these integration efforts, we believe we will begin product shipments that will contribute to future revenue growth.

Net revenues in our M2M Products and Solutions Segment grew 17% in the first quarter of 2014, compared to the year ago period. We expect our revenues to continue to grow and increase in this segment during the first half of 2014 over the first half of 2013. We believe the adoption of new products that we plan to launch in 2014 as well as the addition of new customers during 2014 will contribute to this performance.

Net revenues from our Mobile Computing Products decreased 52% in the first quarter of 2014, compared to the year ago period as our older products continue to approach the end of their life cycle. Additionally, our revenues have been negatively impacted by competitive pricing pressures at our largest customer and our gross margins have been adversely impacted by lower average sales prices and increased product development costs. Given the current market conditions we are retrenching the size of our product portfolio to only those products which have a very high probability of providing satisfactory returns. We expect, in the first half of 2014, our mobile computing revenues will continue to be lower than the first half of 2013, as many of our legacy mobile computing products are near end of life. However, we intend to launch a new MiFi product during the second half of 2014 that we expect will increase our mobile computing revenues from current levels. We are also experiencing mobile computing component supply constraints that are expected to continue through the first half of 2014 that may impact our ability to meet demand for our largest selling MiFi product.

We have restructured our research and development process by reducing the size of our in-house engineering staff and utilizing outsourced engineering services for product development. This change replaced some of our fixed research and development costs with variable costs and will result in a lower overall cost of research and development and a more variable cost structure. This reduction will primarily be due to a decrease in our employee headcount and related compensation expenses. 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 three months ended March 31, 2014 were \$19.0 million compared to \$26.0 million for the same period in 2013, a 27% year over year reduction. This reduction is primarily due to a reduction of employee headcount and related compensation expenses. Our current employee headcount is 261 as compared to 413 for the same period last year.

Factors Which May Influence Future Results of Operations

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

- economic environment and related market conditions;
- increased competition from other wireless data 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 EV-DO and HSPA 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, Sprint, Verizon Wireless, AT&T, 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.

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

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

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

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

Research and development are at the core of our ability to produce innovative, leading-edge products. This category consists primarily of engineers, technicians and outside engineering resources 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 and demo units for merchandising. We are also engaged in a wide variety of activities, such as awareness and lead generation programs as well as product marketing. Other marketing initiatives include public relations, seminars and co-branding with partners.

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

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

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

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. If we make any acquisitions, we may incur substantial expenditures in conjunction with the acquisition process and the subsequent assimilation of any acquired business, products, technologies or personnel.

Critical Accounting Policies and Estimates

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

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

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

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

Results of Operations

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net revenues. Net revenues for the three months ended March 31, 2014 were \$48.3 million, a decrease of \$37.6 million or 43.8% compared to the same period in 2013.

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

	Three Months Ended	
	March 31,	
	2014	2013
Net revenues by reportable segment:		
Mobile Computing Products	\$36,198	\$75,620
M2M Products and Solutions	12,086	10,301
Total	<u>\$48,284</u>	<u>\$85,921</u>
Net revenues by product categories:		
Mobile Broadband Devices	\$34,381	\$70,158
Embedded Solutions	8,973	9,413
Asset Management Solutions & Services	4,930	6,350
Total	<u>\$48,284</u>	<u>\$85,921</u>

Mobile Computing Products. Net revenues from our Mobile Computing Products segment for the three months ended March 31, 2014 were \$36.2 million, a decrease of \$39.4 million or 52.1% compared to the same period in 2013. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by competitive pricing pressures at our largest customer and legacy products reaching their end of life cycle. Additionally, our product shipments were limited by shortages of certain hardware components.

M2M Products and Solutions. Net revenues from our M2M Products and Solutions segment for the three months ended March 31, 2014 were \$12.1 million, an increase of \$1.8 million or 17.3% compared to the same period in 2013. The increase is primarily due to increased sales of embedded products to M2M customers.

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

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

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

Asset Management Solutions and Services are mobile intelligent wireless broadband terminal devices and N4A DM and/or N4A CMS software, that 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 three months ended March 31, 2014 was \$38.2 million, or 79.1% of net revenues, as compared to \$69.1 million, or 80.4% of net revenues, for the same period in 2013. During the first quarter of 2014, the cost of net revenues as a percentage of net revenues decreased due to reduced labor cost attributed to headcount reductions and lower warranty costs during the quarter. The cost of net revenues as a percentage of revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

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

Gross profit. Gross profit for the three months ended March 31, 2014 was \$10.1 million, or a gross margin of 20.9% of net revenues, compared to \$16.8 million, or a gross margin of 19.6% of net revenues for the same period in 2013. The gross profit decrease was primarily attributable to the changes in net revenues and cost of net revenues as discussed above. We expect that our gross margin percentage will continue to fluctuate from quarter to quarter depending on revenue levels, product mix, competitive selling prices, our ability to reduce product costs and changes in unit volumes.

Research and development expenses. Research and development expenses for the three months ended March 31, 2014 were \$8.6 million, or 17.8% of net revenues, compared to \$13.8 million, or 16.1% of net revenues, for the same period in 2013. Research and development expenses for the three months ended March 31, 2014 were lower as compared to the same period in 2013, due to reduced labor cost attributed to headcount reductions and lower outside service costs.

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

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

Sales and marketing expenses. Sales and marketing expenses for the three months ended March 31, 2014 were \$4.0 million, or 8.3% of net revenues, compared to \$5.8 million, or 6.7% of net revenues, for the same period in 2013. Sales and marketing expenses for the three months ended March 31, 2014 were lower as compared to the same period in 2013, primarily due to a decrease in salaries and related expenditures.

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

General and administrative expenses. General and administrative expenses for the three months ended March 31, 2014 were \$5.1 million, or 10.5% of net revenues, compared to \$6.3 million, or 7.4% of net revenues, for the same period in 2013. General and administrative expenses for the three months ended March 31, 2014 were lower as compared to the same period in 2013 due to reduced labor cost attributed to headcount reductions and reduced legal fees incurred during the period. While we are closely monitoring and working to control general and administrative costs, we expect these costs to be negatively impacted by legal fees to defend the claims described in Note 8 to our condensed consolidated financial statements included in this report. During the first quarter periods in 2014 and 2013, the Company incurred \$1.6 million and \$2.3 million in legal expenses, respectively.

Amortization of purchased intangible assets. The amortization of purchased intangible assets for the three months ended March 31, 2014 and 2013 was \$140,000.

Restructuring charges. Restructuring expenses for the for the three months ended March 31, 2014 were \$1.2 million, and predominantly consist of severance costs incurred in connection with the reduction of our workforce, as well as facility exit related costs. In September 2013, the Company commenced certain restructuring initiatives including the closure of the Company's development site in Calgary, Canada, and the consolidation of certain supply chain management activities. During February and March 2014, the Company commenced additional reduction in force initiatives resulting in headcount reductions of 62 employees.

Interest income, net. Interest income, net, for the three months ended March 31, 2014 was \$15,000 as compared to \$57,000 for the same period in 2013. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 0.42% and 0.40% in the first quarter of 2014 and 2013, respectively.

Other expense, net. Other expense, net, for the three months ended March 31, 2014 was \$44,000 as compared to \$77,000 for the same period in 2013.

Income tax expense (benefit). Income tax expense for the three months ended March 31, 2014 was \$25,000, as compared to \$83,000 of benefit for the same period in 2013.

The effective tax rate for the three months ended March 31, 2014 is different than the U.S. statutory rate primarily due to a valuation allowance recorded against additional tax assets generated in the first quarter of 2014.

Net loss. For the three months ended March 31, 2014, we reported a net loss of \$9.0 million, as compared to a net loss of \$9.1 million for the same period in 2013. Our net loss was impacted by changes in net revenue and restructuring charges recognized during the period.

Liquidity and Capital Resources

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

To address short term liquidity requirements resulting from working capital changes the Company entered into a margin credit facility with a bank in 2011. The use of this margin credit facility allows the Company to meet short-term cash requirements and avoid selling cash equivalents and marketable securities. Borrowings under this facility are collateralized by the Company's cash and cash equivalents and marketable securities on deposit at the bank. During the three months ended March 31, 2014, the Company did not borrow against the facility, and had outstanding borrowings of \$298,000 under this facility at March 31, 2014. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities has been classified by the Company as restricted marketable securities on the balance sheet at March 31, 2014. At March 31, 2014, the Company had no cash equivalents held at this bank. The Company's unused borrowing capacity at March 31, 2014 under the credit facility was \$2.2 million.

We believe our cash resources from cash and cash equivalents and marketable securities, together with anticipated cash flows from operations, will be sufficient to meet our working capital needs for the next twelve months. In order to accelerate the development of new mobile computing products targeted at tier one telecom operators in North America and invest in our M2M product and services portfolio, or to fund substantial business growth internally or through acquisitions of complementary products, businesses or technologies, we may need to raise additional funds. Accordingly, in March 2014, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission, or the SEC, that, if declared effective by the SEC, would allow us to sell up to \$75 million of equity, debt or other securities described in the registration statement in one or more offerings by us from time to time. As set forth in the shelf registration statement, the net proceeds from the sale of our securities may be used for working capital, repayment of indebtedness and general corporate purposes. We may also use a portion of the net proceeds that we receive to acquire or invest in complementary businesses, products, services, technologies or other assets. As of the date of this report, our shelf registration statement has not been declared effective by the SEC and we have not issued any securities under the registration statement.

Working Capital, Cash and Cash Equivalents and Marketable Securities

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

	March 31, 2014 <u>(unaudited)</u>	December 31, 2013 <u></u>	Increase / <u>(Decrease)</u>
Working capital ⁽¹⁾	\$ 36,262	\$ 40,928	\$ (4,666)
Cash and cash equivalents ⁽²⁾	\$ 11,827	\$ 2,911	\$ 8,916
Short-term marketable securities ⁽²⁾⁽³⁾	15,040	16,612	(1,572)
Long-term marketable securities	720	3,443	(2,723)
Total cash and cash equivalents and marketable securities	<u>\$ 27,587</u>	<u>\$ 22,966</u>	<u>\$ 4,621</u>

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

(2) Included in working capital.

(3) Excludes restricted marketable securities.

Our working capital decreased \$4.7 million from December 31, 2013 to March 31, 2014. The decrease was primarily due to losses from operations incurred during the three months ended March 31, 2014.

As of March 31, 2014, cash and cash equivalents and marketable securities increased by \$4.6 million from December 31, 2013. The principal component of this net increase was the cash provided by our operating activities of \$5.4 million.

Historical Cash Flows

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

	Three Months Ended March 31,	
	2014	2013
Net cash provided by operating activities	\$ 5,395	\$ 1,883
Net cash provided by (used in) investing activities	6,051	(3,447)
Net cash provided by (used in) financing activities	(2,485)	3,857
Effect of exchange rates on cash and cash equivalents	(45)	(65)
Net increase in cash and cash equivalents	8,916	2,228
Cash and cash equivalents, beginning of period	2,911	16,044
Cash and cash equivalents, end of period	<u>\$11,827</u>	<u>\$18,272</u>

Operating activities. Net cash provided by operating activities was \$5.4 million for the three months ended March 31, 2014 compared to net cash provided by operating activities of \$1.9 million for the same period in 2013. Net cash provided for the three months ended March 31, 2014 was attributable to net losses in the period, offset by a net increase in cash caused by changes in working capital accounts, and non-cash charges for depreciation and amortization and share based compensation expense. For the three months ended March 31, 2013, net cash provided by operating activities was primarily related to net losses for the period, offset by a net increase in cash caused by changes in working capital accounts, and non-cash charges for depreciation and amortization and share based compensation expense.

Investing activities. Net cash provided by investing activities during the three months ended March 31, 2014 was \$6.1 million compared to \$3.4 million used during the same period in 2013. Cash provided by investing activities during the three months ended March 31, 2014 was related to net sales of marketable securities of \$6.6 million, partially offset by purchases of property, plant, and equipment for approximately \$513,000. Cash used in investing activities during the same period in 2013 was primarily related to purchases of property, plant, and equipment for approximately \$2.9 million, and net purchases of marketable securities of \$595,000.

Financing activities. Net cash used in financing activities during the three months ended March 31, 2014 was \$2.5 million compared to cash provided of \$3.9 million during the same period in 2013. Net cash used in financing activities during the three months ended March 31, 2014 was primarily related to principal repayments and restricted cash on our margin credit facility borrowings, and payroll taxes paid on behalf of employees for restricted stock units which vested during the period. Net cash provided by financing activities during the three months ended March 31, 2013 was primarily related to proceeds received from borrowing on our margin credit facility, partially offset by principal repayments and restricted cash on our margin credit facility borrowings, and payroll taxes paid on behalf of employees for restricted stock units which vested during the period.

Other Liquidity Needs

We expect to incur ongoing professional fees and expenses to defend litigation filed against us or related to our products, which litigation is discussed in Note 8 to our condensed consolidated financial statements included in this report. These costs cannot be estimated at this time.

During the next twelve months, we currently plan to incur approximately \$2.0 million for discretionary capital expenditures, including the acquisition of additional software licenses.

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

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

We may raise additional funds pursuant to a shelf registration statement on Form S-3, as discussed above. There can be no assurance that any required additional financing will be available on terms favorable to us, or at all. If additional funds are raised by the issuance of equity securities, our shareholders could experience dilution of their ownership interests and securities issued may have rights senior to those of the holders of our common stock. If additional funds are raised by the issuance of debt securities, we may be subject to certain limitations on our operations. If adequate funds are not available or not available on acceptable terms, we may be unable to take advantage of acquisition opportunities, develop or enhance products or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Since December 31, 2013, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2014, the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

In the case *In re Novatel Wireless Securities Litigation*, the Court entered an order giving preliminary approval to the settlement negotiated by the parties and announced in December 2013. The Court set a hearing on June 20, 2014, for final approval of the settlement of this case.

For additional information regarding these matters, see Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Item 1A of the Company's Annual Report Form 10-K for the year ended December 31, 2013.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of our Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of our Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and footnotes from the Novatel Wireless, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Loss; (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

Date: May 7, 2014

Novatel Wireless, Inc.

By: /s/ PETER LEPARULO

Peter Leparulo
Chairman and Chief Executive Officer

By: /s/ KENNETH LEDDON

Kenneth Leddon
Senior Vice President and Chief Financial Officer

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

I, Peter Leparulo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novatel Wireless, Inc.;

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

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

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

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

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

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

Date: May 7, 2014

/s/ PETER LEPARULO

Peter Leparulo

Chairman and Chief Executive Officer

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

I, Kenneth Leddon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novatel Wireless, Inc.;

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

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

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

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

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

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

Date: May 7, 2014

/s/ KENNETH LEDDON

Kenneth Leddon

Senior Vice President and Chief Financial Officer

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

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

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2014 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 7, 2014

/s/ PETER LEPARULO

Peter Leparulo

Chairman and Chief Executive Officer

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

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

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2014 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 7, 2014

/s/ KENNETH LEDDON

Kenneth Leddon

Senior Vice President and Chief Financial Officer