NOVATEL WIRELESS

2013

ANNUAL REPORT

NOVATEL WIRELESS™

Proxy Statement

May 15, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Novatel Wireless, Inc. The meeting will be held on Tuesday, June 24, 2014, at 2:00 p.m., local time, at the Hyatt House San Diego, 10044 Pacific Mesa Blvd., San Diego, California 92121.

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

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

We look forward to seeing you at the meeting.

Sincerely,

Peter V. Leparulo
Chief Executive Officer

NOVATEL WIRELESS

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held June 24, 2014

The 2014 Annual Meeting of Stockholders of Novatel Wireless, Inc., a Delaware corporation (the "Company"), will be held on Tuesday, June 24, 2014, at 2:00 p.m., local time, at the Hyatt House San Diego, 10044 Pacific Mesa Blvd., San Diego, California 92121. The meeting will be held for the following purposes:

1. To elect two (2) directors to serve until the 2017 Annual Meeting of Stockholders;
2. To hold an advisory vote on the compensation of the Company's named executive officers; and
3. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014.

Information concerning the matters to be voted upon at the meeting is set forth in the accompanying Proxy Statement. Holders of record of the Company's common stock as of the close of business on May 9, 2014 are entitled to notice of, and to vote at, the Annual Meeting.

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

By Order of the Board of Directors,

Catherine F. Ratcliffe
Senior V.P., Business Affairs,
General Counsel and Secretary

May 15, 2014
San Diego, California

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

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THIS PROXY STATEMENT AND THE ANNUAL MEETING

Why am I receiving this proxy statement?

This proxy statement and the enclosed proxy card are being sent to you on behalf of the Board of Directors (the "Board") of Novatel Wireless, Inc. (the "Company") to solicit your proxy to vote at the Company's 2014 Annual Meeting of Stockholders (the "Annual Meeting"). The Annual Meeting will be held on Tuesday, June 24, 2014, at 2:00 p.m., local time, at the Hyatt House San Diego, 10044 Pacific Mesa Blvd., San Diego, California 92121. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement.

This proxy statement and the enclosed proxy card are being mailed to stockholders on or about May 15, 2014.

What matters will be considered at the Annual Meeting?

At the Annual Meeting, our stockholders will be asked:

- To elect two (2) directors to serve until the 2017 Annual Meeting of Stockholders;
- To hold an advisory vote on the compensation of the Company's named executive officers;
- To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014; and
- To consider such other business as may properly come before the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Record holders of our common stock as of the close of business on May 9, 2014 are entitled to notice of, and to vote at, the Annual Meeting. You are a holder of record if your shares were registered directly in your name with our transfer agent, Computershare Trust Company, at the close of business on May 9, 2014. If your shares were held through an account with a broker, bank or other nominee at that time, then your shares are held in "street name" and the organization holding your account is considered the holder of record for purposes of voting at the Annual Meeting. However, as a beneficial owner, you have the right to instruct your broker, bank or other nominee on how to vote your shares.

How many votes do I have?

Each holder of record as of the close of business on May 9, 2014 is entitled to one vote for each share of common stock held on that date. On April 28, 2014, 34,318,974 shares of common stock were outstanding. The Company expects the number of outstanding shares will not materially change as of the record date.

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

The Board recommends a vote:

- **FOR** the election of the director nominees to serve until the 2017 Annual Meeting of Stockholders;
- **FOR** the advisory vote on executive compensation;

- **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014; and
- at the discretion of the proxy holders with respect to any other matter that is properly presented at the Annual Meeting.

How do I cast my vote?

If you are a holder of record, you can vote in person at the Annual Meeting or by proxy prior to the Annual Meeting. To vote by proxy, please complete, sign, date and promptly return the enclosed proxy card in the enclosed postage-paid return envelope.

If your shares are held in "street name," your broker, bank or other nominee will provide you with instructions on how to vote your shares. If you hold your shares in "street name" and do not instruct your broker, bank or other nominee how to vote your shares, your shares will not be voted in the election of directors. To be sure your shares are voted in the manner you desire, you should instruct your broker, bank or other nominee how to vote your shares.

Voting your shares is important due to the stock exchange rule that prohibits your broker, bank or other nominee from voting your shares with respect to the election of directors without your express voting instructions.

If you hold your shares in "street name" and wish to attend the Annual Meeting and vote your shares in person, you must obtain a valid proxy from your broker, bank or other nominee.

Can I change my vote after I have mailed my signed proxy card?

If you vote by proxy, you can revoke that proxy at any time before it is voted at the Annual Meeting. You can do this by:

- delivering a written notice revoking your proxy to the Company's Corporate Secretary at the following address Novatel Wireless, Inc., 9645 Scranton Road, San Diego, CA 92121;
- delivering to the Company's Corporate Secretary a new proxy bearing a date after the date of the proxy being revoked; or
- voting in person at the Annual Meeting.

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

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

- **FOR** the election of each of the director nominees to serve until the 2017 Annual Meeting of Stockholders;
- **FOR** the advisory vote on executive compensation;
- **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014; and
- at the discretion of the proxy holders with respect to any other matter that is properly presented at the Annual Meeting.

What will constitute a quorum at the Annual Meeting?

Holders of a majority of shares of our common stock entitled to vote at the Annual Meeting must be present at the Annual Meeting, in person or by proxy, to constitute a quorum necessary to conduct the Annual Meeting. Your shares will be counted toward the quorum if you submit a properly executed proxy or vote at the Annual Meeting. If there is no quorum, a majority of the votes present at the Annual Meeting, in person or by proxy, may adjourn the meeting to a later date.

How many votes are required to elect the director nominee?

The directors will be elected by a plurality of the votes cast by holders of our common stock.

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

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

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

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

Where else are the proxy materials available?

The proxy statement and our 2013 Annual Report are available for your review at *www.nvtl.com/proxymaterials*.

Where can I find directions to the Annual Meeting location?

Directions to the Hyatt House San Diego are available at *http://sorrentomesa.house.hyatt.com*.

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

PROPOSAL 1

ELECTION OF DIRECTOR

At the Annual Meeting, two (2) directors will be elected to serve a three-year term expiring at the 2017 Annual Meeting of Stockholders. This section contains information about the director nominees and the directors whose terms of office continue after the Annual Meeting. The nominees for election are Russell Gerns and Richard Karp. The director nominees are incumbent directors whose nomination to serve on the Board were recommended by the Nominating and Corporate Governance Committee and approved by the Board. Dr. Richard Karp, one of the nominees for election as a director at this year's Annual Meeting, was appointed to the Board in April 2014 and is standing for re-election pursuant to a previously-disclosed settlement between the Company and a stockholder group referred to as Novatel Shareholders for Change. The members of the stockholder group have agreed to vote in favor of each of the Company's nominees for director at this year's Annual Meeting. David A. Werner, an incumbent director who has served on the Board since 2004, has announced his intention to leave the Board when his term expires at this year's Annual Meeting. Mr. Werner's decision is not the result of any disagreement with respect to the Company's operations, policies or practices.

The directors will be elected by a plurality of the votes cast at the Annual Meeting. A "withhold" vote will have no effect on the outcome of the election of these directors.

The Board Recommends a Vote FOR Each of the two(2) Director Nominees.

Nominees to be Elected for Term Expiring at the 2017 Annual Meeting of Stockholders

Russell Gerns, age 76, has served as director since September 2009. Mr. Gerns has more than 27 years of operational and finance experience, having participated in the founding and dramatic growth of numerous high-tech companies, including Scientific Data Systems (which was acquired by Xerox Corporation), Computer Machinery Corporation, Cipher Data Products and Rexon, Inc. (which was acquired by Legacy Storage Systems Corporation). Since 1985, Mr. Gerns has concentrated on venture capital financing of start-up companies, private equity investments, and company acquisitions. He was a member of the Board of Advisors of the UCLA Anderson School of Management Center for Entrepreneurial Studies and has taught as a professor of business management at Pepperdine University. Mr. Gerns earned his undergraduate degree from the University of California, Los Angeles.

Mr. Gerns' extensive operational and finance experience with high-tech companies brings to the Board a valuable perspective on the technology industry. His experience with venture capital financing, private equity investments and acquisitions also provides additional insight to the Board regarding business and management of technology companies.

Richard Karp, age 69, has served as a director since April 2014. Dr. Karp is a private investor. From 1986 through 2009, Dr. Karp served as Chariman and CEO of Catapult Communications Corp. ("Catapult"), a telecommunications company he founded. Catapult was taken public and ultimately sold to Ixia in 2009. Prior to founding Catapult, Dr. Karp held senior positions in the telecommunications and information systems industries. Dr. Karp holds a Bachelor of Science degree from the California Institute of Technology, a Masters degree in Math from the University of Wisconsin-Madison and a Ph.D. in Computer Science from Stanford University.

Dr. Karp's extensive experience in the technology industry, together with his management and board experience in a public company, enable Dr. Karp to provide the Company valuable executive insight.

Directors With Term Expiring at the 2015 Annual Meeting of Stockholders

Peter V. Leparulo, age 55, has served as a director since May 2003, as our Chairman from November 2006 through April 2014, and as our Chief Executive Officer since April 2008. He also served as our Chief Executive

Officer from January 2003 to November 2006. From May 2001 to January 2003, he served as our Senior Vice President, General Manager, CDMA Operations. From September 2000 to May 2001, he served as our Senior Vice President, Corporate and Strategic Development and General Counsel. From June 1998 until September 2000, Mr. Leparulo was a Senior Partner at the law firm Orrick, Herrington & Sutcliffe LLP, where he specialized in corporate finance, mergers and acquisitions, securities, intellectual property and general corporate matters. Prior to joining Orrick, Mr. Leparulo was a Partner at the law firm Pillsbury Madison & Sutro LLP, from January 1992 until June 1998, and an Associate at that firm from October 1989 until January 1992. He holds a Bachelor of Science from Colgate University and a Juris Doctor from Case Western Reserve University.

Mr. Leparulo's nearly 14 years of experience at the Company, culminating in his service as the Company's Chairman and Chief Executive Officer, gives him in-depth knowledge of the Company's business and an understanding of operational and strategic matters impacting the Company. Mr. Leparulo's background as an attorney gives the Board valuable insight into managing the Company's business in a complex legal environment.

Alex Mashinsky, age 48, has served as a director since April 2014. Mr. Mashinsky has served as Managing Partner of Governing Dynamics since 2004. Governing Dynamics is an early stage investment and development company. Between May and December 2013, Mr. Mashinsky served on the board of directors of Tellabs, a publicly traded telecommunications company, until it was acquired in December 2013. In 2004, Mr. Mashinsky founded GroundLink, a transportation marketplace that aggregates, manages and executes ground travel services on a global scale. Mr. Mashinsky served as CEO of GroundLink through 2011. Also in 2004, Mr. Mashinsky founded Transit Wireless, a wireless distributed antenna systems company that provided wireless data coverage to 300 of New York City's subway stations. Between 1995 and 2003, Mr. Mashinsky founded and operated companies in the information technology sector, including Arbinet. Mr. Mashinsky attended Tel Aviv University and Israel Open University.

Mr. Mashinsky's experience in technology and venture capital industries and his success in founding, operating and growing businesses provide him an informed background for service on the Board.

Directors With Terms Expiring at the 2016 Annual Meeting of Stockholders

James Ledwith, age 68, has served as a director since March 2008 and as our lead independent director since April 2010. Mr. Ledwith served as a partner at Cohn Reznick, LLP, formerly J.H. Cohn LLP, an accounting and consulting firm, from 1992 until his retirement in 2009 and has been a lecturer at San Diego State University from 2000 to 2007 and from 2011 to the present. Mr. Ledwith serves as a director of San Diego Trust Bank, a privately held community bank until its sale in June 2013. Mr. Ledwith is a certified public accountant and received his undergraduate degree from Babson College and a Master of Business Administration from the Wharton Graduate Division of the University of Pennsylvania.

Mr. Ledwith spent his career primarily in public accounting and has extensive knowledge of accounting and financial reporting rules and regulations. Mr. Ledwith's educational background and accounting expertise provide a solid background for him to advise and consult with the Board on financial and audit-related matters as a member of the Audit Committee and on compensation-related matters as a Chairman of the Compensation Committee.

Sue Swenson, age 65, has served as a director since June 2012. Ms. Swenson has more than 20 years of executive management experience in the telecommunications industry and considerable experience serving on the boards of growing technology companies. Since 1994, she has been a director of Wells Fargo and sits on their Audit and Examination Committee and Governance and Nominating Committee. Ms. Swenson also is a director on the boards of Spirent Communications Plc, Harmonic, Inc., FirstNet and has previously served on boards of numerous public and private companies, including Leap Wireless International, mBlox and Palm. Ms. Swenson retired in 2011 as president and CEO of Sage Software, Inc. Before joining Sage Software, Ms. Swenson held positions in a variety of telecom companies, including COO of Atrinsic, Inc. (formerly known as New Motion, Inc.), COO of Amp'd Mobile, Inc., president and COO of Leap Wireless International, Inc., and president and CEO of Cellular One. Ms. Swenson's substantial experience at, and knowledge regarding, high technology companies, including wireless communication companies, provide a particularly relevant and informed background for her to use on the Board and as a member of the Compensation Committee.

General John D. Wakelin (U.S. Army, Retired), age 78, has served as a director since May 2009. For the last 24 years he has worked in senior executive and program management roles at SAIC, a scientific, engineering, and technology applications company. In September 2013, a new company, Leidos Inc., was created and spun off from SAIC. General Wakelin transferred to Leidos Inc. at that time. At Leidos Inc., and SAIC, General Wakelin has overseen numerous programs in large scale computing, telecommunications systems, and complex enterprise software systems for the public and private sector. He retired as Brigadier General for the Army where he served for 30 years in a number of roles, culminating in his service as Deputy Director for Command Control and Communications for the Joint Chiefs of Staff under Presidents Reagan and Bush and as Deputy Commander for Research and Development for the U.S. Army Communications Electronics Command at Fort Monmouth, N.J. General Wakelin holds a Bachelor of Science from the University of San Francisco and he completed all graduate level course work in Social Psychology for the Army's Foreign Area Officer Program at San Diego State University. General Wakelin also attended the U.S. Army Command and General Staff College and National War College.

General Wakelin's over 24 years of experience in executive and business development positions at SAIC gives him a strong understanding of the technology industry, making him well-suited to be a member of the Board and as a member of the Compensation Committee and Chairman of the Nominating and Corporate Governance Committee. General Wakelin also brings to the Board strong leadership experience as a result of his 30 years of service in the U.S. Army.

CORPORATE GOVERNANCE

Director Independence

Under the NASDAQ listing requirements, a majority of the members of our Board must be independent. The Board has determined that of our non-management directors, Mr. Gerns, Dr. Karp, Mr. Ledwith, Mr. Mashinsky, Ms. Swenson, Gen. Wakelin and Mr. Werner, are each independent of the Company and management within the meaning of the NASDAQ listing requirements. Mr. Leparulo is not "independent" under the NASDAQ listing requirements because he is an employee of the Company. Mr. Werner has announced that he will leave the Board at the expiration of his term at the Annual Meeting on June 24, 2014.

Director Nominations

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

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

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

Stockholders may recommend candidates at any time. However, to be considered by the Nominating and Corporate Governance Committee for inclusion in the proxy statement for our next Annual Meeting of Stockholders, recommendations must be received by the Corporate Secretary at least 120 days prior to the first anniversary of the date of the proxy statement mailed to stockholders for the immediately preceding Annual Meeting of Stockholders. A stockholder's notice must include the following:

- a written statement by the director candidate agreeing to be named in our proxy materials and to serve as a member of the Board (and any committee of the Board to which the director candidate is assigned to serve by the Board) if nominated and elected;
- the director candidate's full name, age, business and residential addresses and principal occupation or employment for at least the past five years;
- information regarding any relationships between the candidate and the Company within the last three years;
- a description of the proposed nominee's qualifications as a director; and
- a written statement that the nominating stockholder is a beneficial or record owner of our stock.

The stockholder's notice must be signed by the stockholder recommending the director candidate for consideration and sent to the following address: Novatel Wireless, Inc., c/o Corporate Secretary, 9645 Scranton Road, San Diego, California 92121.

Communications with the Board

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

Code of Ethics

The Board has adopted a code of business conduct and ethics applicable to all our directors, officers and employees. The purpose of the code of business conduct and ethics is to, among other things, focus our directors, officers and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report concerns regarding possible unethical or unlawful conduct and to help enhance and formalize our culture of integrity, respect and accountability. We distribute copies of the code to, and conduct periodic training sessions regarding its content for, our newly elected directors and newly hired officers and employees. We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website in the Investors tab under "Corporate Governance" as required by applicable law. A copy of our code of business conduct and ethics is available on our website under the Investors tab under "Corporate Governance" at *http://novatelwireless.com*.

THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

The Board

The Board currently consists of eight members, seven of whom are non-management directors. Effective upon the election of directors at the Annual Meeting, the Board will consist of seven members, six of whom are independent directors. The Board is divided into three classes with each class serving a three-year term. The term of one class expires at each Annual Meeting of Stockholders of the Company.

Board Meetings and Director Attendance

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all meetings of the Board and the committees on which he or she serves. In 2013, the Board met eight times, four of which were telephonic meetings. Each Board member attended at least 75% of the meetings of the Board and the committees on which he or she served during the period for which he or she was a director or committee member.

Annual Meeting of Stockholders

We do not have a formal policy regarding attendance by members of the Board at our Annual Meetings of Stockholders. However, we encourage, but do not require, our directors to attend. Four of our directors, Mr. Leparulo, Mr. Ledwith, Ms. Swenson and General Wakelin, attended the 2013 Annual Meeting of Stockholders.

Board Committees

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

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

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Russell Gerns	✓		✓
James Ledwith	✓	✓(Chair)	
Peter V. Leparulo			
Sue Swenson		✓	
John Wakelin		✓	✓(Chair)
David A. Werner	✓ (Chair)		

Audit Committee

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

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

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

In 2013, the Audit Committee met six times, two of which were telephonic meetings.

Our independent registered public accounting firm reports directly to the Audit Committee. Each member of the Audit Committee must have the ability to read and understand fundamental financial statements and at least one member must have past employment experience in finance or accounting, requisite professional certification in accounting or another comparable experience or background. The Board has determined that each member of the Audit Committee is "independent" as defined by the NASDAQ listing requirements and SEC rules. The Board has also determined that Mr. Werner meets the requirements of an "audit committee financial expert" as defined by SEC rules. With Mr. Werner's retirement from the Board at the Annual Meeting in June 2014, the Board has selected Mr. Ledwith to assume the position of Chair of the Audit Committee and has also determined that Mr. Ledwith meets the requirements of an "audit committee financial expert" as defined by SEC rules.

Compensation Committee

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

- establishing and reviewing our general compensation policies and levels of compensation applicable to our executive officers and our non-management directors;
- evaluating the performance of, and determining the compensation for, our executive officers, including our chief executive officer;
- reviewing regional and industry-wide compensation practices in order to assess the adequacy and competitiveness of our executive compensation programs; and
- administering our equity incentive compensation plans and approving awards of stock, restricted stock units or stock options to employees and other parties.

In 2013, the Compensation Committee met twelve times, six of which were telephonic meetings. The Board has determined that each member of the Compensation Committee is "independent" as defined by the NASDAQ listing requirements.

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

For 2013, the Compensation Committee retained the compensation consultant, Meridian Compensation Partners, LLC ("Meridian") to advise the Compensation Committee on executive and director compensation matters.

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

Nominating and Corporate Governance Committee

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

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

In 2013, the Nominating and Corporate Governance Committee met two times. The Board has determined that each member of the Nominating and Corporate Governance Committee is "independent" as defined by the NASDAQ listing requirements.

Board Leadership Structure

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

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

- creating the agenda for, and requesting the information to be provided in connection with, Board meetings;

- convening and presiding at meetings of directors;
- acting as a liaison between the directors and the Chief Executive Officer ; and
- acting as a liaison for communication with Company stockholders.

Board's Role in Risk Oversight

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

Director Compensation

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

In 2013, Meridian advised the Compensation Committee that non-management director compensation should be reviewed periodically but did not recommend any changes to the cash and equity compensation for non-management directors for 2013. Meridian recommended that the equity grant made to each non-management director be entirely restricted stock units, a practice that had been followed in 2012 and 2011 as well. Based on Meridian's advice the Compensation Committee recommended to the Board of Directors that the equity for non-management directors in 2013 be granted in restricted stock units. For a description of the equity grants to non-management directors in 2013, see "—Equity-Based Compensation."

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

Board Service:	
Annual Retainer	$20,000
Lead Independent Director[1]	$15,000
Meeting Fee (in person)	$ 1,500
Meeting Fee (telephonic)	$ 750
Board Committee Service:	
Audit Committee Chair	$10,000
Compensation Committee Chair	$ 5,000
Nominating and Corporate Governance Committee Chair	$ 5,000
Meeting Fee (in person)	$ 1,000
Meeting Fee (telephonic)	$ 500

(1) This amount will be the annual retainer for the Chairman of the Board position from May 2014 forward.

Equity-Based Compensation. In 2012 and 2013, the Company experienced constraints in the share availability under the Company's 2009 Incentive Plan. Although the independent compensation consultants maintained their recommendation that non-management directors receive annual equity grants in the form of restricted stock units with an economic value of $90,000, grants with this value have not been made since 2011.

In March 2012, the Compensation Committee determined that there were not enough shares available in the Company's 2009 Incentive Plan to make equity grants delivering the economic value of $90,000 to the non-management directors while maintaining share availability for other purposes such as equity grants to non-executive employees and new employees. The Compensation Committee considered information on burn rate and projections on possible share usage for other purposes, consulted with Meridian and reviewed various models for possible equity grants Because preserving share availability under the 2009 Incentive Plan for other purposes was important, the Compensation Committee concluded that each of the non-management directors would be awarded long-term equity grants in March 2012 in the same share amounts and form as they had received in 2011 even though the economic value of such grants was less than the awards made in 2011. The Compensation Committee made the same decision with respect to equity grants for the executive officers in March 2012.

In March 2013, the Compensation Committee again addressed the share availability issue and consulted with its independent advisors at Meridian. Various models of possible share usage and alternative grant formulae were developed by the advisors and evaluated by the Committee. The Committee also considered burn rate information. The Committee concluded that non-management directors would be granted reduced equity awards of a specified number of restricted stock units (15,000 each), which on the date of grant yielded an economic value of $28,350.

The restricted stock units granted to non-management directors vest in three equal annual installments beginning on the first anniversary of the grant date. Upon vesting, the restricted stock units are settled in shares of our common stock.

Director Compensation Table. The table below summarizes the compensation paid to our non-management directors for 2013.

Name(1)	Fees Earned or Paid in Cash	Stock Awards(2)(3)	Total
Russell Gerns	$35,000	$31,500	$66,500
James Ledwith	63,000	31,500	94,500
Sue Swenson	38,500	31,500	70,000
John Wakelin	45,000	31,500	76,500
David A. Werner	44,000	31,500	75,500

(1) Peter V. Leparulo, our Chief Executive Officer, is not included in this table because he is an employee of the Company and receives no additional compensation for his service as a director. The compensation received by Mr. Leparulo as an employee of the Company is shown in the Summary Compensation Table in this Proxy Statement.

(2) The amounts in these columns reflect the aggregate grant date fair value of the stock awards granted in 2013 as computed in accordance with ASC Topic 718, excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in Note 6, "Stock Incentive and Employee Stock Purchase Plans" in the Company's Form 10-K for the year ended December 31, 2013.

(3) As of December 31, 2013, the number of shares of restricted stock and/or shares underlying outstanding restricted stock units held by each of the directors listed in the table above were as follows: Mr. Gerns (33,330 shares), Mr. Ledwith (33,330 shares), Ms. Swenson (27,220 shares), Gen. Wakelin (33,330 shares) and Mr. Werner (33,330 shares).

EXECUTIVE OFFICERS

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

Name	Age	Position with the Company
Peter V. Leparulo	55	Chief Executive Officer
Kenneth G. Leddon	61	Senior Vice President and Chief Financial Officer
Robert M. Hadley	51	Chief Marketing Officer
Catherine F. Ratcliffe	56	Senior Vice President, Business Affairs, General Counsel and Secretary
Slim S. Souissi	49	Senior Vice President and Chief Technology Officer

Peter V. Leparulo has served as a director since May 2003, as our Chairman from November 2006 through April 2014 and as our Chief Executive Officer since April 2008. He also served as our Chief Executive Officer from January 2003 to November 2007. From May 2001 to January 2003, he served as our Senior Vice President, General Manager, CDMA Operations. From September 2000 to May 2001, he served as our Senior Vice President, Corporate and Strategic Development and General Counsel. From June 1998 until September 2000, Mr. Leparulo was a Senior Partner at the law firm of Orrick, Herrington & Sutcliffe LLP, where he specialized in corporate finance, mergers and acquisitions, securities, intellectual property and general corporate matters. Prior to joining Orrick, Mr. Leparulo was a Partner at the law firm of Pillsbury Madison & Sutro LLP, from January 1992 until June 1998, and an Associate at that firm from October 1989 until January 1992. He holds a Bachelor of Science from Colgate University and a Juris Doctor from Case Western Reserve University.

Kenneth G. Leddon has served as our Senior Vice President and Chief Financial Officer since January 2008. From November 2007 to January 2008, he served as our interim Chief Financial Officer. Before joining us, Mr. Leddon was a principal in the management consulting firm of Leddon & Associates from September 2006 until November 2007. Prior to that, he was a principal in the management consulting firm of Pathway Strategic Partners from November 2002 to September 2006. Mr. Leddon also served as an interim executive or financial advisor for several companies while employed with two nationally recognized management consulting firms, XRoads Solutions Group, LLC and Buccino & Associates, Inc. He also served as Chief Financial Officer and Vice President for several portfolio companies of Milhous Group, a private equity firm that was based in California. Mr. Leddon started his career at U.S. Steel Corporation, where he held several financial management positions during his 10 year tenure. Mr. Leddon holds a Bachelor of Science in Business Administration from California State University-Northridge and a Master of Science in Business Administration from Robert Morris University.

Robert M. Hadley has served as our Chief Marketing Officer since March 2009 and served as a Senior Technical Advisor for the Company in the office of the Chief Executive Officer between March 2008 and March 2009. From 2004 to early 2008, Mr. Hadley was the Company's Senior Vice President of Worldwide Sales and Marketing and was our Vice President of Sales and Marketing in 2003. He served as our Vice President of Strategic Accounts from April 2001 to December 2002. Before initially joining us, Mr. Hadley was Vice President of Sales for e-SIM Ltd., a provider of advanced simulation technology for product development. Mr. Hadley also previously held various senior sales and marketing positions at Aonix, a Thomson Software company providing IT solutions for corporate enterprise reporting and lifestyle software development markets, where he rose to the position of Vice President of Marketing. Mr. Hadley holds a Bachelor of Science in Computer Science from San Diego State University.

Catherine F. Ratcliffe has served as our Senior Vice President, Business Affairs, General Counsel and Secretary since August 2007 and served as our Vice President, Business Affairs and Secretary from May 2004 until August 2007. From 2002 to 2004, she practiced law, including as a Partner in the law firm of Lamb & Kawakami. From 1997 to 2002, she was Vice President, General Counsel & Human Resources at Day Runner, Inc. Prior to joining Day Runner, she was a Partner in the law firm of Bryan Cave LLP practicing in the areas of corporate finance, securities and mergers and acquisitions, from 1992 to 1997. Ms. Ratcliffe holds a Bachelor of Arts from the University of California at Los Angeles and a Juris Doctor from the University of California at Berkeley.

Slim S. Souissi has served as our Senior Vice President and Chief Technology Officer since 2004 and served as our Vice President and Chief Technology Officer from October 2002 to 2004. He previously served as our Vice President of Emerging Technologies from December 2001 to October 2002 and as our Principal Research Scientist from May 2000 to December 2001. Prior to joining us in 2002, Dr. Souissi was Principal Staff Engineer in Motorola's research and development operation from November 1994 to May 2000. Dr. Souissi earned a Ph.D. and a Master of Science in Electrical Engineering from the Georgia Institute of Technology, a Master of Science in Digital Signal Processing from the Ecole Superieure d'Electricite (France) and a Master of Science in Engineering from the Ecole Centrale Marseille (France). Dr. Souissi holds 52 U.S. patents, all related to wireless technology.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Decisions with respect to compensation for our executive officers, including our chief executive officer, are made by the Compensation Committee of the Board. The following discussion and analysis is focused primarily on the compensation for our executive officers, with additional detail provided for our named executive officers. Our "named executive officers" are our chief executive officer, our chief financial officer and our three other most highly compensated executive officers for 2013. The compensation of our named executive officers is presented in the tables and related information and discussed under "Executive Compensation" following this section, beginning on page 26.

Compensation Philosophy and Objectives

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

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

Committee's Role in Establishing Compensation

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

The Compensation Committee is authorized to retain advisors with respect to compensation matters. The Compensation Committee engaged Meridian, to provide advice on compensation matters for executive officers and non-management directors for 2013. The compensation consultant's role is to provide independent third-party advice to assist the Compensation Committee in evaluating and designing our executive compensation policies and programs, including:

- providing recommendations regarding the composition of our comparator group, as described below;
- reviewing and assisting with recommendations regarding current executive compensation levels relative to the market and our performance, including with respect to the retention and promotion of executive officers;

- advising on trends in executive compensation, including best practices; and
- advising on aligning pay and performance. The Compensation Committee is responsible for reviewing fees paid to compensation consultants to ensure that the consultants maintain their objectivity and independence when rendering advice to the Committee regarding executive compensation matters.

Management's Role in Establishing Compensation

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

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

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

Consideration of 2013 Stockholder Advisory Vote

At our 2013 Annual Meeting of Stockholders, we held an advisory "say-on-pay" vote on the compensation of our named executive officers. Our stockholders approved the compensation of our named executive officers, with over 90% of shares cast voting in favor of the say-on-pay proposal. As we evaluated our compensation practices and talent needs throughout 2013, we were mindful of the support our stockholders expressed for our philosophy of linking compensation to our financial, operational and strategic goals and in support of enhancing stockholder value. As a result, the Compensation Committee decided to retain our general approach with respect to our executive compensation program, with an emphasis on delivering short and long-term incentive compensation that rewards our most senior executives based on achievement of financial, operational and strategic goals and with a view to enhancing stockholder value. We did make a change in the short term incentive program by including, for the first time, quarterly Company performance goals as well as the annual performance goals, both Company-wide and on an individual basis, that had been features of the plan in prior years. The Compensation Committee believed there were specific short-term goals that it wanted to provide an incentive to achieve as part of the Company's overall performance for the entire year. For example, the growth of revenue in the Company's machine-to-machine ("M2M") business was determined to be an important objective for the entire Company for 2013 and, accordingly, quarterly goals for M2M revenue, increasing sequentially throughout the year, were included in the 2013 bonus plan.

Comparator Group

The Compensation Committee undertook a thorough review of the executive officer compensation during the second and third quarters of 2013. Working with its independent consultants at Meridian, the Compensation Committee assessed the Company's executive compensation program, including base salary, total cash compensation and long-term incentive awards, with compensation paid by a comparator group of publicly traded companies compiled by Meridian. In 2012, at the Compensation Committee's request, Meridian had conducted an independent review of the Company's existing peer group and made recommendations regarding the composition of the peer group of companies used in the Compensation Committee's considerations concerning executive officer compensation. At that time, Meridian recommended to the Compensation Committee that some changes be made to the Company's existing peer group to ensure that all peer companies reflected relevant business and talent comparators and were size appropriate to the Company. The custom compensation peer group, developed by Meridian and accepted, with minor modifications, by the Compensation Committee in 2012, consisted of 24 companies. This custom compensation peer group was used by Meridian when making its Named Executive Officer Compensation Review for the Compensation Committee in August 2013.

The following companies comprised the 2013 custom compensation comparator group:

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

Review of Compensation Program

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

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

- *Internal Equity*. The Compensation Committee considers the level of total compensation opportunity for the executive officers in relation to one another to ensure that each executive's contribution to Company performance is appropriately reflected.

- *Individual Performance*. The Compensation Committee considers each individual executive's experience serving in his or her position and the potential for the executive to expand responsibilities and increase contributions to the Company.

Executive Compensation Programs and Policies

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

- base salary;

- annual incentive compensation;

- long-term incentive compensation;

- broad-based employee benefits; and
- severance and change-in-control benefits.

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

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

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

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

The Compensation Committee assesses performance by comparing actual results to the performance goals established. Generally, the total potential annual target incentive award payable to any executive officer is 50% of annual base salary (100% for our Chief Executive Officer). In approving annual incentive payouts, the Compensation Committee may apply discretion to the amounts that otherwise would be payable based upon Company and individual performance, subject to the maximum awards payable. For financial and revenue goals in incentive plans, there may be threshold minimum levels that must be achieved before any payments will be made for such goals. In addition, for these types of goals, there may be over-achievement levels specified up to a maximum amount payable if these goals are over-achieved. In 2013, with the introduction of quarterly performance goals, the Compensation Committee evaluated the established quarterly goals in the plan for a completed quarter against the actual achievements and results to determine which, if any, performance goals were met. If goals were over-achieved in a particular quarter, the Compensation Committee had the discretion to defer any payment for the over-achievement portion so that the overall achievement of the specific goal could be evaluated on the full year's results.

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

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

The Compensation Committee views equity incentive awards as a means to encourage management retention because these awards vest over a specified period of time. The Compensation Committee typically consults with its compensation consultants regarding equity awards to the Company's executive officers and considers the level of total compensation opportunity for the executive officers in relation to one another. The Compensation Committee has historically granted the executive officers a mix of stock option and restricted stock unit awards. When making equity incentive award decisions, the Compensation Committee does not consider existing ownership levels because the Committee does not want to discourage our executive officers from holding significant amounts of our common stock. In 2012 and 2013 , the Company's equity plan had limited share availability and the Compensation Committee reduced the size of the equity awards for the named executive officers. The economic value of the equity awards made in both years was less than the target value of the equity component in the compensation program developed by the Compensation Committee over the course of several years.

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

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

Employee Benefits. We do not provide our executive officers or other employees with defined pension benefits, supplemental retirement benefits, post-retirement payments or deferred compensation programs. We do provide a 401(k) defined contribution plan that is available to all of our U.S. employees who meet certain eligibility requirements. We currently match up to the first 4% of eligible compensation that a participant contributes to the plan each year, subject to limitations under applicable law. Company matching contributions vest over a two-year period. However, after an executive officer or other employee completes two years of service with the Company, all matching contributions are fully vested.

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

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

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

Severance and Change in Control Benefits. In November 2007, we entered into an employment agreement with Peter V. Leparulo, who was then our Executive Chairman and is now our Chief Executive Officer. The agreement provides for a minimum annual base salary and annual and long-term incentive compensation opportunities, as well as severance and other benefits. For additional information about the terms of this employment agreement, see "Executive Compensation—Employment Agreement," beginning on page 27. For additional information about the severance benefits provided under this agreement, see "Executive Compensation—Potential Payments Upon Termination or Change in Control—Employment Agreement," beginning on page 29.

We have not entered into employment agreements with any of our other executive officers. However, we provide all of our executive officers with severance benefits in the event of a termination of employment in connection with a change in control of the Company. The severance benefits are intended to assist us in attracting and retaining talented executives. In addition, the change-in-control benefits are intended to ensure that these executive officers are able, as a practical matter, to evaluate any potential change-in-control transaction objectively and to encourage these executives to remain employed by the Company in the event a change in control becomes a real possibility. For additional information, see "Executive Compensation—Potential Payments Upon Termination or Change in Control—Severance Agreements," beginning on page 31.

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

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

2013 Compensation

Base Salaries. During the course of several meetings in the second and third quarters of 2013, the Compensation Committee reviewed information from the comparator group. The market data demonstrated that the base salaries, as well as the total compensation (both target and actual compensation), of the Company's executive officers generally fell below the median and 25th percentile of the comparable positions in the comparator group.

After evaluating the data from the comparator group, discussing the service and performance of the executive officers as well as the goals and objectives set for their performance, the assumption of additional responsibilities by some, and their roles in pursuing strategic objectives for the Company and its businesses, the Compensation Committee decided that some changes would be made to the base salaries of our executive officers. There had not been any increases made in base salaries of our executive officers in several years. For example, the base salary for the Company's Chief Executive Officer was negotiated as part of his employment agreement in 2007 and had not changed since then, see "Executive Compensation – Employment Agreement," and the salary of Company's Chief Financial Officer had not changed since he joined the Company in January 2008. The Compensation Committee decided to implement changes to the base salaries of the Company's named executive officers with increases ranging from approximately five to fifteen percent. These changes were made effective on November 1, 2013.

Annual Incentive Compensation. In March 2013, the Compensation Committee adopted the 2013 Incentive Plan applicable to the Company's executive officers for the fiscal year ending December 31, 2013. Under the terms of the plan, each executive officer was eligible to receive discretionary cash bonus awards from the Company in a total dollar amount equal to a percentage of his or her annual base salary. The plan contained company-wide performance goals, two of which were measured and payable quarterly and one of which was assessed on an annual basis after completion of the fiscal year. The plan also included individual performance goals that were to be assessed at the end of the fiscal year. The award of the quarterly bonuses were subject to the achievement of operational and commercial milestones and two Company-wide financial goals: the Company's consolidated revenue and revenue from its M2M business. The plan included an annual Company-wide financial goal (an adjusted EBITDA target) as well as individual performance goals established for each executive officer. The individual performance goals established were principally qualitative rather than quantitative.

The target awards for the 2013 fiscal year, as a percentage of base salary, were 100% for the Company's Chief Executive Officer and 50% for all other executive officers. The percentage target for the Company's Chief Executive Officer was negotiated as part of his employment agreement, see "Executive Compensation – Employment Agreement." The percentage targets for the other executive officers were established by the Compensation Committee in consultation with Meridian several years ago as part of a broad review of executive compensation programs and the Compensation Committee believes the targets continue to provide a competitive annual incentive opportunity and promote internal equity within the executive team. Each executive officer was eligible to earn up to 80% of the target award if the Company performance goals were achieved and up to 20% of the target award if the executive officer achieved his or her own individual goals. The Compensation Committee believed that this mix of Company-wide and individual goals was appropriate in motivating the executive officers to achieve important business objectives of the Company while also recognizing each executive's individual contributions during the year. The Company performance goals were divided into quarterly and annual goals. The quarterly components were measured following the end of respective quarter and, if applicable, paid thereafter. The annual components of the bonuses were to be determined and paid following the end of the Company's 2013 fiscal year upon the approval of the Compensation Committee in its sole discretion. In approving the payment of awards under the plan, the Compensation Committee may also use its discretion to increase or decrease the amounts that otherwise would be payable based upon the achievement of the Company and individual performance goals.

When designing the 2013 bonus plan, the Compensation Committee established four components in the Company-wide financial goals as follows:

Performance Goal	Percentage of Overall Company Performance Goal	Payout Period
Adjusted EBITDA	15%	Annual
Consolidated Revenue	25%	Quarterly
M2M Revenue	40%	Quarterly
Corporate Objective Metrics	20%	Quarterly

The first component is based on the Company's earnings before interest, taxes, depreciation and amortization, or EBITDA, for the fiscal year ended December 31, 2013. For purposes of the EBITDA performance goal, share-based compensation expense is added back to EBITDA and is further adjusted, if necessary, to reflect the aggregate dollar amount of the incentive award payments. EBITDA, as so adjusted, is referred to herein as "Adjusted EBITDA." The Compensation Committee selected this metric because it believed that EBITDA is an industry-accepted measure of performance and demonstrates the Company's performance and ability to reinvest in its business. The Compensation Committee approved a matrix in which greater Adjusted EBITDA corresponded to higher levels of goal achievement. To achieve 100% of the EBITDA performance goal, the Company had to achieve Adjusted EBITDA of $3,144,000; however, the matrix provided opportunities for partial achievement (*e.g.,* 90%) and overachievement (*e.g*., 110%) of this goal at specified Adjusted EBITDA levels. To achieve 100% of the quarterly consolidated revenue goals, the Company had to achieve revenue for the fiscal quarters as follows: $94,200,000 in the first quarter, $92,434,000 in the second quarter, $87,689,000 in the third quarter and $100,464,000 in the fourth quarter; however, as was done with the EBITDA goal, the matrix provided a sliding scale of achievement and payout opportunities for partial achievement (e.g., 90%) and overachievement (e.g., 110%) of the quarterly revenue goals. The Compensation Committee chose the revenue goals because it believed that revenue is an important measure of the Company's financial performance. To achieve 100% of the quarterly M2M revenue goals the Company had to achieve revenue from its M2M business for the fiscal quarters as follows: $9,200,000 in the first quarter, $9,749,000 in the second quarter, $11,493,000 in the third quarter and $18,701,000 in the fourth quarter, however, as was done with the other financial goals, the matrix provided a sliding scale of achievement and payout opportunities for partial achievement (e.g., 90%) and overachievement (e.g., 110%) of the M2M revenue goals. The Compensation Committee selected the M2M revenue goal for 2013 because it believed the growth of the M2M business was a significant feature of the Company's long term strategic plan. A minimum threshold had to be met or exceeded for each of the three financial components before any bonus payments would be made with respect to that component.

The quarterly operational and commercial performance goals in the 2013 plan included three key performance metrics from the Company's operating plan for 2013: on-time product development and delivery (7%), customer acquisition (7%) and progress on software initiatives (6%). Within each of these categories, there were specific quarterly objectives or milestones set. If these quarterly operational goals were fully achieved each quarter all year, they would constitute 20% of the Company performance goal. The Company's operating plan is developed by the Company's management team and presented and discussed with the Board of Directors. These quarterly performance metrics were selected by the Compensation Committee because it believed achieving these operational and commercial goals would improve the Company's business, increase shareholder value and contribute positively to the longer term strategic goals of the Company.

The Company financial and performance goals in the bonus plan for executive officers were also used in the bonus plan for non-executive employees throughout the Company.

In June 2013, the Compensation Committee reviewed the results achieved in the first quarter of the year against the financial targets and operational and commercial goals in the bonus plan for that period. The Compensation Committee determined that the consolidated revenue goal had been achieved at the 91% level, the M2M revenue goal had been overachieved (112%) but would be paid at the 100% achievement level and that the operational and performance goals had been achieved at the 95% level for the quarter, resulting in a total payout of 78%. In August 2013, the Compensation Committee assessed the Company's results against the specified targets and goals for the second quarter. The Compensation Committee found that 99% of the consolidated revenue goal was met, the M2M revenue goal had been overachieved (106%), but would be paid at the 100% level and that 100% of the operational and commercial goals had been achieved. This performance resulted in a total payout of 82% of the potential bonus amount for the quarter. In December 2013, the Compensation Committee reviewed the results from the third quarter against the targets and goals in the bonus plan for that quarter and determined that the consolidated revenue goal had been over-achieved (106%), but would be paid at the 100% level, the M2M revenue was below the threshold for any payment (75% achievement against a threshold of 80%) and the operational and commercial goals had been achieved at an 85% level, resulting in an overall payout at 42%. In January 2014, the Compensation Committee evaluated the results of the fourth quarter and determined that neither of the financial targets in the bonus plan for the fourth quarter had been achieved at the threshold level for any award (consolidated revenue was at 65% of goal and M2M revenue was at 45% of goal) and that the annual financial target had also not been achieved at the minimum level set in the plan (an Adjusted EBDITA loss of $(1,253,000) against a threshold goal of $144,000 Adjusted EBITDA).

In January 2014, the executive officers advised the Compensation Committee that they wanted to waive consideration of any further awards under the 2013 Incentive Plan. The Compensation Committee accepted this proposal and no awards were considered for the executive officers for their individual performance during 2013 or the operational and commercial components for the fourth quarter of the 2013 Incentive Plan. The actual bonus amounts awarded under the 2013 bonus plan are set forth below:

Executive	Base Salary(1)	Bonus Target Amount	2013 Actual Bonus Amount	2013 Actual Bonus Amount (as a Percentage of Target)
Peter Leparulo	$462,000	$462,000	$186,648	40.4%
Kenneth Leddon	$285,000	$142,500	$ 57,500	40.4%
Robert Hadley	$285,000	$142,500	$ 57,500	40.4%
Catherine Ratcliffe	$270,000	$135,000	$ 54,540	40.4%
Slim Souissi	$300,000	$150,000	$ 60,600	40.4%

(1) These amounts do not reflect the base salary changes made effective November 1, 2013, because no bonus payments were made after that date.

Long-Term Incentive Compensation. In the first quarter of 2013, the Compensation Committee considered several scenarios to address long-term equity compensation. As part of its consideration, the Compensation Committee reviewed the equity grants of the previous several years in the context of the compensation program that had been developed over time by the Compensation Committee. In 2011, the Compensation Committee had considered the benchmarking data with regard to direct peer and general industry group, accounting impacts on earnings, the Chief Executive Officer's recommendations with respect to all executive officers other than himself, the Compensation Committee's own evaluations of the individual contribution and performance of each of the executive officers and previous equity awards to the executive officers. The result of these considerations were equity awards for each named executive officer with an economic value that was equal to a specified percentage of such officer's base salary (ranging from 130-200%). These percentages were aligned with the equity awards that had been made in several previous years to the executive officers.

In March 2012, the Compensation Committee determined that there were not enough shares available in the Company's 2009 Incentive Plan to make equity grants delivering these economic values to the named executive officers while maintaining share availability for other purposes such as equity grants to non-executive employees and new employees. The Compensation Committee considered information on burn rate and projections on possible share usage for other purposes, consulted with its compensation consultant and reviewed various models for possible equity grants. Considering all these factors and because preserving share availability under the 2009 Incentive Plan for other purposes was important, the Compensation Committee concluded that each of the named executive officers would be awarded long-term equity grants in March 2012 in the same share amounts and form as they had received in 2011 even though the economic value of such grants was less than the awards made in 2011. This decision was consistent with the recommendation of the compensation consultant.

During a series of meetings in the first quarter of 2013, the Compensation Committee studied several models provided by Meridian setting forth various equity grant formulas that could be implemented. The Compensation Committee looked at projections of share pool usage, burn rate, employee turnover, forfeiture rates and other assumptions made in each model. The Committee members also considered retention tools and incentives and alignment with shareholders' interests and related matters. The Compensation Committee discussed the impact of the variable stock prices on equity grants and noted that equity grants in accordance with the economic formulae recommended by the compensation consultants engaged by the Compensation Committee several years ago for the executive officer grants (as well as for the independent directors) had not been possible since 2011 because of share pool constraints. The Compensation Committee also discussed the need to preserve the available shares in the equity plan for use with existing and new non-executive employees at the Company. The Compensation Committee decided to make the equity awards to the executive officers in stock options rather than a mix of stock options and restricted units that had been used in previous years. The Compensation Committee made the decision to grant equity in this form because they believed that stock options would provide a greater incentive to the executive officers and be a more effective retention tool than an award of restricted stock units.

The following table sets forth the target award and actual award (as a percent of base salary), the economic value (at the time of grant) of the long-term equity incentive award granted to each of our named executive officers in March 2013, as well as the number of stock options and restricted stock units granted to each named executive officer.

Executive	Target Award as a Percent of Base Salary	Actual Award as a Percent of Base Salary	Economic Value of Award at Time of Grant	Number of Stock Options	Number of Restricted Stock Units
Peter V. Leparulo	200%	41%	$189,000	154,000	0
Kenneth G. Leddon	130	27	77,805	61,750	0
Robert Hadley	150	32	89,775	71,250	0
Catherine F. Ratcliffe	140	29	79,380	63,000	0
Slim S. Souissi	150	32	94,500	75,000	0

The stock option awards vest over a three-year period, with one-third vesting on the first anniversary of the grant date and the remainder vesting ratably on a monthly basis thereafter through the third anniversary of the grant date. The Compensation Committee approved equity awards with time-based vesting to create a significant incentive for our executive officers to be employed by the Company for at least three years after the date of grant.

COMPENSATION COMMITTEE REPORT

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

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

Compensation Committee

James Ledwith, Chair   Sue Swenson   John Wakelin

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee was at any time during fiscal 2013 or at any other time an officer or employee of the Company, and no member had any relationship with the Company requiring disclosure as a related person transaction. No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of our Board or Compensation Committee during fiscal 2013.

EXECUTIVE COMPENSATION

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

Summary Compensation Table

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

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation(2)	All Other Compensation(3)	Total
Peter V. Leparulo	2013	$473,333	$ 0	$184,215	$186,648	$10,734	$ 854,930
Chief Executive Officer	2012	462,000	517,889	111,065	210,000	10,534	1,311,488
	2011	462,000	820,492	189,573	187,572	10,400	1,670,037
Kenneth G. Leddon	2013	291,667	0	73,865	57,570	10,734	433,836
Senior Vice President and	2012	285,000	207,659	44,534	62,415	10,534	610,142
Chief Financial Officer	2011	285,000	328,995	76,013	57,855	10,400	758,263
Robert Hadley	2013	287,500	0	85,229	57,570	10,734	441,033
Chief Marketing Officer	2012	285,000	239,606	51,385	62,415	10,534	648,940
	2011	285,000	379,609	87,707	57,855	10,400	820,571
Catherine F. Ratcliffe	2013	275,833	0	75,361	54,540	10,734	416,468
Senior Vice President of	2012	270,000	211,863	45,436	59,130	10,534	596,963
Business Affairs, General Counsel and Secretary	2011	270,000	335,655	77,553	54,810	10,400	748,418
Slim S. Souissi	2012	307,500	0	89,715	60,600	10,734	468,549
Senior Vice President and	2011	300,000	252,217	54,089	65,700	10,534	682,540
Chief Technology Officer	2010	300,000	399,589	92,323	60,900	10,400	863,212

(1) The amounts in these columns reflect the aggregate grant date fair value of the stock and option awards granted in the respective fiscal year as computed in accordance with ASC Topic 718, excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in Note 6, "Stock Incentive and Employee Stock Purchase Plans" in the Company's Form 10-K for the year ended December 31, 2013.

(2) Represents cash awards for the Company performance portion of our annual incentive compensation plan. The threshold, target and maximum amounts for each named executive officer's fiscal 2013 incentive opportunity are reported in the "Grants of Plan-Based Awards Table" below.

(3) For 2013, the amounts shown represent Company matching contributions under our 401(k) plan and life insurance premiums paid by the Company.

Grants of Plan-Based Awards

The following table sets forth information regarding the Company's grants of plan-based awards to named executive officers during 2013 under the Company's annual incentive plan and 2009 Incentive Plan. In this table, the annual incentive plan is abbreviated as "AIP" and awards under the 2009 Incentive Plan are abbreviated as "RSU" for restricted stock unit awards and "SOA" for stock option awards.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)					
Name	**Award Type**	**Grant Date**	**Threshold**	**Target**	**Maximum**	**All Other Option Number of Securities Underlying Options (#)(2)**	**Exercise or Base Price of Option Awards ($/Share)**	**Grant Date Fair Value of Option Awards**
Peter Leparulo	AIP	3/4/2013	$217,140	$462,000	$924,000			
	SOA	3/4/2013				154,000	$2.10	184,215
Kenneth Leddon	AIP	3/4/2013	66,975	142,500	285,000			
	SOA	3/4/2013				61,750	2.10	73,865
Robert Hadley	AIP	3/4/2013	66,975	142,500	285,000			
	SOA	3/4/2013				71,250	2.10	85,229
Catherine Ratcliffe	AIP	3/4/2013	63,450	135,000	270,000			
	SOA	3/4/2013				63,000	2.10	75,361
Slim Souissi	AIP	3/4/2013	70,500	150,000	300,000			
	SOA	3/4/2013				75,000	2.10	89,715

(1) Represents the potential payout for awards granted under the Company's annual incentive plan. These awards were subject to the attainment of certain performance goals. The performance goals and target award multiples for determining the payout are described under "Compensation, Discussion and Analysis—Annual Incentive Compensation." Actual amounts paid under the plan to the named executive officers are reported in the Summary Compensation Table in the "Non-Equity Incentive Plan Compensation" column.

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

Employment Agreement

In November 2007, we entered into an employment agreement with Mr. Leparulo, who was then our Executive Chairman and is now our Chief Executive Officer, for an initial term of three years. The agreement provided Mr. Leparulo with an annual base salary of not less than $462,000. The amount of his base salary was increased for the first time under the agreement, effective November 1, 2013, to $530,000. Mr. Leparulo is eligible to receive annual incentive compensation equal to at least 100% of his base salary, based on the achievement of performance goals established by the Board or Compensation Committee. Mr. Leparulo is also entitled to annual equity grants consistent with competitive pay practices generally and appropriate relative to awards made to our other executive officers. Mr. Leparulo is entitled to a $1,000,000 executive term life insurance policy and may designate the beneficiary of the policy. To date, he has not exercised his right to this benefit. He is also eligible to participate in our employee benefits plans and programs. For a description of the severance benefits provided under this agreement and our other severance agreements, see "—Potential Payments Upon Termination or Change in Control—Employment Agreement."

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding stock options and restricted stock units held by the named executive officers that were outstanding at December 31, 2013.

	Option Awards				Stock Awards	
	Number Securities Underlying Unexercised Options # Exercisable	Number Securities Underlying Unexercised Options # unexercisable	Option Exercise Price	Option Experation Date	Number of Shares or Units of Stock that have Not Vested	Market Value Units That have not vested(1)
Peter V. Leparulo						
	350,000	0	$ 16.27	4/29/2014		
	200,000	0	$ 11.04	3/7/2015		
	210,000	0	$ 5.51	3/13/2019		
	110,791	0	$ 6.95	3/11/2020		
	45,524	10,989(2)	$ 5.45	7/1/2021		
	32,966	23,547(3)	$ 3.44	3/8/2022		
	0	154,000(4)	$ 2.10	3/4/2023		
					50,183(5)	$ 118,934
					100,366(6)	$ 237,867
Kenneth G. Leddon	64,773	0	$ 5.51	3/13/2019		
	30,114	0	$ 11.83	10/20/2019		
	44,424	0	$ 6.95	3/11/2020		
	18,254	4,406(2)	$ 5.45	7/1/2021		
	13,219	9,441(3)	$ 3.44	3/8/2022		
	0	61,750(4)	$ 2.10	3/4/2023		
					20,122(5)	$ 47,689
					40,244(6)	$ 95,378
Robert M. Hadley	60,227	0	$ 5.51	3/13/2019		
	51,259	0	$ 6.95	3/11/2020		
	21,062	5,084(2)	$ 5.45	7/1/2021		
	15,252	10,894(3)	$ 3.44	3/8/2022		
	0	72,250(4)	$ 2.10	3/4/2023		
					23,218(5)	$ 55,027
					46,436(6)	$ 110,053
Catherine F. Ratcliffe	60,000	0	$ 15.43	5/12/2014		
	50,000	0	$ 18.78	7/26/2014		
	63,984	0	$ 11.04	3/7/2015		
	27,000	0	$ 10.40	1/5/2017		
	59,901	0	$ 5.51	3/13/2019		
	45,324	0	$ 6.95	3/11/2020		
	18,624	4,495(2)	$ 5.45	7/1/2021		
	13,487	9,632(3)	$ 3.44	3/8/2022		
	0	63,000(4)	$ 2.10	3/4/2023		
					20,530(5)	$ 48,656
					41,059(6)	$ 97,310
Slim S. Souissi						
	25,000	0	$16.27	4/29/2014		
	21,333	0	$11.04	3/7/2015		
	30,000	0	$10.40	1/5/2017		
	102,273	0	$ 5.51	3/13/2019		
	53,957	0	$ 6.95	3/11/2020		
	22,171	5,351(2)	$ 5.45	7/1/2021		
	16,055	11,467(3)	$ 3.44	3/8/2022		
	0	75,000(4)	$ 2.10	3/4/2023		
					24,440(5)	$ 57,923
					48,880(6)	$115,846

(1) Based upon a market value per share of $2.37, the closing price of our stock on December 31, 2013.
(2) Option vested as to one-third of the shares of common stock underlying the option on July 1, 2012 and the remaining two-thirds vest ratably on a monthly basis thereafter until fully vested on July 1, 2014.
(3) Option vested as to one-third of the shares of common stock underlying the option on March 8, 2013 and the remaining two-thirds vest ratably on a monthly basis thereafter until fully vested on March 8, 2015.
(4) Option vested as to one-third of the shares of common stock underlying the option on March 4, 2014 and the remaining two-thirds vest ratably on a monthly basis thereafter until fully vested on March 4, 2016.
(5) Represents restricted stock units, of which one-third vested on July 1, 2012, one-third vested on July 1, 2013 and one-third will vest on July 1, 2014.
(6) Represents restricted stock units, of which one-third vested on March 8, 2013, one-third vested on March 8, 2014 and one-third will vest on March 8, 2015.

Option Exercises and Stock Vested

The following table sets forth information regarding the vesting of restricted stock unit awards for each of the named executive officers during 2013.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting(1)
Peter V. Leparulo	124,967	$360,799
Kenneth G. Leddon	50,109	144,672
Robert Hadley	57,817	166,928
Catherine F. Ratcliffe	51,122	147,597
Slim S. Souissi	60,860	175,713

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

Potential Payments Upon Termination or Change in Control

We currently provide severance benefits to our named executive officers, in the event the executive's employment is terminated under certain circumstances following a change in control of the Company. We provide these benefits to Mr. Leparulo under an employment agreement and to each of Mr. Hadley, Mr. Leddon, Ms. Ratcliffe and Dr. Souissi under severance agreements. We also provide severance benefits unrelated to a change in control to Mr. Leparulo under his employment agreement. A description of the severance benefits payable under these agreements is set forth below.

Employment Agreement. Our employment agreement with Mr. Leparulo provides for payments and benefits to him in the event there is a change in control of the Company or his employment is terminated under the circumstances described below. We and Mr. Leparulo have agreed that retroactive to the commencement of his service as our Chief Executive Officer, the employment agreement shall be construed as also referring to his service as Chief Executive Officer. Unless clearly inappropriate in the context, every reference in the employment agreement to Mr. Leparulo's position, authority, rights, or duties shall be construed as referring to both his Executive Chairman and Chief Executive Officer positions, authority, rights, or duties while he held both positions and, when he only held one of those positions, to that position and its authority, rights, or duties. Mr. Leparulo further agreed that the cessation of his Executive Chairman position and the appointment of a new chairman shall not constitute good reason under his employment agreement.

Termination Without Cause or for Good Reason. Mr. Leparulo is entitled to the following severance benefits if we terminate his employment without cause or if he terminates his employment for good reason:

- a severance payment equal to two times the sum of (a) his base salary, plus (b) the greater of the annual incentive award he would have earned for the year of termination (which is deemed to be no less than his target award for the year) and his base salary multiplied by the average annual incentive award, as a percentage of base salary, for the next three most senior executive officers;

- immediate vesting of all outstanding equity awards under our compensation plans, which awards will remain exercisable until the applicable expiration date;
- an amount equal to his unpaid base salary earned though the date of termination, unpaid annual incentive award earned for the previous year and annual incentive award earned in the year of termination pro-rated through the date of termination;
- outplacement services for one year, not to exceed $20,000;
- continued participation for 24 months by Mr. Leparulo and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination;
- payment for accrued vacation time; and
- a payment equal to the amount necessary to offset any excise taxes and any related income taxes, penalties and interest.

Under the agreement, termination without cause includes termination for any reason other than:

- willful gross misconduct, or a willful violation of a federal or state law applicable to the Company, that is materially adverse to the Company;
- a felony conviction; or
- a material breach of the employment agreement.

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

- a material reduction in his duties;
- a reduction in his base salary or bonus opportunity;
- the termination of, or a material reduction in, his employee benefits;
- a relocation of his principal place of work by more than 40 miles;
- our breach of the employment agreement or any other agreement with him;
- a failure of any successor company to assume the employment agreement; or
- a failure by our stockholders to re-elect him as a director.

Termination in Connection with a Change in Control. If we terminate Mr. Leparulo's employment without cause within six months prior to a change in control of the Company or if he terminates his employment for any reason within one year following a change in control of the Company, he is entitled to receive the benefits listed above, except:

- the severance payment would be determined using a multiplier of three (instead of two); and
- the period of continued participation in our group health plan would be extended to 36 months (from 24 months).

Under the employment agreement, a change in control is defined as:

- a merger, consolidation or similar transaction, unless the holders of our common stock immediately prior to the transaction beneficially own more than 50% of the combined voting power of the surviving entity;
- a sale of all or substantially all of the Company's assets;
- a change in the composition of the Board, resulting in fewer than a majority of directors who either (a) were serving as a member of the Board one year prior to the transaction or (b) were nominated or elected by a majority of the directors serving one year prior to the transaction;

- a transaction after which an individual, entity or group owns 30% or more of the outstanding shares of our common stock; or
- a liquidation or dissolution of the Company.

Acceleration of Equity Awards in Connection with a Change in Control. Mr. Leparulo is entitled to immediate vesting of all outstanding equity awards under our compensation plans upon a change in control of the Company.

Termination for Cause. If we terminate Mr. Leparulo's employment for cause, he is entitled to receive any earned but unpaid compensation payable to him as of the date of termination, including base salary, any annual incentive award for the prior year and any annual incentive award for the year of termination pro-rated through the date of termination.

Termination Due to Death or Disability. In the event Mr. Leparulo's employment is terminated due to his death or disability, he or his beneficiary is entitled to receive his target annual incentive award for the year of termination plus any earned but unpaid compensation payable to him as of the date of termination, including base salary, any annual incentive award for the prior year and any annual incentive award for the year of termination pro-rated through the date of termination.

Termination Other than for Good Reason. In the event Mr. Leparulo terminates his employment other than for good reason, he is entitled to receive his target annual incentive award for the year of termination pro-rated through the date of termination, plus any earned but unpaid compensation payable to him as of the date of termination, including base salary, any annual incentive award for the prior year and any annual incentive award for the year of termination pro-rated through the date of termination.

Severance Agreements.

Severance Agreements with Ms. Ratcliffe and Dr. Souissi. We have entered into severance agreements with Ms. Ratcliffe and Dr. Souissi. These agreements provide for severance benefits if the executive's employment is terminated within one year following a change in control of the Company. If the executive's employment is terminated without cause or by the executive for good reason following a change in control of the Company, the executive is entitled to the following benefits:

- a lump-sum severance payment equal to three times the sum of (a) the greater of the executive's base salary for the year of termination and for the year in which the change in control occurs, plus (b) the greater of the executive's target annual incentive award for the year of termination and for the year in which the change in control occurs;
- immediate vesting of all outstanding equity awards under our compensation plans, which awards will remain exercisable for two years;
- an amount equal to his or her unpaid base salary through the date of termination and any other amounts owed to the executive under our compensation plans.
- one year of financial planning services at the same level provided to the executive immediately prior to the date of termination, or, if more favorable to the executive, immediately prior to the change in control;
- outplacement services for one year, not to exceed $10,000;
- continued participation for 24 months by the executive and his or her dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination; and
- a payment equal to the amount necessary to offset any excise taxes and any related income taxes, penalties and interest.

Under these severance agreements a change in control is defined in the same manner as Mr. Leparulo's employment agreement, except that the criteria based on the composition of the Board requires a majority of the continuing directors to have served, or been nominated or elected by those directors who had served, two years (compared to one year for Mr. Leparulo) prior to the transaction.

Under these severance agreements, termination without cause includes termination for any reason other than:

- a failure by the executive to perform his or her duties (other than for disability or following receipt of notice of termination);
- a fraud or dishonesty resulting in material injury to the Company;
- a violation of a federal or state law applicable to the Company; or
- a felony conviction.

Each of the executives will be deemed to have terminated his or her employment for good reason if the termination follows:

- a reduction in the executive's duties (including if we cease to be a publicly-traded company);
- a reduction in the executive's base salary or bonus opportunity;
- a relocation of the executive's principal place of work by more than 30 miles;
- our failure to pay any current compensation;
- a material reduction in the executive's benefits;
- a failure of any successor company to assume the agreement;
- an alleged termination for cause that is communicated to the executive without proper notice under the agreement; or
- our breach of the agreement that is materially adverse to the executive.

Severance Agreements with Mr. Hadley and Mr. Leddon. In 2010, we entered into severance agreements with Mr. Hadley and Mr. Leddon. These agreements provide for severance benefits if the executive's employment is terminated within two years following a change in control of the Company. If the executive's employment is terminated without cause or by the executive for good reason following a change in control of the Company, the executive is entitled to the following benefits:

- a lump-sum severance payment equal to three times the sum of (a) the greater of the executive's base salary immediately prior to termination and prior to the change in control, plus (b) the executive's target annual incentive award in the year of termination;
- immediate vesting of all outstanding equity awards under our compensation plans, which awards will remain exercisable for two years; provided that performance awards will accelerate based on the pro-rated portion of the performance period during which the executive served;
- an amount equal to his or her unpaid base salary and incentive pay through the date of termination and any other amounts owed to the executive under our compensation plans;
- a lump-sum bonus payment equal to the pro-rated portion of the target bonus in the year of termination;
- outplacement services for one year, not to exceed $25,000; and
- continued participation for 24 months by the executive and his dependents in our group health plan, at the same benefit and contribution levels in effect immediately before the termination.

These severance agreements do not provide for any additional payments by the Company for excise or other taxes.

Under these severance agreements a change in control is defined in the same manner as Mr. Leparulo's employment agreement, except that the criteria based on the composition of the Board requires a majority of the continuing directors to have been approved by a vote of at least two-thirds of the directors serving at the time of the nomination or election and excludes from the definition directors who were nominated in an actual or threatened election contest.

Under these severance agreements, termination without cause includes termination for any reason other than:

- conviction of a criminal violation involving fraud, embezzlement or theft in connection with the executive's duties or in the course of employment;
- commission of intentional wrongful damage to the Company's property;
- commission of intentional wrongful disclosure of the Company's confidential information;
- commission of intentional engagement in prohibited competitive activity; or
- any act that has caused or will cause demonstrable and material harm to the Company.

Each of the executives will be deemed to have terminated his or her employment for good reason if the termination follows:

- a material reduction in the executive's base salary (excluding reductions that apply to all executive officers) or bonus opportunity;
- a relocation of the executive's principal place of work by more than 50 miles;
- a failure of any successor company to assume the agreement; or
- our breach of the agreement that is materially adverse to the executive.

Equity Award Agreements. The following is a summary of the vesting provisions applicable to the outstanding equity awards held by our named executive officers as of December 31, 2013.

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

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

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

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

Summary of Potential Termination Benefits. The following tables quantify the compensation and benefits that would have been payable to the named executive officers under the agreements described above if the executive's employment had terminated on December 31, 2013, given the executive's base salary, and, if applicable, the closing price of our common stock, as of that date. In addition, for the purposes of these tables we have included the dollar amount that each such officer actually received in exchange for 2013 performance under the Company's annual incentive plan for 2013. The amounts shown in the tables do not include payments and benefits, such as accrued salary and accrued vacation, to the extent that such payments and benefits are provided on a non-discriminatory basis to salaried employees generally upon termination of employment.

Peter V. Leparulo
Chairman and Chief Executive Officer

Benefits and Payments	Voluntary Termination	Involuntary Termination for Cause	Involuntary Termination Without Cause or for Good Reason	Change in Control Only	Change in Control and Termination	Death	Disability
Cash Severance	—	—	$1,984,000	—	$2,976,000	—	—
Annual Incentive Award	$186,648	$186,648	186,648	—	186,648	$186,648	$186,648
Acceleration of Equity Awards	—	—	356,801	$356,801	356,801	—	—
Health Benefits	—	—	12,133	—	18,200	—	—
Outplacement Services	—	—	20,000	—	20,000	—	—
Insurance Benefits	—	—	—	—	—	500,000	—
Excise Tax Payment	—	—	—	—	—	—	—
Totals:	$186,648	$186,648	$2,559,582	$356,801	$3,557,649	$686,648	$186,648

Kenneth G. Leddon
Senior Vice President and Chief Financial Officer

Benefits and Payments	Voluntary Termination	Involuntary Termination	Change in Control Only	Change in Control and Termination Without Cause or for Good Reason	Death
Cash Severance	—	—	—	$1,402,500	—
Annual Incentive Award	$57,570	$57,570	—	57,570	$ 57,570
Acceleration of Equity Awards	—	—	—	143,067	—
Health Benefits	—	—	—	29,043	—
Outplacement Services	—	—	—	25,000	—
Insurance Benefits	—	—	—	—	500,000
Excise Tax Payment	—	—	—	—	—
Totals:	$57,570	$57,570	—	$1,657,180	$557,570

Robert M. Hadley
Chief Marketing Officer

Benefits and Payments	Voluntary Termination	Involuntary Termination	Change in Control Only	Change in Control and Termination Without Cause or for Good Reason	Death
Cash Severance	—	—	—	$1,327,500	—
Annual Incentive Award	$57,570	$57,570	—	57,570	$ 57,570
Acceleration of Equity Awards	—	—	—	165,082	—
Health Benefits	—	—	—	38,652	—
Outplacement Services	—	—	—	25,000	—
Insurance Benefits	—	—	—	—	500,000
Excise Tax Payment	—	—	—	—	—
Totals:	$57,570	$57,570	—	$1,613,804	$557,570

Catherine F. Ratcliffe
Senior Vice President of Business Affairs, General Counsel and Secretary

Benefits and Payments	Voluntary Termination	Involuntary Termination	Change in Control Only	Change in Control and Termination Without Cause or for Good Reason	Death
Cash Severance	—	—	—	$1,320,000	—
Annual Incentive Award	$54,540	$54,540	—	54,540	$ 54,540
Acceleration of Equity Awards	—	—	—	145,966	—
Health Benefits	—	—	—	24,906	—
Outplacement Services	—	—	—	10,000	—
Insurance Benefits	—	—	—	—	500,000
Excise Tax Payment	—	—	—	—	—
Totals:	$54,540	$54,540	—	$1,555,412	$554,540

Slim S. Souissi
Senior Vice President and Chief Technology Officer

Benefits and Payments	Voluntary Termination	Involuntary Termination	Change in Control Only	Change in Control and Termination Without Cause or for Good Reason	Death
Cash Severance	—	—	—	$1,485,000	—
Annual Incentive Award	$60,600	$65,700	—	60,600	$ 60,600
Acceleration of Equity Awards	—	—	—	173,768	—
Health Benefits	—	—	—	38,652	—
Outplacement Services	—	—	—	10,000	—
Insurance Benefits	—	—	—	—	500,000
Excise Tax Payment	—	—	—	—	—
Totals:	$60,600	$60,600	—	$1,768,020	$560,600

REVIEW AND APPROVAL OF TRANSACTIONS WITH RELATED PARTIES

Transactions with Related Persons

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

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

In the event a director has an interest in the proposed transaction, the director must recuse himself from the deliberations and approval. To decide whether to approve, ratify or reject a related-person transaction, the Audit Committee determines in good faith whether the transaction is in, or is not inconsistent with, the best interests of the Company and its stockholders.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The tables below provide information regarding the beneficial ownership of our common stock as of March 31, 2014 by:

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

The tables below list the number and percentage of shares beneficially owned based on 34,314,721 shares of common stock outstanding as of March 31, 2014. Beneficial ownership is determined in accordance with SEC rules and regulations, and generally includes voting power or investment power with respect to securities held. Unless otherwise indicated and subject to applicable community property laws, we believe that each of the stockholders named in the table below has sole voting and investment power with respect to the shares shown as beneficially owned.

Directors and Named Executive Officers

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage
Peter V. Leparulo	1,483,377	4.20%
Russell Gerns	80,168	*
James Ledwith	89,587	*
Sue Swenson	11,109	*
John Wakelin	67,636	*
David A. Werner	126,987	*
Robert Hadley	278,631	*
Kenneth G. Leddon	318,826	*
Catherine F. Ratcliffe	492,805	1.42
Slim S. Souissi	573,310	1.66
All directors and executive officers as a group (10 persons)(2)		9.64

* Less than 1%.

(1) Includes shares of our common stock that may be acquired pursuant to stock options that are or will become exercisable within 60 days after March 31, 2014 as follows: Mr. Gerns (22,862 shares), Mr. Hadley (182,772 shares), Mr. Leddon (201,093 shares), Mr. Ledwith (38,746 shares), Mr. Leparulo (1,024,868 shares), Ms. Ratcliffe (368,431 shares), Dr. Souissi (307,600 shares), Gen. Wakelin (21,820 shares) and Mr. Werner (68,746 shares); does not include Dr. Karp and Mr. Mashinsky who were appointed to the Board in April 2014.

(2) Includes 2,236,938 shares of our common stock that may be acquired pursuant to stock options that are or will become exercisable within 60 days after March 31, 2014.

Five Percent Holders

The following table sets forth information regarding the number and percentage of shares of common stock held by all persons and entities known by us to beneficially own five percent or more of our outstanding common stock. The information regarding beneficial ownership of the entities identified below is included in reliance on a report filed by the entity with the SEC, except that the percentage is based upon our calculations made in reliance upon the number of shares reported to be beneficially owned by such entity or person in such report and the number of shares of common stock outstanding on March 31, 2014.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage
Bruce A. Karsh(1) 333 S. Grand Ave., Suite 2800 Los Angeles, CA 90071	3,000,000	8.74%
Edward T. Shadek (2) 101 California St, 41st Fl., San Francisco, CA 94111	1,773,164	5.17%

(1) According to a Schedule 13G filed by Bruce A. Karsh with the SEC on January 14, 2013. Mr. Karsh has sole voting power and sole dispositive power with respect to 3,000,000 shares.

(2) According to a Schedule 13D filed by Edward T. Shadek with the SEC on March 19, 2014. Mr. Shadek has sole voting power and sole dispositive power with respect to 1,773,164 shares.

EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2013, the Purchase Plan and the 2009 Incentive Plan were the only compensation plans under which securities of the Company were authorized for grant. These plans, including amendments, were approved by our stockholders. The Company does not have any equity plans that have not been approved by stockholders. The following table provides information as of December 31, 2013 regarding the Company's existing and predecessor plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders(1)	3,932,771(2)	$9.45(3)	5,168,727(4)

(1) As of March 31, 2014 4,161,142 shares of common stock were issuable upon exercise of outstanding options with a weighted-average exercise price of $8.43. As of that date, there were outstanding restricted stock awards for 2,232,944 shares. No warrants or rights were outstanding as of that date. As of March 31, 2014, there were 1,874,026 shares of our common stock available for issuance under the 2009 Incentive Plan and 1,500,132 shares of common stock available under the Purchase Plan.

(2) The 1,112,035 shares issuable upon vesting of outstanding restricted stock units are excluded.

(3) As of March 31, 2014, the weighted-average term of the outstanding options was 4.62 years. No warrants or rights were outstanding as of that date.

(4) Represents shares available for future issuance under the 2009 Incentive Plan and the Purchase Plan. As of December 31, 2013, there were 3,668,595 shares of our common stock available for issuance under the 2009 Incentive Plan and 1,500,132 shares of our common stock available for issuance under the Purchase Plan.

PROPOSAL 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

In accordance with Section 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are asking stockholders to approve an advisory resolution on our executive compensation as reported in this proxy statement.

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

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

We believe our executive compensation is structured in the manner that best serves the interests of the Company and its stockholders. We encourage stockholders to read the Compensation Discussion and Analysis section of this proxy statement which provides a more thorough review of our compensation philosophy and how that philosophy was implemented in 2013.

Effect of Proposal

The resolution to approve our executive compensation is non-binding on us and our Board and Compensation Committee. As a result, the Board and Compensation Committee retain discretion to change executive compensation from time to time if they conclude that such a change would be in the best interest of the Company. No determination has been made as to what action, if any, would be taken if our stockholders fail to approve executive compensation. However, our Board and its Compensation Committee value the opinions of stockholders and will carefully consider the results of this advisory vote. We currently conduct advisory votes on executive compensation on an annual basis, and we expect to conduct our next advisory vote at our 2015 Annual Meeting of Stockholders.

Recommendation and Vote Required

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

The Board Recommends a Vote FOR Proposal 2.

PROPOSAL 3

RATIFICATION OF APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2014

The Audit Committee has appointed Ernst & Young LLP as the company's independent registered public accounting firm for 2014. The Board is asking stockholders to ratify this appointment. Although SEC regulations require the company's independent registered public accounting firm to be engaged, retained and supervised by the Audit Committee, the Board considers the selection of an independent registered public accounting firm to be an important matter to stockholders and considers a proposal for stockholders to ratify such appointment to be an opportunity for stockholders to provide input to the Audit Committee and the Board on a key corporate governance issue. In the event that our stockholders do not ratify the appointment, it will be considered as a direction to our audit committee to consider the selection of a different firm.

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the appointment of Ernst & Young. Abstentions will have the effect of a vote against this proposal.

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

The Board Recommends a Vote FOR Proposal 3.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Selection

Ernst & Young LLP has been appointed by the Audit Committee to serve as the Company's independent registered public accounting firm for 2014. Representatives of Ernst & Young are expected to be present at the Annual Meeting and will be offered the opportunity to make a statement if they so desire. They will also be available to answer questions.

Audit and Non-Audit Fees

The following table sets forth fees for audit services rendered by Ernst & Young for the audit of our consolidated financial statements for 2013 and 2012, and fees for other services rendered by Ernst & Young.

	2013 E&Y	2012 E&Y
Audit Fees(1)	$1,063,343	$1,064,847
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees(2)	0	0
Total	$1,063,343	$1,064,847

(1) Audit fees consist principally of fees for the audit of our annual consolidated financial statements, review of our interim consolidated financial statements and the audit of internal control over financial reporting.
(2) All other fees include other support services related to our acquisition activities and litigation matters.

Pre-Approval Policies and Procedures

The Audit Committee annually reviews and pre-approves certain audit and non-audit services that may be provided by our independent registered public accounting firm and establishes and pre-approves the aggregate fee level for these services. Any proposed services that would cause us to exceed the pre-approved aggregate fee amount must be pre-approved by the Audit Committee. All audit and non-audit services for 2013 were pre-approved by the Audit Committee.

AUDIT COMMITTEE REPORT

The Audit Committee assists the Board in fulfilling its responsibility to oversee management's implementation of the Company's financial reporting process. The Audit Committee Charter can be viewed on the Company's Website site at www.novatelwireless.com and is available in print upon request. In discharging its oversight role, the Audit Committee reviewed and discussed the audited financial statements contained in the 2013 Annual Report on Form 10-K with the Company's management and its independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of disclosure controls and procedures and internal control over financial reporting. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's financial statements with accounting principles generally accepted in the United States and on the effectiveness of the Company's internal control over financial reporting.

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

In reliance on the reviews and discussions outlined above, the Audit Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

Audit Committee

David A. Werner, Chair | Russell Gerns | James Ledwith

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on a review of the copies of such forms furnished to us and written representations from our directors and executive officers, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and greater than 10% stockholders were complied with during 2013.

STOCKHOLDER PROPOSALS FOR 2015 ANNUAL MEETING OF STOCKHOLDERS

In order to be included in our proxy materials for our 2015 Annual Meeting of Stockholders, a stockholder proposal must be received in writing by the Company at Novatel Wireless, Inc., Attention: Corporate Secretary, 9645 Scranton Road, San Diego, California 92121, by January 15, 2015, and otherwise comply with all requirements of the SEC and our certificate of incorporation and bylaws for stockholder proposals.

If you do not wish to submit a proposal for inclusion in next year's proxy materials, but instead wish to present it directly at the 2015 Annual Meeting of Stockholders, you must give timely written notice of the proposal to our Corporate Secretary. To be timely, the notice must be received no earlier than February 24, 2015 and no later than March 26, 2015. The notice must describe the stockholder proposal in reasonable detail and provide certain other information required by our by-laws, a copy of which is available upon request from our Corporate Secretary at the above address.

OTHER MATTERS

The Board is not aware of any other matter of business that may be brought before the Annual Meeting. However, it any other matter properly comes before the Annual Meeting, it is intended that the enclosed proxy card will be voted in accordance with the judgment of the persons voting the proxy.

By Order of the Board of Directors,

Catherine F. Ratcliffe
Senior Vice President of Business Affairs,
General Counsel and Secretary

May 15, 2014

Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission file number: 000-31659

NOVATEL WIRELESS, INC.

(exact name of registrant as specified in its charter)

Delaware	**86-0824673**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
9645 Scranton Road San Diego, California	**92121**
(Address of Principal Executive Offices)	**(zip code)**

Registrant's telephone number, including area code: (858) 812-3400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.001 per share

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

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

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

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

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on June 30, 2013, as reported by The Nasdaq Global Select Market, was approximately $130,109,295. For the purposes of this calculation, shares owned by officers and directors (and their affiliates) have been excluded. This exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the Registrant. The Registrant does not have any non-voting stock issued or outstanding.

The number of shares of the Registrant's common stock outstanding as of March 6, 2014 was 34,192,139.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K to the extent stated herein.

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Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the views of our senior management with respect to our current expectations, assumptions, estimates and projections about Novatel Wireless 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 the Securities and Exchange Commission, including the information in “Item 1A. Risk Factors” in Part I of this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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.

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PART I

Item 1. *Business*

Overview

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

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

Our M2M products enable devices to communicate with each other and with server or cloud-based application infrastructure. 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.

For the years ended December 31, 2013, 2012, and 2011, net revenues recognized from sales of our products were $335.1 million, $344.3 million, and $402.9 million, respectively.

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

Our Strategy

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

- *Leverage Our Mobile Computing Expertise and Technology Platforms to Expand Our M2M Portfolio.* We are leveraging our Mobile Computing technology expertise such as cellular wireless engineering radio development and the MiFi technology platform to expand our M2M portfolio. This enables us to leverage our development efforts, improve time-to-market and expand our portfolio in key markets.
- *Broaden Our M2M Product Offerings.* We intend to diversify and continue to broaden our integrated solutions and embedded module product lines for commercial telematics, after market telematics, remote monitoring and control, security, and connected home.
- *Enhance Our M2M Software Support Through Our Device Manager or Service Delivery Platform.* Through our N4A™ Device Manager (DM) and N4A™ Communication and Management Software (CMS) we enable our customers' applications to support their specific business needs. Data such as driver location, driving behavior, driver ID, vehicle status, and OBD status is gathered from our integrated products and delivered to our software applications or service delivery platform.
- *Align Our Mobile Computing Product Offerings With Key Carrier Customers.* Leveraging our expertise in delivering wireless broadband solutions, we support our key carrier customers with innovation and product portfolio flexibility enabling them to address both premium and value segments for their markets. Our products operate on the major wireless technology platforms, including Second Generation (2G) networks: GSM, CDMA, GPRS; Third Generation (3G) networks: CDMA2000 1xEV-DO, HSDPA and HSUPA; and Fourth Generation (4G) networks: LTE, dual carrier HSPA+, and WiMAX.

- *Lead the Intelligent Mobile Hotspot Product Category*. We invented and developed the MiFi® Intelligent Mobile Hotspot, a new category in wireless mobile data devices. In May 2009, the first nationwide commercial deployment of MiFi hotspots was launched by Verizon Wireless. In 2013, we announced software enhancements to the MiFi Technology Platform which allowed us to differentiate our MiFi family of products related to key performance indicators such as usage time, throughput and value added software applications. During 2013, we shipped MiFi Intelligent Mobile Hotspots to all three leading US carriers Verizon Wireless, AT&T and Sprint.
- *Capitalize on Our Direct Relationships with Wireless Operators.* We intend to continue to capitalize on our direct and long-standing relationships with wireless operators in order to increase our worldwide market position. In the United States and internationally, we are working closely with wireless operators to provide the best mobile computing solutions and relevant M2M solutions to consumers and enterprise customers.
- *Leverage Strategic Relationships.* We believe that strategic relationships with wireless carriers and enterprises that utilize mobile computing and M2M technology are critical to our ability to leverage sales opportunities and ensure that our technology investments address customer needs. Through strategic relationships, we believe that we can increase market penetration and differentiate our products by leveraging resources and knowledge including sales, marketing, and distribution systems. We are also addressing new market opportunities through innovation with our strategic partners.
- *Continue to Target Key Vertical Market Opportunities and Penetrate New M2M Markets.* We believe that continuing developments in wireless technologies will create additional vertical market opportunities and more applications for our products. Currently, we market our M2M solutions to key vertical industry segments by offering innovative solutions that are intended to increase productivity, reduce costs and create operational efficiencies.
- *Increase the Value of Our Products*. We will continue to add new features, functionality and intellectual property to our products and develop new services and software applications to enhance the overall value and ease of use that our products provide to our customers and end users.
- *Acquire Companies that Accelerate the Growth of Our Business*. We will continue to seek strategic acquisitions of companies in closely aligned businesses and technologies that will provide synergistic growth in revenue and profitability.

Our Segments

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

- Mobile Computing Products—includes our MiFi Intelligent Mobile Hotspot devices, USB and PC-card modems and embedded modules that enable internet access and data transmission and services via cellular wireless networks.
- M2M Products and Solutions—includes 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.

For additional information on our segments, see Note 12 to our consolidated financial statements.

Mobile Computing Products

We have a growing portfolio of leading-edge technology solutions that enable data transmission and services via cellular wireless networks. In 2013, we launched new products in our line of MiFi mobile hotspots that provided LTE multi-mode support for CDMA and GSM networks.

Below are our major Mobile Computing product lines:

MiFi® Intelligent Mobile Hotspot is our flagship product. Introduced in 2009, it has quickly become a leading brand in mobile communications. MiFi hotspots are gaining acceptance as a standard connectivity option for Wi-Fi-enabled devices such as the iPad, Kindle, tablets, PCs, MP3 players, and gaming devices. MiFi hotspots function by connecting to a cellular-wireless network and creating a secure Wi-Fi signal that can connect to as many as 10 devices simultaneously. MiFi hotspots accounted for 74%, 72%, and 63% of revenue in 2013, 2012, and 2011, respectively.

Our strategy for the MiFi platform is to continue to innovate with a focus on ease of use, key performance indicators and value added features that take the device beyond just basic connectivity. In 2013, we launched the MiFi 5510L Intelligent Mobile Hotspot with Verizon Wireless, the LTE MiFi 500 with Sprint, and the MiFi 2 Touchscreen intelligent mobile hotspot with Bell Canada.

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

Modems continue to be used to access wireless broadband networks. We originally introduced USB and PC-Card modems in North America, and continue to provide advanced wireless access in the industry. USB and PC-Card Modems accounted for 9%, 11%, and 20% of revenue in 2013, 2012, and 2011, respectively.

Embedded Modules are utilized in a wide range of computing devices, such as laptop PCs, netbooks, tablets, and various other electronic products to provide wireless broadband access. Embedded modules accounted for 5%, 5%, and 4% of revenue in 2013, 2012, and 2011, respectively.

M2M Products and Solutions

During 2013, we have expanded our M2M portfolio significantly by adding additional technologies and features to our line of embedded integrated devices and embedded modules to improve performance, and strengthen the competitive advantages of our solutions. M2M products and solutions accounted for 11%, 9%, and 11% of revenue in 2013, 2012, and 2011, respectively. M2M product lines consist of the following:

MT, SA & AT Integrated Solutions bring together essential elements for monitoring and managing mobile and fixed assets, vehicle tracking and telemetric functions, along with workforce tracking and management. We add value by developing solutions to meet the needs of specific customers with a particular emphasis on select vertical markets including: transportation and logistics, usage-based-insurance, security and asset tracking, industrial automation and smart grid, and remote patient monitoring. These solutions can be scaled from a small fleet customer to company-wide enterprise deployments. Our M2M solutions can be coupled with our robust N4A™ Device Manager and N4A™ Communications and Management Software (CMS) platform and be monitored, managed and reconfigured remotely from almost anywhere in the world. By combining the N4A CMS platform with the intelligence of the integrated M2M devices, customers will gain a solution that offers ease-of-deployment and superior, reliable performance in small and flexible packages.

In 2013 we certified the MT3050 with Verizon Wireless and subsequently expanded the feature set in alignment with the requirements of our key customers and launched the MT3060. These products are well positioned for the insurance telematics market, including usage-based-insurance applications and fleet management markets. The MT3060 is a plug-and-play device that can be self-installed into a vehicle's OBD-II port and supports advanced features for crash detection and driver behavior. The devices also support access to cloud applications for over-the-air device management and data acquisition to support third party or customer applications.

We also launched the MiFi Powered ™ SA 2100 product which addresses vertical markets such as connected car, fleet management and fixed telemetry. The SA 2100 supports internet connectivity through WiFi to the carrier LTE network. We offer configurations supporting GPS and accelerometer applications for fleet management and connected car applications as well as Ethernet interfaces for Telemetry applications.

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

Enabler® III & HS Embedded Solutions are integrated into various products or equipment so that those assets may communicate with other computers. These "machine-to-machine" applications enable back-end IT systems to receive data from remote assets. A common example is vehicle modules that transmit data about location, engine conditions, and abnormal situations to critical decision support or monitoring systems. During 2012, we launched the Enabler HS 3001 (1X) module, and during 2013 we launched the HS 3002 (HSDPA) module. These two modules build on the legacy proven design of the Enfora Enabler series. Our CDMA2000 1X and GSM/GPRS/EDGE/HSDPA low power platforms deliver small size and industry-leading performance, reliable connectivity, and device intelligence needed for today's demanding M2M applications. These solutions are ideal for markets including but not limited to security, telemetry, POS, mHealth, AVL and AMI/AMR market segments looking for high reliability and a common design across multiple technologies.

Customers

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

We also have strategic technology, development and marketing relationships with several of our customers.

Our strong customer relationships provide us with the opportunity to expand our market reach and sales.

- *Wireless Operators and Distributors*. By working closely with our wireless operator and distributor customers, we are able to drive demand for our products by combining our expertise in wireless technologies with our customers' sales and marketing reach over a global subscriber base. Our customers also provide us with important services, including field trial participation, technical support, wireless data marketing and access to additional indirect distribution channels.

- *M2M Customers*. We believe the M2M market provides substantial opportunities for growth. Machine-to-machine and smart-systems technologies are being integrated into a growing number of manufactured devices and machines—whether fixed, movable or fully mobile. We have a growing market presence in many of the high-growth segments of the M2M market. These include commercial telematics, after market telematics, remote monitoring and control, security, and connected home. We expect to work with these customers to develop customized solutions that incorporate our software and other intellectual property, providing significant product differentiation.
- *OEMs*. Our OEM customers integrate our products into devices that they manufacture and sell through their own direct sales forces and indirect distribution channels. Our products are capable of being integrated into a broad range of devices that utilize wireless-data capabilities. We seek to build strong relationships with our OEM partners by working closely with them and providing radio frequency, or RF, design consulting, performance optimization, software integration and customization and application engineering support during the integration of our products.

Strategic Relationships

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

Sales and Marketing

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

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

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

A significant portion of our revenue comes from a small number of customers. Our revenues from sales to Verizon Wireless represented approximately 58% of our total revenues for the year ended December 31, 2013.

A substantial majority of our revenue is derived from sales in the U.S. See Note 12 to our consolidated financial statements for a discussion of our revenue and asset concentrations by geographic location.

Product Research and Development

Our research and development efforts are focused on developing innovative new wireless products and improving the functionality, design and performance of our existing products. Our research and development expenses for the years ended December 31, 2013, 2012, and 2011 were $48.2 million, $60.4 million, and $61.4 million, respectively.

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

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

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

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

Manufacturing and Operations

The hardware used in our solutions is produced by contract manufacturers. Their services include component procurement, assembly, testing, quality control and fulfillment. We currently have manufacturing agreements in place with the following companies:

Mobile Computing Products and M2M Products and Solutions

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

M2M Products and Solutions

- Benchmark Electronics

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

We outsource our manufacturing in an effort to:

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

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

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

Intellectual Property

Mobile Computing Products

Our wireless broadband access solutions rely on and benefit from our portfolio of intellectual property, including patents and trademarks. We currently own 50 United States patents. In addition, we currently have 50 patent applications pending. From time to time, we also seek to have our patents registered in selected foreign jurisdictions. The patents that we currently own expire at various times between 2014 and 2031.

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

M2M Products and Solutions

Our M2M products and solutions incorporate patents, licensed technology, and trade secrets gained from our deep experience in providing customized solutions to our customers.

We currently own 9 United States patents related to M2M products and solutions. In addition, we currently have 19 patent applications pending. From time to time, we also seek to have our patents registered in selected foreign jurisdictions. The patents that we currently own expire at various times between 2020 and 2031.

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

We also hold a number of trademarks including Enfora, Spider, Enabling Information Anywhere, Enabler, and N4A.

Backlog

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

Competition

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

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

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

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

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

Employees

As of December 31, 2013, we had 316 employees. By segment, Mobile Computing Products had 263 employees, including corporate functions, and M2M Products and Solutions had 53 employees. By function, we had 178 employees in research and development, 55 in sales and marketing, 41 in operations, and 42 in general and administrative functions. We also use the services of consultants and temporary workers from time to time. Our employees are not represented by any collective bargaining unit and we consider our relationship with our employees to be good.

Website Access to SEC Filings

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

Item 1A. *Risk Factors*

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

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

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

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

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

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

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

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

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

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

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

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

As part of our business strategy, we review and intend to continue to review, acquisition opportunities that we believe would be advantageous or complementary to the development of our business. In November 2010, we completed our acquisition of Enfora. We may acquire additional businesses, assets, or technologies in the future. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations or share price:

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

Acquisitions, including the Enfora acquisition, also entail numerous other risks, including: difficulties in assimilating acquired operations, products, technologies and personnel; unanticipated costs; diversion of management's attention from existing operations; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which we have limited or no prior experience; and potential loss of key employees from either our existing business or the acquired organization. Acquisitions may result in substantial accounting charges for restructuring and other expenses, amortization of purchased technology and intangible assets and stock-based compensation expense, any of which could materially adversely affect our operating results. We may not be able to realize the anticipated benefits of or successfully integrate with our existing business the businesses, products, technologies or personnel that we acquire, and our failure to do so could harm our business and operating results.

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

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

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

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

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

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

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

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

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

A significant portion of our net revenues come from only a few customers. Our revenue could be materially adversely affected if we are unable to retain the level of business of any of our significant customers and if we are unable to offset this loss fully from alternative customers. We expect that a small number of customers will continue to account for a substantial portion of our revenue for the foreseeable future and any impairment of our relationship with, or the material financial impairment of, these customers could adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are currently party to litigation that could be costly to defend and distracting to management.

As of the date of this report, a class action lawsuit has been filed on behalf of persons who allegedly purchased our common stock between February 27, 2007 and September 15, 2008. The lawsuit names us and certain of our current and former officers as defendants. On December 6, 2013, counsel for the defendants and counsel for the lead plaintiffs, entered into a binding memorandum of understanding reflecting a proposed settlement of the class action. On March 7, 2014, the federal court handling this case entered an order giving its preliminary approval to the settlement as set forth in the memorandum of understanding. The court set a hearing date of June 20, 2014, for the final approval of the settlement.

Additional litigation may be initiated against us based on the alleged false statements at issue in the pending litigation. Although we believe the existing lawsuit is likely to be resolved at the court's hearing on June 20, 2014, we cannot predict the likelihood that further proceedings will be instituted against us. The cost of defending any future lawsuits may be high, and these legal proceedings may also result in the diversion of our management's time and attention away from our business. In the event that there is an adverse ruling in any legal proceeding, we may be required to make payments to third parties that could harm our business or financial results.

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

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

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

A number of putative patent infringement claims have been filed by various plaintiffs in a number of U.S. District Courts against us and/or numerous third parties, some of whom are our customers. These cases generally allege that the defendants' use, sale and importation of specified products and/or processes constitutes infringement of certain U.S. patents allegedly owned or exclusively licensed by each plaintiff. Under certain circumstances, we may have an obligation to indemnify and/or defend our customers against these lawsuits.

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

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

We are subject to the risks of doing business internationally.

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

- difficulty in managing sales, research and development operations and post-sales logistics and support across these continents;

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

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

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

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

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

Our products are technologically complex and must meet stringent industry, regulatory and customer requirements. We must develop our hardware and software products quickly to keep pace with the rapidly changing and technologically advanced wireless communications market. Products as sophisticated as ours may contain undetected errors or defects, especially when first introduced or when new models or versions are released. Our products may not be free from errors or defects at the time commercial shipments have begun, which could result in the rejection of our products, the loss of an existing or potential customer or the failure to obtain one, damage to our reputation, lost revenue, diverted development resources, increased customer service and support costs, unanticipated warranty claims, and the payment of monetary damages to our customers.

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

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

- *Decreases in revenue or increases in operating expenses*. We budget our operating expenses based on anticipated sales, and a significant portion of our sales and marketing, research and development and general and administrative costs are fixed, at least in the short term. If revenue decreases, due to pricing pressures or otherwise, or does not increase as planned and we are unable to reduce our operating costs quickly and sufficiently, our operating results could be materially adversely affected.
- *Product mix.* The product mix of our sales affects profit margins in any given quarter. As our business evolves and the revenue from the product mix of our sales varies from quarter to quarter, our operating results will likely fluctuate in ways that might not be directly proportionate to the fluctuation in revenue.
- *New product introductions.* As we introduce new products, the timing of these introductions within any given quarter will affect our quarterly operating results. We may have difficulty predicting the timing of new product introductions and the market acceptance of these new products. If products and services are introduced earlier or later than anticipated, or if market acceptance is unexpectedly high or low, our quarterly operating results may fluctuate unexpectedly.
- *Lengthy sales cycle.* The length of time between the date of initial contact with a potential customer and the execution of and product delivery under a contract may take several months or longer, and is subject to delays or interruptions over which we have little or no control. The sale of our products is subject to delays from, among other things, our customers' budgeting, product testing and vendor approval mechanics, and competitive evaluation processes that typically accompany significant information technology purchasing decisions. As a result, our ability to anticipate the timing and volume of sales to specific customers is limited, and the delay or failure to complete one or more large transactions could cause our operating results to vary significantly from quarter to quarter.
- *Foreign currency*. We are exposed to market risk from changes in foreign currency exchange rates. Our attempts to minimize the effects of volatility in foreign currencies on cash flows may not be successful.

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

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

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

Although we may enter into employment agreements with members of our senior management and other key personnel in the future, currently only Peter Leparulo, the Company's Chairman and CEO, is a party to an employment agreement. If we are not able to attract or retain qualified personnel in the future, or if we experience delays in hiring required personnel, particularly qualified engineers, we may not be able to maintain and expand our business.

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

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

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

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

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

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

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

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

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

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

We are exposed to fluctuations in the market values of our portfolio investments and in interest rates.

At December 31, 2013, we had $23.0 million in cash, cash equivalents and marketable securities, excluding restricted marketable securities of $2.6 million. Substantially all of our marketable securities are invested in fixed income securities.

Investments in fixed-rate instruments carry a degree of interest rate risk. The market value of fixed-rate securities may be adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates decline. Due in part to these factors, our future investment market values and income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt instruments is judged to be other-than-temporary.

We may also suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates or if declines in value are determined to be other-than-temporary.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal executive offices are located in San Diego, California where we lease approximately 96,000 square feet under an arrangement that expires in December 2016. In connection with our acquisition of Enfora, Inc., we currently lease approximately 21,000 square feet in Richardson, Texas under a lease arrangement that expires in June 2020. In Calgary, Canada, we lease approximately 24,000 square feet under a lease that expires in September 2017. In Shanghai, China, we lease approximately 1,200 square meters for our Chinese staff under a lease agreement that expires in April 2015. We also lease space in various geographic locations abroad primarily for sales and support personnel or for temporary facilities. We believe that our existing facilities are adequate to meet our current needs and that we can renew our existing leases or obtain alternative space on terms that would not have a material impact on our financial condition.

Item 3. *Legal Proceedings*

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 for June 20, 2014, for final approval of the settlement of the Litigation.

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

Item 4. *Mine Safety Disclosures*

None.

PART II

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

Common Stock Data

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

	High ($)	Low ($)
2013		
First quarter	2.44	1.27
Second quarter	4.14	1.90
Third quarter	4.43	2.57
Fourth quarter	3.36	1.95
2012		
First quarter	3.69	2.85
Second quarter	3.37	1.95
Third quarter	2.68	1.79
Fourth quarter	2.02	1.17

Number of Stockholders of Record

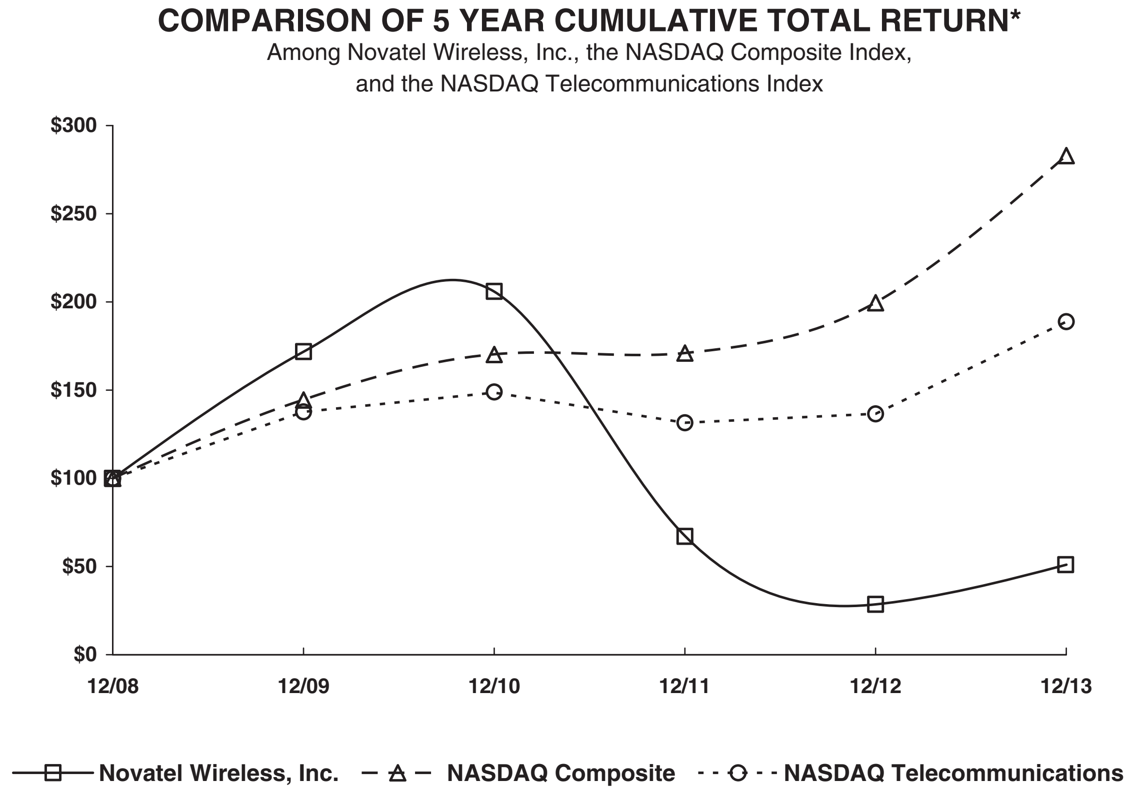
Our outstanding capital stock consists of a single class of common stock. As of March 6, 2014, there were approximately 43 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We have never declared or paid cash dividends on any shares of our capital stock. We currently intend to retain all available funds for use in the operation and development of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant.

Performance Graph

The following graph compares the cumulative total stockholder return on the Company's common stock between December 31, 2008 and December 31, 2013 with the cumulative total return of (i) the Nasdaq Stock Market (U.S.) Index or the Nasdaq Composite Index, and (ii) the Nasdaq Telecommunications Index, or the Nasdaq Telecom Index, over the same period. This graph assumes the investment of $100.00 on December 31, 2008 in the common stock of the Company, the Nasdaq Composite Index and the Nasdaq Telecom Index and assumes the reinvestment of any dividends. The stockholder return shown on the graph below should not be considered indicative of future stockholder returns and the Company will not make or endorse any predictions as to future stockholder returns.



*$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	Cumulative Total Return					
	12/08	12/09	12/10	12/11	12/12	12/13
Novatel Wireless, Inc.	**100.00**	**171.77**	**205.82**	**67.46**	**28.66**	**51.08**
NASDAQ Composite	**100.00**	**144.88**	**170.58**	**171.30**	**199.99**	**283.39**
NASDAQ Telecommunications	**100.00**	**137.81**	**148.84**	**131.52**	**136.58**	**189.00**

Item 6. ***Selected Financial Data***

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report. The selected consolidated statements of operations data presented below for each of the years ended December 31, 2013, 2012, and 2011, and the consolidated balance sheet data at December 31, 2013 and 2012 are derived from our consolidated financial statements included elsewhere in this report. The selected consolidated statements of operations data for the years ended December 31, 2010 and 2009 and consolidated balance sheet data at December 31, 2011, 2010, and 2009 are derived from the audited consolidated financial statements not included in this report.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenues	$335,053	$344,288	$402,862	$338,942	$337,422
Cost of net revenues	266,759	271,845	318,270	272,648	249,764
Gross profit	68,294	72,443	84,592	66,294	87,658
Operating costs and expenses:					
Research and development	48,246	60,422	61,392	48,906	44,892
Sales and marketing	20,898	27,501	29,830	20,978	19,857
General and administrative	24,179	22,668	21,600	21,233	20,159
Goodwill and intangible assets impairment	0	49,521	3,277	0	0
Amortization of purchased intangible assets	562	1,074	2,220	179	0
Contingent loss for litigation	14,326	0	0	0	0
Restructuring charges	3,304	0	0	0	0
Total operating costs and expenses	111,515	161,186	118,319	91,296	84,908
Operating income (loss)	(43,221)	(88,743)	(33,727)	(25,002)	2,750
Interest and other income (expense)	(109)	88	(668)	(555)	1,689
Income (loss) before income taxes	(43,330)	(88,655)	(34,395)	(25,557)	4,439
Income tax expense (benefit)	83	611	(9,503)	7,893	527
Net income (loss)	$ (43,413)	$ (89,266)	$ (24,892)	$ (33,450)	$ 3,912
Net income (loss) per common share:					
Basic	$ (1.28)	$ (2.72)	$ (0.78)	$ (1.06)	$ 0.13
Diluted	$ (1.28)	$ (2.72)	$ (0.78)	$ (1.06)	$ 0.13
Weighted average shares outstanding:					
Basic	33,948	32,852	32,043	31,494	30,648
Diluted	33,948	32,852	32,043	31,494	31,224

	December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and marketable securities (1)	$ 25,532	$ 55,309	$ 88,831	$ 97,826	$176,044
Working capital	40,928	67,199	81,113	87,174	149,468
Total assets	111,465	161,531	249,179	302,108	277,394
Stockholders' equity	44,916	85,447	166,025	185,403	211,155
Long-term liabilities	11,848	2,552	4,080	12,886	15,543

(1) Includes restricted marketable securities

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

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

Overview and Background

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

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

Our mobile-hotspot and modem customer base is comprised of wireless operators, including AT&T, Sprint, and Verizon Wireless; laptop PC and other original equipment manufacturers, or OEMs, including Dell and Hewlett-Packard; as well as distributors and various companies in other vertical markets. Our M2M customer base is comprised of transportation companies, industrial companies, manufacturers, application service providers and distributors. Our solutions address multiple verticle 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 verticle 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.

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.

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 pressure has the potential to materially adversely affect our results of operations and financial condition in future periods and we cannot predict the magnitude or timing of future reductions in the average selling prices of our products.

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

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

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

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

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

General and administrative expenses include primarily corporate functions such as accounting, human resources, legal 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.

Merger & Acquisition Activities

Acquisition of Enfora

On November 30, 2010, the Company completed its acquisition of Enfora, a provider of intelligent asset-management solutions utilizing wireless technology and M2M communications. The acquisition of Enfora diversifies the Company's customer base and product lines into adjacent markets and advances the Company's strategy of providing intelligent devices to more end markets—enterprise, consumer and vertical applications. Enfora's results of operations and estimated fair value of assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition.

Under the terms of the acquisition agreement, the Company paid cash consideration of $64.5 million and additional cash consideration of $13.0 million in exchange for an agreed upon amount of Enfora working capital. The Company also agreed to pay additional cash consideration, or contingent consideration, of up to $6.0 million based on the operating results of Enfora for the 15 month period from October 1, 2010 to December 31, 2011. At December 31, 2010, the estimated fair value of this contingent consideration at the acquisition date was $0.9 million, resulting in total estimated cash to be paid of $78.4 million. During the quarter ended March 31, 2011, the Company revised its estimate of contingent consideration to $0 and accordingly reflected this change as a benefit to general and administrative expenses for the quarter ended March 31, 2011. At December 31, 2011, the operating results necessary to receive payment of the contingent consideration were not achieved.

Results of Operations

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

	Year Ended December 31,		
	2013	2012	2011
	(as a percent of net revenues)		
Net revenues	100.0%	100.0%	100.0%
Cost of net revenues	79.6	79.0	79.0
Gross margin	20.4	21.0	21.0
Operating costs and expenses:			
Research and development	14.4	17.5	15.2
Sales and marketing	6.2	8.0	7.4
General and administrative	7.2	6.6	5.4
Goodwill and intangible assets impairment	0.0	14.4	0.8
Amortization of purchased intangible assets	0.2	0.3	0.6
Contingent loss for litigation	4.3	0.0	0.0
Restructuring charges	1.0	0.0	0.0
Total operating costs and expenses	33.3	46.8	29.4
Operating loss	(12.9)	(25.8)	(8.4)
Interest income, net	0.0	0.1	0.1
Other expense, net	(0.1)	(0.1)	(0.3)
Loss before income taxes	(12.9)	(25.8)	(8.6)
Income tax expense (benefit)	0.0	0.2	(2.4)
Net loss	(13.0)%	(25.9)%	(6.2)%

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

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

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

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

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

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

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

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

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

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

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

Net revenues from our Mobile Broadband Devices category for the year ended December 31, 2013 were $277.4 million, a decrease of $10.2 million or 3.5% compared to the same period in 2012. The decrease is primarily attributable to increased competition at our largest customer and lower average sales prices during the period.

The Embedded Solutions category accounted for $36.7 million, an increase of $6.7 million or 22.5% compared to the same period in 2012. This included $18.8 million in sales of M2M modules and $17.9 million of embedded modules for OEM computing devices.

Net revenues from Asset Management Solutions & Services were $20.9 million, a decrease of $5.8 million or 21.7% compared to the same period in 2012. These sales were predominantly comprised of integrated product hardware sales. Sales of CMS software were not significant for the years ended December 31, 2013 and 2012.

Cost of net revenues. Cost of net revenues for the year ended December 31, 2013 was approximately $266.8 million, or 79.6% of net revenues, as compared to approximately $271.8 million, or 79.0% of net revenues in 2012. The cost of net revenues as a percentage of net revenues increased compared to the same period in 2012 primarily due to the reduction of average sales prices of 4G products in our Mobile Computing Products segment and an increase in the inventory obsolescence provision, partially offset by lower amortization costs associated with purchased intangible assets and by reduced labor cost attributed to headcount reductions and decreased share-based compensation expense. Cost of net revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

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 year ended December 31, 2013 was approximately $68.3 million, or 20.4% of net revenues, as compared to approximately $72.4 million, or 21.0% of net revenues in 2012. The gross profit percentage decrease compared to the same period in 2012 was primarily attributable to the changes in net revenues and cost of net revenues as discussed above. We expect that our gross profit percentage will continue to fluctuate from quarter to quarter depending on product mix, competitive selling prices, our ability to reduce product costs and changes in unit volume.

Research and development expenses. Research and development expenses for the year ended December 31, 2013 were approximately $48.2 million, or 14.4% of net revenues, compared to approximately $60.4 million, or 17.5% of net revenues in 2012. Research and development expenses for the year ended December 31, 2013 were lower as compared to the same period in 2012 due to reduced labor cost attributed to headcount reductions, as well as lower share-based compensation expenses which was primarily related to additional expense in 2012 for the termination of our 2000 Employee Stock Purchase Plan in the fourth quarter of 2012.

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

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

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

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

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

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

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

Contingent loss for litigation. The contingent loss for litigation for the year ended December 31, 2013 was $14.3 million related to the securities litigation.

Restructuring charges. Restructuring expenses for the year ended December 31, 2013 were $3.3 million, and predominantly consist of severance costs incurred in connection with the reduction of our workforce and 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, resulting in a reduction in force of 72 employees across all functional areas of the Company.

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

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

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

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

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net revenues. Net revenues were approximately $344.3 million during 2012, a decrease of approximately $58.6 million or 14.5% compared to 2011.

The following table summarizes net revenues by reportable segment and product categories during the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Net revenues by reportable segment:		
Mobile Computing Products	$312,508	$358,106
M2M Products and Solutions	31,780	44,756
Total	$344,288	$402,862

	Year Ended December 31,	
	2012	2011
Net revenues by product categories:		
Mobile Broadband Devices	$287,572	$336,730
Embedded Solutions	29,960	39,793
Asset Management Solutions and Services	26,756	26,339
Total	$344,288	$402,862

Mobile Computing Products. Net revenues from our Mobile Computing Products segment for the year ended December 31, 2012 were $312.5 million, a decrease of $45.6 million or 12.7% compared to the same period in 2011. The decrease is primarily attributable to lower sales of Mobile Broadband devices caused by increased market competition at our largest customer.

M2M Products and Solutions. Net revenues from our M2M Products and Solutions segment for the year ended December 31, 2012 were $31.8 million, a decrease of $13.0 million compared with $44.8 million in net revenues for the previous year. The decrease is primarily due to the reduced sales volume and pricing of our 2G GPRS M2M modules in the North American market as it transitions away from 2G GSM networks, and the loss of one of our larger customers for the M2M segment.

Net revenues from our Mobile Broadband Devices category for the year ended December 31, 2012 were $287.6 million, a decrease of $49.2 million or 14.6% compared to the same period in 2011. The decrease is primarily attributable to increased competition at our largest customer.

The Embedded Solutions category accounted for $30.0 million, or 8.7% of total net revenues for the year ended December 31, 2012, a decrease of $9.8 million compared to the same period in 2011. This included $13.7 million in sales of M2M modules and $16.3 million of embedded modules for OEM computing devices.

Net revenues from Asset Management Solutions & Services were $26.8 million and accounted for approximately 7.8% of total net revenues for the year ended December 31, 2012, an increase of $417,000 compared to the same period in 2011. These sales were predominantly comprised of integrated product hardware sales. Sales of CMS software were not significant for the years ended December 31, 2012 and 2011.

Cost of net revenues. Cost of net revenues for the year ended December 31, 2012 was approximately $271.8 million, or 79.0% of net revenues, as compared to approximately $318.3 million, or 79.0% of net revenues in 2011. The cost of net revenues as a percentage of net revenues remained flat compared to the same period in 2011. The reduction of average sales prices of 4G products in our Mobile Computing Products segment compared to the same period in 2011 was offset by lower amortization costs associated with purchased intangible assets. Cost of net revenues as a percentage of net revenues is expected to fluctuate in future quarters depending on revenue levels, the mix of products sold, competitive pricing, new product introduction costs and other factors.

Gross profit. Gross profit for the year ended December 31, 2012 was approximately $72.4 million, or 21.0% of net revenues, as compared to approximately $84.6 million, or 21.0% of net revenues in 2011. The gross profit percentage remained flat as compared to the same period in 2011.

Research and development expenses. Research and development expenses for the year ended December 31, 2012 were approximately $60.4 million, or 17.5% of net revenues, compared to approximately $61.4 million, or 15.2% of net revenues in 2011. Research and development expenses for the year ended December 31, 2012 were lower as compared to the same period in 2011 due to reduced labor cost attributed to headcount reductions, lower software amortization costs, and lower engineering build materials and outside testing services. This decrease was partially offset by an increase in share based compensation expenses primarily related to the termination of our 2000 Employee Stock Purchase Plan in the fourth quarter of 2012.

Sales and marketing expenses. Sales and marketing expenses for the year ended December 31, 2012 were approximately $27.5 million, or 8.0% of net revenues, compared to approximately $29.8 million or 7.4% of net revenues in 2011. The dollar decrease was due primarily to lower labor cost as a result of reductions in headcount and decreased cooperative advertising and joint marketing expenses compared to the same period in 2011.

General and administrative expenses. General and administrative expenses for the year ended December 31, 2012 were approximately $22.7 million, or 6.6% of net revenues, compared to approximately $21.6 million, or 5.4% of net revenues in 2011. The increase was due primarily to legal expenses related to IP defense and litigation settlements, and an increase in bad debt reserve compared to the same period in 2011.

Goodwill and intangible assets impairments. During the first and third quarters of 2012, based on actual operating results, and reductions in management's estimates of forecasted operating results of the M2M Products and Solutions reporting unit principally due to an updated view of competitive pressures impacting average selling prices and forecasted sales volumes, customer product and technology selections, and the loss of certain customers, the Company determined there were sufficient indicators of impairment present to require an interim impairment analysis. Based on the fair value tests performed during the first quarter of 2012, the Company recorded a pre-tax goodwill impairment charge of $6.6 million and a purchased intangible asset charge of $22.8 million. Based on the fair value tests performed during the third quarter of 2012, the Company recorded a preliminary pre-tax goodwill impairment charge of $13.2 million and a preliminary purchased intangible asset charge of $7.3 million. During the fourth quarter of 2012, the Company completed the third quarter impairment analysis and reduced the purchased intangible asset impairment by $300,000. During the third quarter of 2011, we performed an interim assessment of impairment for goodwill and recorded an impairment charge of $3.5 million. During the fourth quarter of 2011, we completed the impairment analysis and reduced the impairment by $237,000.

Amortization of purchased intangible assets. The amortization of purchased intangible assets for the year ended December 31, 2012 was approximately $1.1 million, compared to approximately $2.2 million in 2011. The decrease in amortization expense was due to the lower net asset value of the intangible assets resulting from impairment charges in the first and third quarters of 2012.

Interest income, net. Interest income, net, for the year ended December 31, 2012 was $291,000 as compared to $384,000 for the same period in 2011. Our net interest income during 2012 and 2011 was primarily related to interest earned on our marketable securities.

Other expense, net. Other expense, net for the year ended December 31, 2012 was $203,000 as compared to $1.1 million for the same period in 2011. The net other expenses for 2011 were primarily related to foreign currency losses on South Korean Won denominated trade payables, foreign exchange currency losses on our foreign denominated bank accounts and trade receivables, and other-than-temporary loss recognized on our marketable equity securities.

Income tax expense (benefit). Income tax expense was approximately $611,000 for fiscal 2012, compared to a benefit of $9.5 million in 2011. The difference between the federal and state statutory combined benefit rate of 35% and our effective tax rate for 2012 is primarily due to a full valuation allowance on the U.S.-based deferred tax assets generated in 2012, and a $0.4 million expense related to an increase in the Company's valuation allowance on the Canadian-based deferred tax assets. The income tax benefit for 2011 was primarily due to an $11.8 million income tax benefit related to the recognition of uncertain tax positions. U.S.-based deferred tax assets generated in 2011 resulting from the Company's operating losses did not result in a net tax benefit due to an offsetting full valuation allowance on the deferred tax assets.

Net loss. For the year ended December 31, 2012, we reported a net loss of approximately $89.3 million, as compared to net loss of approximately $24.9 million in 2011. Net income was significantly impacted due to the impairment charges recognized in 2012.

Liquidity and Capital Resources

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

To address short term liquidity requirements resulting from working capital changes the Company entered into a margin credit facility with a bank in 2011. The use of this margin credit facility allows the Company to meet short-term cash requirements and avoid selling cash equivalents and marketable securities. Borrowings under this facility are collateralized by Company cash and cash equivalents and marketable securities on deposit at the bank. During the twelve months ended December 31, 2012, the Company borrowed $14.0 million against the facility and repaid the entire amount during the same period. The Company had no outstanding borrowings under this facility at December 31, 2012. During the twelve months ended December 31, 2013, the Company borrowed $20.3 million against the facility and had outstanding borrowings of $2.6 million under this facility at December 31, 2013. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities have been classified by the Company as restricted marketable securities on the balance sheet at December 31, 2013. At December 31, 2013 the Company had no cash equivalents held at this bank. The Company's unused borrowing capacity at December 31, 2013 under the credit facility was $1.8 million.

Working Capital, Cash and Cash Equivalents and Marketable Securities

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

	Year Ended December 31, (in thousands)		
	2013	2012	Increase / (Decrease)
Working capital (1)	$40,928	$67,199	$(26,271)
Cash and cash equivalents (2)	$ 2,911	$16,044	$(13,133)
Short-term marketable securities (2)(3)	16,612	38,064	(21,452)
Long-term marketable securities	3,443	1,201	2,242
Total cash and cash equivalents and marketable securities	$22,966	$55,309	$(32,343)

(1) Working capital is defined as the excess of current assets over current liabilities.
(2) Included in working capital.
(3) Excludes restricted marketable securities.

Our decrease in working capital as of December 31, 2013 compared to the prior year was primarily due to losses from operations incurred and capital expenditures in 2013, as well as the investment of short-term marketable securities maturities into long-term marketable securities of approximately $2.2 million.

As of December 31, 2013, our cash, cash equivalents and marketable securities decreased $32.3 million as compared to December 31, 2012, primarily due to $26.6 million of cash used in operating activities and capital expenditures of $5.0 million. See the discussion of market risk in Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Historical Cash Flows

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

	Year Ended December 31, (in thousands)	
	2013	**2012**
Net cash used in operating activities	$(26,627)	$(29,879)
Net cash provided by (used in) investing activities	11,624	(2,203)
Net cash provided by financing activities	2,014	1,120
Effect of exchange rates on cash and cash equivalents	(144)	(63)
Net decrease in cash and cash equivalents	(13,133)	(31,025)
Cash and cash equivalents, beginning of period	16,044	47,069
Cash and cash equivalents, end of period	$ 2,911	$ 16,044

Operating activities. Net cash used in operating activities was $26.6 million for 2013 compared to $29.9 million of net cash used in 2012. Net cash used in operating activities for the year ended December 31, 2013 was primarily attributable to the loss incurred in 2013 and the unfavorable working capital impacts of a $19.2 million reduction in accounts payable. The unfavorable working capital impacts during the year ended December 31, 2013 were partially offset by non-cash charges including depreciation and amortization, goodwill and intangible assets impairment, share-based compensation and contingent loss for litigation. Net cash used in operating activities for the year ended December 31, 2012 was primarily attributable to the loss incurred in 2012 and the unfavorable working capital impacts of a $10.4 million reduction in accounts payable and a $6.2 million increase in accounts receivable. The unfavorable working capital impacts during the year ended December 31, 2012 were partially offset by non-cash charges including depreciation and amortization, goodwill and intangible assets impairment and share-based compensation.

Investing activities. Net cash provided by investing activities for 2013 was approximately $11.6 million compared to $2.2 million used in investing activities in 2012. The net cash provided by investing activities in 2013 was primarily related to the net sales and maturities of our marketable securities of $16.6 million, partially offset by purchases of property and equipment of $5.0 million. The net cash used in 2012 was primarily related to purchases of property and equipment of $4.6 million, partially offset by the net sales and maturities of our marketable securities of $2.5 million.

Financing activities. Net cash provided by financing activities for 2013 was $2.0 million, compared to net cash provided by financing activities of $1.1 million for 2012. Net cash provided by financing activities in 2013 was primarily related to proceeds received from borrowing on our margin credit facility, partially offset by principal repayments on our margin credit facility borrowings, and payroll taxes paid on behalf of employees for restricted stock units which vested during the period. Net cash provided by financing activities in 2012 was primarily related to proceeds from stock option exercises and stock purchases through our employee stock purchase plan. Net financing activities for 2012 also included cash borrowings and repayment of $14.0 million during the year.

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments at December 31, 2013, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Fiscal Year						
	2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	$ 3,626	$3,417	$3,394	$806	$422	$653	$12,318
Committed purchase orders	52,004	0	0	0	0	0	52,004
Total contractual obligations	$55,630	$3,417	$3,394	$806	$422	$653	$64,322

Our liability for uncertain tax benefits, including interest, as of December 31, 2013 was approximately $62,000, compared to approximately $367,000 as of December 31, 2012. The decrease was primarily due to the expiration of the applicable statutes of limitations for certain tax years. Our tax liability for uncertain tax benefits is not included in our table of contractual obligations and commercial commitments. We do not believe that we will pay such amount within one year from December 31, 2013; however, we cannot reasonably estimate the timing of future payments with respect to this liability.

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 11 to our consolidated financial statements included in this report. These costs cannot be estimated at this time.

During the year ending December 31, 2014, we plan to incur approximately $2.0 million for discretionary capital expenditures, including the acquisition of additional software licenses.

We have recently incurred operating losses and had a net loss of $43.4 million during the year ended December 31, 2013. As of December 31, 2013, we had available cash, cash equivalents and short-term marketable securities totaling $19.5 million, excluding $2.6 million of restricted marketable securities, and working capital of $40.9 million. Our ability to transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned research and development activities, incur additional restructuring charges or reduce other operating expenses which could have an adverse impact on our ability to achieve our intended business objectives. We believe our cash resources from cash and cash equivalents and marketable securities, together with anticipated cash flows from operations will be sufficient to meet our working capital needs for the next twelve months.

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

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are material to our results of operations, financial conditions or liquidity.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 including acquired intangibles and goodwill resulting from the acquisition of Enfora, valuation of contingent consideration, provision for warranty costs, litigation, income taxes, foreign exchange forward contracts, and share-based compensation expense.

Revenue Recognition. The Company's revenue is principally generated from the sale of wireless modems to wireless operators, OEM customers and value added resellers and distributors. In addition, the Company generates revenue from the sale of asset-management solutions utilizing wireless technology and M2M communication devices to transportation and industrial companies, medical device manufacturers and security system providers. Revenue from product sales is generally recognized upon the later of transfer of title or delivery of the product to the customer. Where the transfer of title or risk of loss is contingent on the customer's acceptance of the product, we will not recognize revenue until both title and risk of loss have transferred to the customer. We record deferred revenue for cash payments received from customers in advance of when revenue recognition criteria are met. We have granted price protection to certain customers in accordance with the provisions of the respective contracts and track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. We estimate the amount of price protection for current period product sales utilizing historical experience and information regarding customer inventory levels. To date, we have not incurred material price protection obligations. Revenues from sales to certain customers are subject to cooperative advertising allowances. Cooperative advertising allowances are recorded as an operating expense to the extent that the advertising benefit is separable from the revenue transaction and the fair value of that advertising benefit is determinable. To the extent that such allowances either do not provide a separable benefit to us, or the fair value of the advertising benefit cannot be reliably estimated, such amounts are recorded as a reduction of revenue. We establish reserves for estimated product returns allowances in the period in which revenue is recognized. In estimating future product returns, we consider various factors, including our stated return policies and practices and historical trends.

Predominantly all of the revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. The Company records revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations, such as warranty obligations. The Company considers the four basic revenue recognition criteria discussed under Staff Accounting Bulletin No. 104 when assessing appropriate revenue recognition as follows:

Criterion #1 — Persuasive evidence of an arrangement must exist;
Criterion #2 — Delivery has occurred;
Criterion #3 — The Company's price to the buyer must be fixed or determinable; and,
Criterion #4 — Collectibility is reasonably assured.

Under ASU 2009-13, in multiple element arrangements, the total consideration received from customers must be allocated to the elements based on a relative selling price. The accounting guidance establishes a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendors specific objective evidence (VSOE), (ii) third party evidence (TPE), and (iii) best estimate of selling price

(BESP). Because the Company has neither VSOE nor TPE, revenue has been based on the Company's BESP. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of the sale provided all other revenue recognition criteria have been met. Amounts allocated to other deliverables based upon BESP are recognized in the period the revenue recognition criteria have been met.

Our process for determining its BESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Our prices are determined based upon cost to produce our products, expected order quantities and acceptance in the marketplace. In addition, when developing ESPs for products we may consider other factors as appropriate including the pricing of competitive alternatives if they exist, and product-specific business objectives.

We account for multiple element arrangements that primarily consist of software licenses and post contract support (PCS) by recognizing revenue for such arrangements ratably over the term of the PCS as we have not established VSOE for the PCS element.

For the years ended December 31, 2013, 2012, and 2011, we have not recorded any significant revenues from multiple element or software arrangements.

Allowance for Doubtful Accounts Receivable. We provide an allowance for our accounts receivable for estimated losses that may result from our customers' inability to pay. We determine the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, we review our customers' credit-worthiness periodically based on credit scores generated by independent credit reporting services, our experience with our customers and the economic condition of our customers' industries. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required.

Provision for Excess and Obsolete Inventory. Inventories are stated at the lower of cost (first-in, first-out method) or market. We review the components of our inventory and our inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by us or our customers that vary from our current expectations. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if market conditions improve.

We believe that, when made, the estimates we use in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for our inventory is substantially less than our estimates, inventory write-downs may be required, which could have a material adverse effect on our consolidated financial statements.

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

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

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

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

The Company performed fair value tests with the assistance of third party independent appraisals, for each of the Company's purchased intangible assets. The existing trade name acquired was valued using royalty rates ranging from 1% to 2% and discount rates ranging from 23.0% to 24.0%. The developed technologies were valued using discount rates ranging from 20.0% to 21.0%. The backlog was valued using discount rates ranging from 17.0% to 18.0%. Customer relationships were valued using discount rates ranging from 21.0% to 22.0%. All key assumptions assumed tax rates of 40%, and the assets were assumed to have economic lives ranging from 6 months to 10 years depending on the asset.

Goodwill. Our goodwill resulted from the acquisition of Enfora (M2M Products and Solutions) in the fourth quarter of 2010. In accordance with the (FASB) Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other* ("ASC Topic 350"), we reviewed goodwill for impairment at least annually at the beginning of the fourth quarter of each year, and more frequently when events or changes in circumstances occurred that indicated a potential reduction in the fair value of the reporting unit below its carrying value.

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

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

Contingent Consideration. Contingent consideration is recorded at the acquisition date estimated fair value of the contingent payment for all acquisitions. The fair value of the contingent consideration is remeasured at each reporting period with any adjustments in fair value included in the Company's consolidated statement of operations.

Provision for Warranty Costs. We accrue warranty costs based on estimates of future warranty related replacement, repairs or rework of products. Our warranty policy generally provides one to three years of coverage for products following the date of purchase. Our policy is to accrue the estimated cost of warranty coverage as a component of cost of revenue in the consolidated statements of operations at the time revenue is recognized. In estimating our future warranty obligations we consider various relevant factors, including the historical frequency and volume of claims, and the cost to replace or repair products under warranty. The warranty provision for our products is determined by using a financial model to estimate future warranty costs. Our financial model takes into consideration actual product failure rates; estimated replacement over the contractual warranty period, repair or rework expenses; and potential risks associated with our different products. The risk levels, warranty cost information, and failure rates used within this model are reviewed throughout the year and updated, if and when, these inputs change.

We actively engage in product improvement programs and processes to limit our warranty costs, but our warranty obligation is affected by the complexity of our product, product failure rates and costs incurred to correct those product failures. The industry in which we operate is subject to rapid technological change, and as a result, we periodically introduce newer, more complex products. Depending on the quality of our product design and manufacturing, actual product failure rates or actual warranty costs could be materially greater than our estimates, which could harm our financial condition and results of operations.

Income Taxes. We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal, state and foreign deferred tax liabilities or assets based on our estimate of future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that some portion of the deferred tax asset will not be realized. We evaluate deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance against our deferred tax assets which could result in a decrease in our effective tax rate and an adverse impact on operating results. We will continue to evaluate the level of valuation allowance required based on the remaining deferred tax assets.

The Company recognizes the impact of uncertain income tax positions on the income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Uncertain tax positions are recognized in the first subsequent financial reporting period in which that threshold is met or from changes in circumstances such as the expiration of applicable statutes of limitations.

Litigation. The Company is currently involved in certain legal proceedings. The Company will record a loss when the Company determines information available prior to the issuance of the financial statements indicates the loss is both probable and estimable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records the minimum estimated liability related to the claim. As additional information becomes available, the Company assesses the potential liability related to the Company's pending litigation and revises its estimates, if necessary. The Company's policy is to expense litigation costs as incurred.

Share-based Compensation Expense. We have stock incentive plans under which incentive stock options and restricted stock units have been granted to employees and non-employee members of our Board of Directors. We also had an employee stock purchase plan for all eligible employees. Share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, are recognized in the financial statements based upon their respective grant date fair values.

We estimate the fair value of stock option awards and stock purchase rights on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is principally recognized as expense ratably over the requisite service periods. We have estimated the fair value of stock options and stock purchase rights as of the date of grant or assumption using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of our stock price. We evaluate the assumptions used to value stock options and stock purchase rights on a quarterly basis. Although the Black-Scholes model is an acceptable model, the fair values generated by the model may not be indicative of the actual fair values of our equity awards, as it does not consider other factors important to those awards to employees, such as continued employment, periodic vesting requirements and limited transferability.

Compensation cost associated with grants of restricted stock units are measured at fair value, which has historically been the closing price of the Company's stock on the date of the grant.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits our credit exposure to any single issuer. The fair value of our cash equivalents and marketable debt securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. At December 31, 2013, we had $25.5 million in cash, cash equivalents and marketable securities, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of our $2.9 million in cash equivalents at December 31, 2013, as these consisted of money market funds with the value of all of our cash equivalents determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets.

At December 31, 2013, substantially all of our marketable securities are invested in fixed income products. As such, our investments in fixed-rate instruments carry a degree of interest rate risk. The market value of fixed-rate securities may be adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates decline. Due in part to these factors, our future investment market values and income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt investments is judged to be other-than-temporary. Using a model that estimates the aggregate yield to maturity of our investment portfolio, we estimate that 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, our $22.6 million in marketable securities by approximately $226,000.

However, because any debt securities we hold are classified as available-for-sale (within the meaning of ASC Topic 320), no gains or losses are realized in the income statement due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax.

We do not utilize derivative instruments or other financial contracts to manage our exposure to changes in interest rates in our investment portfolio.

Credit Risk

We maintain our cash and cash equivalents and our marketable debt securities, which include various security holdings, types and maturities, with a number of financial institutions. As of the date of this report, we have not identified any significant credit risk associated with any of the financial institutions that maintain our portfolio of cash and cash equivalents and our marketable securities. However, our ability to support our working capital needs depends, in part, on our available cash, cash equivalents, and marketable securities. As a result, any significant decrease in the value of our investments may materially adversely impact our ability to support our working capital needs.

We place our cash investments in instruments that meet credit quality standards specified in our investment policy guidelines at the time the investments are made. At December 31, 2013, we have cash and cash equivalents of $2.9 million. Of this $2.9 million, $2.4 million is held in cash demand deposits and $487,000 in cash equivalents was held in money market investments and U.S. Treasury securities. Money market funds attempt to maintain a net asset value, or NAV, of $1 per unit of investment. Should the underlying investments held by these money market funds suffer significant losses to market value due to interest rate changes or perceived counterparty risk, the NAV of these money market funds may suffer declines below the targeted $1 NAV. We hold money market funds that target a balance of investment return and preservation of invested capital through diversified holdings. As such, we do not believe we currently have significant exposure to NAV declines for our money market holdings.

At December 31, 2013, we had $22.6 million invested in our portfolio of marketable securities. Our investment policy guidelines limit the amount of credit exposure to any one issue, issuer or type of instrument. The fair value of our marketable debt securities at December 31, 2013 was determined based on “Level 2” inputs, which were derived based on quoted prices for identical or similar assets, which had few transactions near the measurement period (see Note 3 to our consolidated financial statements).

Foreign Currency Exchange Rate Risk

We generate Euro-denominated accounts receivable from sales to customers that are members of the European Union. During the year ended December 31, 2013, Euro-denominated revenue was approximately $580,000 which represents less than 1% of our total net revenues compared to less than 1% in the same period last year. Although we are exposed to market risk arising from changes in foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar, as Euro-denominated revenue is not considered significant, we did not enter into any foreign exchange contracts during the year ended December 31, 2013. If our net revenues increase in the foreseeable future, we may enter into foreign exchange contracts to mitigate this risk. These forward currency foreign exchange contracts would cover a portion, generally 50% to 80%, but may cover up to 100%, of our Euro-based financial assets.

At December 31, 2013, we had no outstanding forward contracts. During the year ended December 31, 2013, we recorded approximately $17,000 in unrealized foreign currency gains related to our outstanding Euro-denominated accounts receivable balances. Both the unrealized gain on the outstanding forward contracts and the unrealized gains on outstanding Euro-denominated receivables were recorded in other income (expense), net in our consolidated statement of operations.

Assuming a translation of our Euro-denominated revenue for the year ended December 31, 2013 at an average Euro-to-U.S. Dollar exchange rate of $1.33 and a uniform ten percent strengthening or weakening of this exchange rate, we estimate that income before income taxes for the year ended December 31, 2013 would increase or decrease, respectively, by approximately $58,000. This analysis does not give effect to any forward currency foreign exchange contracts that may be used to hedge foreign currency risk.

Actual gains and losses in the future may differ materially from the hypothetical gains and losses discussed above based on fluctuations in interest and foreign currency exchange rates and our actual exposure and hedging transactions.

Our sales to non-European Union countries are typically denominated in U.S. Dollars. Competitive conditions in the markets in which we operate may limit our ability to increase prices in the event of adverse changes in currency exchange rates. Sales of these products are affected by the value of the U.S. Dollar relative to other currencies, and in particular, the Euro. Any long-term strengthening of the U.S. Dollar could depress the demand for these U.S. manufactured products, reduce sales, or cause us to reduce per unit selling prices.

Item 8. *Financial Statements and Supplementary Data*

The index to our consolidated financial statements and the Report of Independent Registered Public Accounting Firm appears in Part IV of this report.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC rules, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013, the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Changes in Internal Control Over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in by the 1992 Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited our internal control over financial reporting as of December 31, 2013, as stated in their report which is included herein.

Item 9B. ***Other Information***

None

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Novatel Wireless, Inc.:

We have audited Novatel Wireless Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Novatel Wireless, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Novatel Wireless, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Novatel Wireless, Inc. and our report dated March 11, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
March 11, 2014

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

(a) *Identification of Directors.* The information under the caption "Election of Directors" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

(b) *Identification of Executive Officers*. The information under the caption "Executive Officers" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

(c) *Compliance with Section 16(a) of the Exchange Act*. The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

(d) *Code of Ethics.* We have adopted a Code of Business Conduct and Ethics which, together with the policies referred to therein, is applicable to all of our directors, officers and employees. The Code of Business Conduct and Ethics is intended to cover all areas of professional conduct, including conflicts of interest, disclosure obligations, insider trading and confidential information, as well as compliance with all laws, rules and regulations applicable to our business. We encourage all employees, officers and directors to promptly report any violations of any of our policies. The Code of Business Conduct and Ethics is posted on our website at *www.novatelwireless.com* in the Investor tab under "Corporate Governance." In the event that a substantive amendment to, or a waiver from, a provision of the Code of Business Conduct and Ethics that applies to our principal executive officer or principal financial and accounting officer is necessary, we intend to post such information on our website.

(e) *Audit Committee.* The information under the caption "The Board, Its Committees and Its Compensation—Audit Committee" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

Item 11. *Executive Compensation*

The information under the headings "Executive Compensation," "The Board, Its Committees and Its Compensation—Director Compensation," "Compensation Discussion and Analysis" and "Compensation Committee Report" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information under the headings "Security Ownership of Management and Certain Beneficial Owners" and "Equity Compensation Plan Information" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information under the headings "Review and Approval of Transactions with Related Parties" and "The Board, Its Committees and Its Compensation—Director Independence" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information under the heading "Independent Public Accountants" appearing in the Proxy Statement to be filed for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Index to consolidated financial statements

See Index to consolidated financial statements on page F-1.

2. Index to financial statement schedules

The following financial statement schedules for the years ended December 31, 2013, 2012, and 2011 should be read in conjunction with the consolidated financial statements, and related notes thereto.

Schedule	Page
Schedule II—Valuation and Qualifying Accounts	F-35

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the consolidated financial statements or related notes thereto.

(b) Exhibits

The following Exhibits are filed as part of, or incorporated by reference into this report:

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed March 27, 2001).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed November 14, 2002).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.4	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.5	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.6	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 27, 2001).
4.1	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000, as amended).

Exhibit Number	Description
4.2	Form of Securities Purchase Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.3	Registration Rights Agreement, dated as of March 12, 2003, entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.4	Registration Rights Agreement, dated as of January 13, 2004, entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
10.1*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.2*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.3*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.4*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.5*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.6*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.7*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.8*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2, 2011).
10.9*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.10*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.11*	Form of Indemnification Agreement by and between the Company and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009, filed November 2, 2009).

10.12*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.13*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.14*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed May 2, 2011).
10.15*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.16*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010.
10.17	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.18	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
10.19**	Memorandum of Understanding: In re Novatel Wireless Secs. Litig., Civil Action No. 08-CV-01689-AJB (RBB) United States District Court for the Southern District of California, executed December 6, 2013.
21**	Subsidiaries of Novatel Wireless, Inc.
23.1**	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.

* Management contract, compensatory plan or arrangement

** Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 11, 2014

NOVATEL WIRELESS, INC.

By: /s/ PETER LEPARULO

Peter Leparulo
Chairman and Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Peter Leparulo and Kenneth Leddon, or either of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PETER LEPARULO **Peter Leparulo**	Chairman and Chief Executive Officer (Principal Executive Officer)	March 11, 2014
/s/ KENNETH LEDDON **Kenneth Leddon**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2014
/s/ RUSSELL C. GERNS **Russell C. Gerns**	Director	March 11, 2014
/s/ JAMES LEDWITH **James Ledwith**	Director	March 11, 2014
/s/ JOHN D. WAKELIN **John D. Wakelin**	Director	March 11, 2014
/s/ DAVID A. WERNER **David A. Werner**	Director	March 11, 2014
/s/ SUE SWENSON **Sue Swenson**	Director	March 11, 2014

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Novatel Wireless, Inc.

We have audited the accompanying consolidated balance sheets of Novatel Wireless, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novatel Wireless, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Novatel Wireless, Inc.'s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 11, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
March 11, 2014

NOVATEL WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	As of December 31, 2013	As of December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,911	$ 16,044
Marketable securities	16,612	38,064
Restricted marketable securities	2,566	0
Accounts receivable, net of allowance for doubtful accounts of $2,449 in 2013 and $627 in 2012	39,985	42,652
Inventories	27,793	39,016
Deferred tax assets, net	100	126
Prepaid expenses and other	5,662	4,829
Total current assets	95,629	140,731
Property and equipment, net of accumulated depreciation of $62,334 in 2013 and $59,702 in 2012	9,901	15,229
Marketable securities	3,443	1,201
Intangible assets, net of accumulated amortization of $12,983 in 2013 and $11,951 in 2012	2,131	3,163
Deferred tax assets, net	81	584
Other assets	280	623
Total assets	$ 111,465	$ 161,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,538	$ 45,732
Accrued expenses	23,271	27,800
Current portion of contingent loss for litigation	4,326	0
Short-term margin loan facility	2,566	0
Total current liabilities	54,701	73,532
Other long-term liabilities	1,848	2,552
Long-term portion of contingent loss for litigation	10,000	0
Total liabilities	66,549	76,084
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, 34,097 and 33,655 shares issued and outstanding at December 31, 2013 and 2012, respectively	34	34
Additional paid-in capital	441,368	438,477
Accumulated other comprehensive income	5	14
Accumulated deficit	(371,491)	(328,078)
	69,916	110,447
Treasury stock at cost; 2,436 common shares at December 31, 2013 and 2012	(25,000)	(25,000)
Total stockholders' equity	44,916	85,447
Total liabilities and stockholders' equity	$ 111,465	$ 161,531

See accompanying notes to consolidated financial statements

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011
Net revenues	$335,053	$344,288	$402,862
Cost of net revenues	266,759	271,845	318,270
Gross profit	68,294	72,443	84,592
Operating costs and expenses:			
Research and development	48,246	60,422	61,392
Sales and marketing	20,898	27,501	29,830
General and administrative	24,179	22,668	21,600
Goodwill and intangible assets impairment	0	49,521	3,277
Amortization of purchased intangible assets	562	1,074	2,220
Contingent loss for litigation	14,326	0	0
Restructuring charges	3,304	0	0
Total operating costs and expenses	111,515	161,186	118,319
Operating loss	(43,221)	(88,743)	(33,727)
Other income (expense):			
Interest income, net	113	291	384
Other expense, net	(222)	(203)	(1,052)
Loss before income taxes	(43,330)	(88,655)	(34,395)
Income tax (benefit) provision	83	611	(9,503)
Net loss	$ (43,413)	$ (89,266)	$ (24,892)
Per share data:			
Net loss per share:			
Basic and diluted	$ (1.28)	$ (2.72)	$ (0.78)
Weighted average shares used in computation of basic and diluted net loss per share:			
Basic and diluted	33,948	32,852	32,043

See accompanying notes to consolidated financial statements

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Net loss	$(43,413)	$(89,266)	$(24,892)
Unrealized gain (loss) on cash equivalents and marketable securities, net of tax	(9)	22	(29)
Total comprehensive loss	$(43,422)	$(89,244)	$(24,921)

See accompanying notes to consolidated financial statements

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in	Treasury	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Stock	Deficit	Income (Loss)	Equity
Balance, December 31, 2010	31,852	$32	$424,270	$(25,000)	$(213,920)	$ 21	$185,403
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	410	0	504	0	0	0	504
Taxes withheld on net settled vesting of restricted stock units	0	0	(700)	0	0	0	(700)
Net tax effect from stock options exercised	0	0	(244)	0	0	0	(244)
Share-based compensation	0	0	5,983	0	0	0	5,983
Net loss	0	0	0	0	(24,892)	0	(24,892)
Other comprehensive income (loss)	0	0	0	0	0	(29)	(29)
Balance, December 31, 2011	32,262	32	429,813	(25,000)	(238,812)	(8)	166,025
Exercise of stock options, vesting of restricted stock units and shares issued under employee stock purchase plan	1,393	2	1,597	0	0	0	1,599
Taxes withheld on net settled vesting of restricted stock units	0	0	(433)	0	0	0	(433)
Share-based compensation	0	0	7,500	0	0	0	7,500
Net loss	0	0	0	0	(89,266)	0	(89,266)
Other comprehensive income (loss)	0	0	0	0	0	22	22
Balance, December 31, 2012	33,655	34	438,477	(25,000)	(328,078)	14	85,447
Exercise of stock options and vesting of restricted stock units	442	0	102	0	0	0	102
Taxes withheld on net settled vesting of restricted stock units	0	0	(654)	0	0	0	(654)
Share-based compensation	0	0	3,443	0	0	0	3,443
Net loss	0	0	0	0	(43,413)	0	(43,413)
Other comprehensive income (loss)	0	0	0	0	0	(9)	(9)
Balance, December 31, 2013	34,097	$34	$441,368	$(25,000)	$(371,491)	$ 5	$ 44,916

See accompanying notes to consolidated financial statements

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net loss	$(43,413)	$(89,266)	$(24,892)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	8,949	12,337	17,868
Loss on goodwill and purchased intangible assets impairment	0	49,521	3,277
Impairment loss on equipment, leasehold improvements and software license intangible assets	418	100	203
Provision for bad debts	1,936	439	40
Net impairment loss on marketable securities	0	39	346
Inventory provision	4,344	2,843	689
Share-based compensation expense	3,443	7,500	5,983
Contingent loss for litigation	14,326	0	0
Non-cash income tax expense (benefit)	220	462	(9,185)
Changes in assets and liabilities:			
Accounts receivable	730	(6,242)	26,437
Inventories	6,879	420	122
Prepaid expenses and other assets	(489)	(1,237)	3,661
Accounts payable	(19,237)	(10,433)	(24,293)
Accrued expenses, income taxes, and other	(4,733)	3,638	(1,787)
Net cash used in operating activities	(26,627)	(29,879)	(1,531)
Cash flows from investing activities:			
Purchases of property and equipment	(5,011)	(4,579)	(5,987)
Purchases of intangible assets	0	(104)	(284)
Purchases of marketable securities	(24,262)	(44,216)	(36,992)
Marketable securities maturities / sales	40,897	46,696	74,922
Net cash provided by (used in) investing activities	11,624	(2,203)	31,659
Cash flows from financing activities:			
Proceeds from the issuance of short-term debt, net of issuance costs	20,300	14,000	12,000
Principal repayments of short-term debt	(17,734)	(14,000)	(12,000)
Principal payments under capital lease obligations	0	(46)	(109)
Proceeds from stock option exercises and ESPP net of taxes paid on vested restricted stock units	(552)	1,166	(196)
Net cash provided by (used in) financing activities	2,014	1,120	(305)
Effect of exchange rates on cash and cash equivalents	(144)	(63)	(129)
Net increase (decrease) in cash and cash equivalents	(13,133)	(31,025)	29,694
Cash and cash equivalents, beginning of period	16,044	47,069	17,375
Cash and cash equivalents, end of period	$ 2,911	$ 16,044	$ 47,069
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 65	$ 17	$ 8
Income taxes	$ 121	$ 104	$ 112
Supplemental disclosures of non-cash investing activities:			
Building rent incentives to fund leasehold improvements	$ 359	$ 0	$ 1,869
Supplemental disclosures of non-cash financing activities:			
Marketable equity securities received in settlement of note receivable	$ 0	$ 0	$ 386

See accompanying notes to consolidated financial statements.

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Significant Accounting Policies

Novatel Wireless, Inc. (the "Company," "our" or "we") is a provider of wireless broadband access solutions for the worldwide mobile communications market. Our broad range of products principally includes intelligent mobile hotspots, USB modems, embedded PCI and wireless PC-card modems, and communications and applications software. In addition, through our acquisition of Enfora, Inc. ("Enfora") on November 30, 2010, we provide asset management solutions utilizing wireless technology and machine-to-machine ("M2M") communications devices.

Basis of Presentation

We have recently incurred operating losses and had a net loss of $43.4 million during the year ended December 31, 2013. As of December 31, 2013, we had available cash, cash equivalents and short-term marketable securities totaling $19.5 million, excluding $2.6 million of restricted marketable securities, and working capital of $40.9 million. Our ability to transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned research and development activities, incur additional restructuring charges or reduce other operating expenses which could have an adverse impact on our ability to achieve our intended business objectives. We believe our working capital resources are sufficient to fund our operations through at least December 31, 2014.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits, US Treasury securities, and money market funds. Cash and cash equivalents are recorded at market value, which approximates cost. Gains and losses associated with the Company's foreign currency denominated demand deposits are recorded as a component of other income (expense).

Allowance for Doubtful Accounts Receivable

The Company provides an allowance for its accounts receivable for estimated losses that may result from its customers' inability to pay. The Company determines the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, the Company reviews its customers' credit-worthiness periodically based on credit scores generated by independent credit reporting services, its experience with its customers and the economic condition of its customers' industries. Material differences may result in the amount and timing of expense for any period if the Company were to make different judgments or utilize different estimates.

Marketable Securities

Marketable securities predominantly consist of highly liquid debt investments with a maturity of greater than three months when purchased. The Company holds an insignificant amount of marketable equity securities. All of the Company's marketable debt securities are treated as "available-for-sale." While it is the Company's intent to hold its debt securities until maturity, the Company may sell certain securities for cash flow purposes. Thus, the Company's marketable debt securities are classified as available-for-sale and are carried on the balance sheet at fair value with the related unrealized gains and losses included in accumulated other comprehensive loss, a component of stockholders' equity. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method. The Company determines the fair value of its financial assets and liabilities by reference to the hierarchy of inputs which consists of three levels: Level 1 fair values are valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All securities whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheet. All other securities are classified as "long-term" on the consolidated balance sheet.

Inventories and Provision for Excess and Obsolete Inventory

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipping and handling costs are classified as a component of cost of net revenues in the consolidated statements of operations. The Company reviews the components of its inventory and its inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by the Company or its customers that vary from its current expectations. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if market conditions improve.

The Company believes that, when made, the estimates used in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for the Company's inventory is substantially less than its estimates, inventory write-downs may be required, which could have a material adverse effect on its consolidated financial statements.

Property and Equipment

Property and equipment are initially stated at cost and depreciated using the straight-line method. Test equipment, computer equipment, purchased software, furniture, and fixtures and product tooling are depreciated over lives ranging from eighteen months to five years and leasehold improvements are depreciated over the shorter of the related remaining lease period or useful life. Amortization of assets held under capital leases is included in depreciation expense.

Expenditures for repairs and maintenance are expensed as incurred. Expenditures for major renewals and betterments that extend the useful lives of existing property and equipment are capitalized and depreciated. Upon retirement or disposition of property and equipment, any resulting gain or loss is recognized in the consolidated statements of operations.

Intangible Assets

Intangible assets include purchased intangible assets acquired from Enfora and the costs of non-exclusive and perpetual worldwide software technology licenses. These costs are amortized on an accelerated basis or on a straight-line basis over the estimated useful lives of the assets, depending on the anticipated utilization of the asset. The majority of intangible assets relate to the developed technologies and trade name resulting from the acquisition of Enfora. Developed technologies are amortized on a straight-line basis over the remaining one year useful life. Trade name is amortized on a straight-line basis over the remaining useful life of three years.

Long-Lived Assets

The Company periodically evaluates the carrying value of the unamortized balances of its long-lived assets, including property and equipment and intangible assets, to determine whether impairment of these assets has occurred or whether a revision to the related amortization periods should be made. When the carrying value of an asset exceeds the associated undiscounted expected future cash flows, it is considered to be impaired and is written down to fair value. Fair value is determined based on an evaluation of the assets associated undiscounted future cash flows or appraised value. This evaluation is based on management's projections of the undiscounted future cash flows associated with each class of asset. If management's evaluation indicates that the carrying values of these assets are impaired, such impairment is recognized by a reduction of the applicable asset carrying value to its estimated fair value and the impairment is expensed as a part of continuing operations.

Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill is allocated as of the date of the business combination to the reporting units that are expected to benefit from the synergies of the business combination. Goodwill is considered to be impaired if the Company determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds its estimated fair value. The Company performs its annual goodwill impairment test each year at the beginning of the fourth quarter, or more frequently if events or circumstances indicate that the carrying value of goodwill exceeds its fair value. The Company recorded $19.8 million, and $3.3 million of goodwill impairment losses during the years ended December 31, 2012, and 2011, respectively. As of December 31, 2012, all historical goodwill had been fully impaired.

Contingent Consideration

Contingent consideration is recorded at the acquisition date estimated fair value for all acquisitions. The fair value of the contingent consideration is remeasured at each reporting period with any adjustments in fair value included in the Company's consolidated statement of operations.

Revenue Recognition

The Company's revenue is principally generated from the sale of wireless modems to wireless operators, OEM customers and value added resellers and distributors. In addition, the Company generates revenue from the sale of asset-management solutions utilizing wireless technology and M2M communication devices predominantly to transportation and industrial companies, medical device manufacturers and security system providers. Revenue from product sales is generally recognized upon the later of transfer of title or delivery of the product to the customer. Where the transfer of title or risk of loss is contingent on the customer's acceptance of the product, we will not recognize revenue until both title and risk of loss have transferred to the customer. We record deferred revenue for cash payments received from customers in advance of when revenue recognition criteria are met. We have granted price protection to certain customers in accordance with the provisions of the respective contracts and track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. We estimate the amount of price protection for current period product sales utilizing historical experience and information regarding customer inventory levels. To date, we have not incurred material price protection obligations. Revenues from sales to certain customers are subject to cooperative advertising allowances. Cooperative advertising allowances are recorded as an operating expense to the extent that the advertising benefit is separable from the revenue transaction and the fair value of that advertising benefit is determinable. To the extent that such allowances either do not provide a separable benefit to us, or the fair value of the advertising benefit cannot be reliably estimated, such amounts are recorded as a reduction of revenue. We establish reserves for estimated product returns allowances in the period in which revenue is recognized. In estimating future product returns, we consider various factors, including our stated return policies and practices and historical trends.

Predominantly all of our revenues represent the sale of hardware with accompanied software that is essential to the functionality of the hardware. The Company records revenue associated with the agreed upon price on hardware sales, and accrues any estimated costs of post-delivery performance obligations such as warranty obligations. The Company considers the four basic revenue recognition criteria discussed under Staff Accounting Bulletin No. 104 when assessing appropriate revenue recognition as follows:

Criterion #1—Persuasive evidence of an arrangement must exist;
Criterion #2—Delivery has occurred;
Criterion #3—The Company's price to the buyer must be fixed or determinable; and,
Criterion #4—Collectibility is reasonably assured.

For multiple element arrangements, total consideration received from customers is allocated to the elements. This may include hardware, non essential software elements and/or essential software, based on a relative selling price. The accounting guidance establishes a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendors specific objective evidence (VSOE), (ii) third party evidence (TPE), and (iii) best estimate of selling price (BESP). Because the Company has neither VSOE nor TPE, revenue has been based on the Company's BESP. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of the sale provided all other revenue recognition criteria have been met. Amounts allocated to other deliverables based upon BESP are recognized in the period the revenue recognition criteria have been met.

Our process for determining its BESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Our prices are determined based upon cost to produce our products, expected order quantities, acceptance in the marketplace and internal pricing parameters. In addition, when developing BESPs for products we may consider other factors as appropriate including the pricing of competitive alternatives if they exist, and product-specific business objectives.

We account for nonessential software licenses and related post contract support (PCS) under multiple element arrangements by recognizing revenue for such arrangements ratably over the term of the PCS as we have not established VSOE for the PCS element.

For the years ended December 31, 2013, 2012, and 2011, we have not recorded any significant revenues from multiple element or software arrangements.

Research and Development Costs

Research and development costs are expensed as incurred.

Warranty Costs

The Company accrues warranty costs based on estimates of future warranty related replacement, repairs or rework of products. Our warranty policy generally provides one to three years of coverage for products following the date of purchase. The Company's policy is to accrue the estimated cost of warranty coverage as a component of cost of revenue in the accompanying consolidated statements of operations at the time revenue is recognized. In estimating its future warranty obligations the Company considers various factors, including the historical frequency and volume of claims, and the cost to replace or repair products under warranty. The warranty provision for its products is determined by using a financial model to estimate future warranty costs. The Company's financial model takes into consideration actual product failure rates; estimated replacement, repair or rework expenses; and potential risks associated with our different products. The risk levels, warranty cost information, and failure rates used within this model are reviewed throughout the year and updated, if and when, these inputs change.

Income Taxes

The Company recognizes federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. If the Company is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to increase its valuation allowance against its deferred tax assets which could result in an increase in the Company's effective tax rate and an adverse impact on operating results. The Company will continue to evaluate the necessity of the valuation allowance based on the remaining deferred tax assets.

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Uncertain tax positions are recognized in the first subsequent financial reporting period in which that threshold is met or from changes in circumstances such as the expiration of applicable statutes of limitations.

Litigation

The Company is currently involved in certain legal proceedings. The Company will record a loss when the Company determines information available prior to the issuance of the financial statements indicates the loss is both probable and estimable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records the minimum estimated liability related to the claim. As additional information becomes available, the Company assesses the potential liability related to the Company's pending litigation and revises its estimates, if necessary. The Company's policy is to expense litigation costs as incurred.

Share-Based Compensation

The Company has granted stock options to employees and restricted stock units. The Company also has an employee stock purchase plan (“ESPP”) for eligible employees. The Company measures the compensation cost associated with all share-based payments based on grant date fair values. The fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of our stock options and stock purchase rights. The Black-Scholes model is considered an acceptable model but the fair values generated by it may not be indicative of the actual fair values of our equity awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements as well as limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected term, risk-free interest rate and expected dividends.

For grants of stock options, the Company uses a blend of historical and implied volatility for traded options on its stock in order to estimate the expected volatility assumption required in the Black-Scholes model. The Company’s use of a blended volatility estimate in computing the expected volatility assumption for stock options is based on its belief that while that implied volatility is representative of expected future volatility, the historical volatility over the expected term of the award is also an indicator of expected future volatility. Due to the short duration of employee stock purchase rights under our ESPP, the Company utilizes historical volatility in order to estimate the expected volatility assumption of the Black-Scholes model.

The expected term of stock options granted is estimated using historical experience. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options and employee stock purchase rights. The dividend yield assumption is based on the Company’s history and expectation of no dividend payouts. The Company estimates forfeitures at the time of grant and revises these estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates its forfeiture rate assumption for all types of share based compensation awards based historical forfeiture rates related to each category of award.

Compensation cost associated with grants of restricted stock units are measured at fair value, which has historically been the closing price of the Company’s stock on the date of grant.

The Company recognizes share-based compensation expense using the straight-line method for awards that contain only service conditions. For awards that contain performance conditions, the Company recognizes the share-based compensation expense on a straight-line basis for each vesting tranche.

The Company evaluates the assumptions used to value stock awards on a quarterly basis. If factors change and the Company employs different assumptions, share-based compensation expense may differ significantly from what it has recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. To the extent that the Company grants additional equity securities to employees or it assumes unvested securities in connection with any acquisitions, its share-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions.

Computation of Net Income (Loss) Per Share

The Company computes basic and diluted per share data for all periods for which a statement of operations is presented. Basic net loss per share excludes dilution and is computed by dividing the net loss by the weighted-average number of shares that were outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to acquire common stock were exercised or converted into common stock. Potential dilutive securities are excluded from the diluted EPS computation in loss periods as their effect would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company’s net loss position.

Fair Value of Financial Instruments

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

Our financial instruments consist principally of cash and cash equivalents, short-term and long-term marketable securities, and short-term and long-term debt. The Company's cash and cash equivalents consist of its investment in money market securities and treasury bills. The Company's marketable securities consist primarily of government agency securities, municipal bonds, time deposits and investment-grade corporate bonds. From time to time, the Company may utilize foreign exchange forward contracts. These contracts are valued using pricing models that take into account the currency rates as of the balance sheet date.

Comprehensive Loss

Comprehensive loss consists of net earnings and unrealized gains and losses on available-for-sale securities.

2. Merger and Acquisition Activities in Prior Years

Enfora

On November 30, 2010, the Company completed the acquisition of Enfora. The acquisition of Enfora diversifies the Company's customer base and product lines into adjacent markets and advances the Company's strategy of providing intelligent devices to all end markets—enterprise, consumer and vertical applications.

Enfora's results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning November 30, 2010. The revenue and operating results contributed by Enfora for the years ended December 31, 2013, 2012, and 2011 are disclosed in our Segment Information and Concentrations of Risk footnote (see Note 12). Acquisition costs related to the merger of Enfora of $1.9 million were recorded and classified as general and administrative expenses in the consolidated statement of operations during the year ended December 31, 2010.

Acquisition consideration

Under the terms of the acquisition agreement, the Company paid cash consideration of $64.5 million and additional cash consideration of $13.0 million in exchange for an agreed upon amount of Enfora working capital. The Company also agreed to pay additional cash consideration ("contingent consideration") of up to $6.0 million based on the operating results of Enfora for the 15 month period from October 1, 2010 to December 31, 2011. The estimated fair value of this contingent consideration at the acquisition date was $0.9 million, resulting in total estimated cash to be paid of $78.4 million. During the quarter ended March 31, 2011, the Company revised its estimate of contingent consideration to $0 and reflected this change as a benefit to general and administrative expenses for the quarter ended March 31, 2011. There were no changes in the fair value of the contingent consideration recorded in the nine months ended December 31, 2011 as the operating results necessary to receive payment of the contingent consideration were not achieved.

Fair Value of Assets Acquired and Liabilities Assumed

The Company accounted for the transaction using the acquisition method and, accordingly, estimated the fair value of the tangible and intangible assets acquired and liabilities assumed. During the third quarter of 2011, the Company made a $0.3 million adjustment to increase Enfora net deferred tax assets, with a corresponding dollar amount decrease to goodwill, based on completed studies of available tax benefits existing as of the date of acquisition. The total purchase price is summarized below (in thousands):

Cash and cash equivalents	$ 4,600
Accounts receivables	7,448
Inventories	10,469
Property and equipment	1,597
Prepaid expenses and other assets	304
Accounts payable, accrued expenses and deferred taxes	(12,220)
Intangible assets	42,520
Goodwill	23,661
Purchase price	$ 78,379

3. Fair Value Measurement of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model.

We classify our inputs to measure fair value using a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The categorization of financial instruments within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

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

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

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

At December 31, 2013, the Company did not have any securities in the Level 3 category. The Company reviews the fair value hierarchy classification on a quarterly basis. We validate the quoted market prices provided by our primary pricing service by comparing their assessment of the fair values of our investments by using a third party investment manager. The third party investment manager uses similar techniques to our primary pricing service to derive the pricing describe above. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

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

Description	Balance as of December 31, 2013	Level 1	Level 2
Assets:			
Cash equivalents			
US Treasury securities	$ 487	$0	$ 487
Total cash equivalents	487	0	487
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	10,638	0	10,638
Total short-term marketable securities	19,178	0	19,178
Long-term marketable securities:			
Available-for-sale:			
Certificates of deposit	1,300	0	1,300
Corporate debentures / bonds	2,143	0	2,143
Total long-term marketable securities	3,443	0	3,443
Total financial assets	$23,108	$0	$23,108

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

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

There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2013 and 2012. All of our long-term marketable debt securities had maturities of between one and two years in duration at December 31, 2013.

As of December 31, 2013 and 2012, the Company had no outstanding foreign currency exchange forward contracts.

For the years ended December 31, 2013, 2012 and 2011, the Company recorded gains of $0, $0, $8,000, respectively, on its Euro-denominated foreign exchange forward contracts. During the years ended December 31, 2013, 2012 and 2011, the Company recorded foreign currency losses on foreign currency denominated transactions of approximately $183,000, $51,000, and $836,000, respectively. The loss during the years ended December 31, 2013 and 2012 primarily related to foreign currency losses on foreign currency denominated bank accounts. The loss during the year ended December 31, 2011 primarily related to foreign currency losses on South Korean won denominated trade payables.

All recorded gains and losses on foreign exchange transactions are recorded in other income (expense), net, within the consolidated statements of operations.

4. Financial Statement Details

Marketable Securities

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

December 31, 2013	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:					
Government agency securities	1 or less	$ 2,350	$ 1	$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		19,173	5	0	19,178
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		3,443	0	0	3,443
		$22,616	$ 5	$0	$22,621

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

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

At December 31, 2013 and 2012, the Company recorded net unrealized gains of $5,000, and net unrealized gains of $24,000, respectively. The Company's net unrealized gains (loss) is the result of market conditions affecting its fixed-income debt securities, which are included in accumulated other comprehensive (loss) income on the consolidated balance sheet for the periods then ended.

As of December 31, 2011, the Company's investment portfolio included $385,000 of marketable equity securities at original cost, with a fair value of $38,000. During the years ended December 31, 2013, 2012 and 2011, the Company recorded an other-than-temporary loss of $0, $38,000 and $347,000, respectively, within other income (expense), net in the consolidated statement of operations.

Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2013	2012
Finished goods	$20,870	$26,776
Raw materials and components	6,923	12,240
	$27,793	$39,016

Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2013	2012
Test equipment	$ 52,108	$ 53,368
Computer equipment and purchased software	10,814	12,310
Product tooling	3,204	2,232
Furniture and fixtures	2,015	2,219
Leasehold improvements	4,094	4,802
	72,235	74,931
Less—accumulated depreciation and amortization	(62,334)	(59,702)
	$ 9,901	$ 15,229

For the years ended December 31, 2013, 2012 and 2011, the Company recorded $70,000, $100,000 and $70,000, respectively, in its cost of net revenues as a result of its impairment analysis of property and equipment.

Depreciation and amortization expense relating to property and equipment was $7.9 million, $9.4 million and $11.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2013	December 31, 2012
Royalties	$ 4,243	$ 4,349
Payroll and related expenses	4,828	7,788
Product warranty	2,244	2,329
Market development funds and price protection	3,059	2,147
Professional fees	1,040	1,549
Deferred revenue	2,999	4,630
Restructuring	610	0
Other	4,248	5,008
	$23,271	$27,800

Accrued Warranty Obligations

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

	2013	2012
Warranty liability at beginning of period	$ 2,329	$ 1,525
Additions charged to operations	5,055	6,261
Deductions from liability	(5,140)	(5,457)
Warranty liability at end of period	$ 2,244	$ 2,329

5. Intangible Assets

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

	Years ended December 31,							
	2013				2012			
	Gross	Accumulated Amortization	Accumulated Impairment	Net	Gross	Accumulated Amortization	Impairment	Net
Developed technologies	$26,000	$ (6,120)	$(19,547)	$ 333	$26,000	$(5,786)	$(19,547)	$ 667
Trade name	12,800	(2,665)	(8,582)	1,553	12,800	(2,147)	(8,582)	2,071
Other	3,720	(1,967)	(1,620)	133	3,720	(1,923)	(1,620)	177
Total amortizable purchased intangible assets	$42,520	$(10,752)	$(29,749)	$2,019	$42,520	$(9,856)	$(29,749)	$2,915

The following table presents details of the amortization of purchased intangible assets of Enfora included in the cost of net revenues and operating costs and expenses categories (in thousands):

	Years ended December 31, 2013	Years ended December 31, 2012
Cost of net revenues	$334	$1,623
General and administrative expenses	562	1,074
Total amortization expense	$896	$2,697

The following table presents details of the amortization of existing amortizable purchased intangible assets of Enfora that is currently estimated to be expensed in the future (in thousands):

Fiscal year:	Amount
2014	$ 895
2015	562
2016	562
Total	$2,019

Additionally, at December 31, 2013 and 2012, the Company had net acquired software licenses of $112,000 and $248,000, respectively, net of accumulated amortization of $2.2 million and $2.1 million, respectively. The acquired software licenses represent rights to use certain software necessary for the development and commercial sale of the Company's products.

The Company monitors its intangible and long-lived asset balances and conducts formal tests when impairment indicators are present (see Note 6 for a discussion of the impairment indicators). There was no impairment loss recorded for the year ended December 31, 2013. During the quarter ended March 31, 2012, the Company recorded an impairment loss of $22.8 million related to a decrease in the estimated fair values of the purchased intangible assets fair values. At September 30, 2012, the Company recorded a further preliminary impairment loss of $7.3 million related to the continued decrease in the estimated fair values of the purchased intangible assets. During the fourth quarter of 2012, the Company completed the impairment analysis and reduced the third quarter impairment by $300,000. The Company recorded $133,000 of impairment loss related to acquired software licenses during the year ended December 31, 2011.

Amortization expense relating to acquired software licenses was $113,000, $196,000 and $422,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization expense related to licenses obtained for research purposes is recorded within research and development expense in the consolidated statements of operations. Amortization expense related to licenses obtained for commercial products is recorded in cost of net revenues in the consolidated statements of operations.

At December 31, 2013, the weighted average remaining useful life of the Company's long-lived intangible assets including acquired software licenses is 2.1 years.

6. Goodwill

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

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

Based upon fair value tests performed with the assistance of third party independent appraisals, during the third quarter of 2012, the first quarter of 2012 and the third quarter of 2011, the Company recorded pre-tax goodwill impairment charges of $13.2 million, $6.6 million and $3.3 million, respectively.

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.

For the years ended December 31, 2013, 2012 and 2011, basic and diluted weighted-average common shares outstanding were 33,948,000, 32,852,000 and 32,043,000, respectively.

Weighted average options, restricted stock units and ESPP shares to acquire a total of 4,424,000 shares, 5,793,000 shares and 4,657,000 shares of common stock for the years ended December 31, 2013, 2012 and 2011, respectively, were outstanding but not included in the computation of diluted earnings per share as their effect was anti-dilutive.

8. Stockholders' Equity

Preferred Stock

The Company has a total of 2,000,000 shares of Series A and Series B preferred stock authorized for issuance at a par value of $0.001 per share. No preferred shares are currently issued or outstanding.

Common Shares Reserved for Future Issuance

The Company has reserved shares of common stock for possible future issuance as of December 31, 2013 and 2012 as follows (in thousands):

	Shares	
	2013	**2012**
Stock options outstanding under the 2009 Omnibus Incentive Compensation Plan and previous plans	3,933	4,282
Restricted stock units outstanding	1,108	1,662
Future grants of awards under the 2009 Omnibus Incentive Compensation Plan	3,668	702
Shares available under the Employee Stock Purchase Plan	1,500	0
Total shares of common stock reserved for issuance	10,209	6,646

9. Stock Incentive and Employee Stock Purchase Plans

During the year ended December 31, 2013, the Company granted awards under the 2009 Omnibus Incentive Compensation Plan (the "2009 Plan"). The Compensation Committee of the Board of Directors administers the plan.

Under the 2009 Plan, a maximum of 2.5 million shares of common stock may be issued upon the exercise of stock options, in the form of restricted stock, or in settlement of restricted stock units or other awards, including awards with alternative vesting schedules such as performance-based criteria.

For the years ended December 31, 2013, 2012 and 2011, the following table presents total share-based compensation expense in each functional line item on our consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Cost of revenues	$ 84	$ 747	$ 579
Research and development	1,114	3,042	2,088
Sales and marketing	669	1,403	1,254
General and administrative	1,576	2,308	2,062
Totals	$3,443	$7,500	$5,983

The per share fair values of stock options granted under the 2009 Plan and rights granted under the ESPP have been estimated with the following assumptions.

	Employee Stock Options			Employee Stock Purchase Rights		
	2013	2012	2011	2013	2012	2011
Expected dividend yield:	0%	0%	0%	0%	0%	0%
Risk-free interest rate:	0.8%	0.9%	1.2%	0.0%	0.2%	0.2%
Volatility:	63%	63%	69%	0%	68%	63%
Expected term (in years):	6.0	6.0	6.0	0.0	1.3	1.1

Stock Options

The Compensation Committee of the Board of Directors determines eligibility, vesting schedules and exercise prices for options granted. Options granted under the 2009 Plan and previous plans generally have a term of ten years, and in the case of new hires, generally vest and become exercisable at the rate of 25% after one year and ratably on a monthly basis over a period of 36 months thereafter. Subsequent option grants to existing employees generally vest and become exercisable over a period of 36 months measured from the date of grant.

A summary of stock option activity for the year ended December 31, 2013 is presented below (dollars and shares in thousands, except per share data):

	Stock Options Outstanding	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding December 31, 2012	4,282	$10.25		
Granted	425	2.10		
Exercised	(38)	2.68		
Cancelled	(736)	10.21		
Balance December 31, 2013	3,933	$ 9.45	4.15	$115
Options Exercisable, December 31, 2013	3,394	$10.53	3.40	$ 0

The total intrinsic value of options exercised to purchase common stock during the years ended December 31, 2013, 2012 and 2011 was approximately $44,000, $0 and $28,000, respectively. As of December 31, 2013, total unrecognized share-based compensation cost related to unvested stock options was $724,000, which is expected to be recognized over a weighted average period of approximately 1.9 years. The total fair value of option awards recognized as expense during the years ended December 31, 2013, 2012 and 2011 was approximately $818,000, $1.7 million and $2.7 million, respectively. The weighted average fair value of option awards granted during years ended December 31, 2013, 2012 and 2011 was $1.20, $1.97 and $3.40, respectively.

Restricted Stock Units

The Company may issue restricted stock units ("RSUs") that, upon satisfaction of vesting conditions, allow for employees and non-employee directors to receive common stock. Issuances of such awards reduce common stock available under the 2009 Plan for stock incentive awards. The Company measures compensation cost associated with grants of RSUs at fair value, which is generally the closing price of the Company's stock on the date of grant.

During 2013, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 447,703 RSUs at fair values ranging from $1.74 per share to $4.17 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company's common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately $900,000. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

During 2012, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 1,015,638 RSUs at fair values ranging from $1.28 per share to $3.58 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company's common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately $3.4 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

During 2011, the Compensation Committee of the Board of Directors, pursuant to the 2009 Plan, awarded employees a total of 903,214 RSUs at fair values ranging from $3.06 per share to $9.71 per share. Generally, one-third of the shares underlying each grant become issuable on the anniversary of each grant date, assuming continued employment or to the Company through such date. Based on the fair value of the Company's common stock price at the grant dates, the Company estimated the aggregate fair value of these awards at approximately $4.9 million. The estimated fair value of these awards is being amortized to compensation expense for each grant on a straight-line basis over the estimated service period.

A summary of restricted stock unit activity for the year ended December 31, 2013 is presented below (shares in thousands):

	Shares
Non-vested at December 31, 2012	1,662
Granted	448
Vested	(628)
Forfeited	(374)
Non-vested at December 31, 2013	1,108

As of December 31, 2013, there was $3.4 million of unrecognized compensation expense related to non-vested RSUs. That expense is expected to be recognized over a weighted average period of 1.9 years. The total fair value of RSUs recognized as expense during the years ended December 31, 2013, 2012 and 2011 was $2.6 million, $3.4 million and $2.6 million, respectively.

2000 Employee Stock Purchase Plan

The Company's 2000 Employee Stock Purchase Plan (the "ESPP") permits eligible employees of the Company to purchase newly issued shares of common stock, at a price equal to 85% of the lower of the fair market value on (i) the first day of the offering period or (ii) the last day of each six-month purchase period, through payroll deductions of up to 10% of their annual cash compensation.

During the years ended December 31, 2013, 2012 and 2011, the Company issued 0 shares, 1,086,837 shares and 163,142 shares, respectively, under the ESPP. During the years ended December 31, 2013, 2012 and 2011, the Company received $0, $1.6 million and $470,000, respectively, in cash through employee withholdings.

On November 4, 2010, the Company announced the termination of the ESPP as of November 15, 2010 due to a lack of available shares. The cancellation of the awards was accounted for as a repurchase for no consideration. The previously unrecognized compensation cost as of November 15, 2010 of $316,000 was fully expensed in the fourth quarter of 2010. The Company reinstated the ESPP program effective as of September 8, 2011. The reinstated ESPP authorized the Company to issue 1,250,111 shares of common stock for purchase by eligible employees.

On October 22, 2012, the Company announced the termination of the ESPP as of November 15, 2012 due to a lack of available shares. The cancellation of the awards was accounted for as a repurchase for no consideration. The previously unrecognized compensation cost as of November 15, 2012 of $1.0 million was fully expensed in the fourth quarter of 2012.

The total fair value of ESPP awards recognized as expense during the years ended December 31, 2013, 2012 and 2011 was $0, $1.4 million and $707,000, respectively.

10. Income Taxes

Total income taxes for the years ended December 31, 2013, 2012 and 2011 were allocated as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
To income	$83	$611	$(9,503)
To stockholders' equity	0	10	240
Total income taxes	$83	$621	$(9,263)

Income (loss) before taxes for the years ended December 31, 2013, 2012 and 2011 is comprised of the following (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Domestic	$(44,142)	$(88,945)	$(36,091)
Foreign	812	290	1,696
Loss before taxes	$(43,330)	$(88,655)	$(34,395)

The provision (benefit) for income taxes for the years ended December 31, 2013, 2012 and 2011 is comprised of the following (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current:			
Federal	$(248)	$ 0	$(10,786)
State	33	29	0
Foreign	(229)	74	84
Total Current	(444)	103	(10,702)
Deferred:			
Federal	53	14	(114)
State	0	0	0
Foreign	474	494	1,313
Total Deferred	527	508	1,199
Provision (benefit) for income taxes	$ 83	$611	$ (9,503)

The Company's net deferred tax assets consist of the following (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Accrued expenses	$ 11,292	$ 6,271
Inventory obsolescence provision	3,539	1,992
Depreciation and amortization	4,136	6,680
Deferred rent	559	892
Net operating loss and tax credit carryforwards	55,010	42,994
Stock-based compensation	4,518	6,069
Unrecognized tax benefits	1,190	613
Deferred tax assets	80,244	65,511
Deferred tax liabilities:		
Amortization of acquired intangibles	(699)	(1,016)
Net deferred tax assets	79,545	64,495
Valuation allowance	(79,458)	(63,881)
Net deferred tax assets	$ 87	$ 614

The Company recognizes federal, state and foreign current tax liabilities or assets based on its estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal, state and foreign deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carryforwards. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

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

After a review of the four sources of taxable income described above and after being in a three year cumulative loss position at the end of 2010, the Company recognized a full valuation allowance.

During 2012 and 2013, the Company recognized valuation allowances of $27.5 million and $15.6 million, related to its U.S.-based and Canadian deferred tax assets created in those respective years. As a result, no net income tax benefits resulted in the Company's statements for operations from the operating losses created during those years.

At December 31, 2013, the deferred tax asset valuation allowance consisted of $74.7 million relating to the Company's domestic deferred tax assets and $4.7 million related to the Company's Canadian deferred tax assets. At December 31, 2012, the valuation allowance consisted of $58.9 million relating to the Company's domestic deferred tax assets and $5.0 million related to the Company's Canadian deferred tax assets.

The net unreserved portion of the Company's remaining deferred tax assets of $87,000 at December 31, 2013 primarily related to research and development tax credits associated with the Company's Canadian subsidiary.

The provision (benefit) for income taxes reconciles to the amount computed by applying the statutory federal income tax rate of 34% in 2013, 2012 and 2011 to income (loss) before provision for income taxes as follows (in thousands):

	Year Ended December 31,		
	2013	**2012**	**2011**
Federal tax benefit, at statutory rate	$(14,732)	$(30,142)	$(11,694)
State benefit, net of federal benefit	(922)	(757)	(733)
Change in valuation allowance	15,577	27,486	14,612
Tax expense/(benefit) from business combination	0	0	909
Research and development credits	(1,084)	(856)	(1,731)
Share-based compensation	2,433	1,616	526
Uncertain tax positions	(307)	(46)	(11,809)
Goodwill impairment	0	3,700	596
Change in state apportionment	(767)	0	0
Other	(115)	(390)	(179)
	$ 83	$ 611	$ (9,503)

At December 31, 2013, the Company has U.S. federal net operating loss carryforwards of approximately $116.3 million. Federal net operating loss carryforwards expire at various dates from 2026 through 2033. The Company has California net operating loss carryforwards of approximately $39.3 million, which expire at various dates from 2014 through 2033. The Company has California research and development tax credit carryforwards of approximately $5.0 million. The California tax credits have no expiration date. The Company also has federal research and development tax credit carryforwards of approximately $4.7 million. The federal tax credits expire at various dates from 2027 through 2032.

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 has not completed an IRC Section 382/383 analysis regarding the limitation of net operating loss and research and development credit carryforwards. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes on United States income taxes which may become payable if undistributed earnings of the foreign subsidiary were paid as dividends to the Company.

The Company follows the accounting guidance related to financial statement recognition, measurement and disclosure of uncertain tax positions. The Company recognizes the impact of an uncertain income tax position on an income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. During the years ended December 31, 2013 and 2012, the Company recognized approximately $71,000 and $50,000, respectively, of income tax benefit plus $236,000 and $5,000, respectively, of associated interest due to expiration of the applicable statutes of limitations applicable to certain tax years. As of December 31, 2013 and 2012, the total liability for unrecognized tax benefits was $62,000 and $367,000, respectively, and is included in other long-term liabilities.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

	Amount
Unrecognized tax benefits balance at December 31, 2010	$41,386
Increases related to current and prior year tax positions	899
Settlements and lapses in statutes of limitations	(9,490)
Unrecognized tax benefits balance at December 31, 2011	32,795
Increases related to current and prior year tax positions	475
Settlements and lapses in statutes of limitations	(50)
Unrecognized tax benefits balance at December 31, 2012	33,220
Increases related to current and prior year tax positions	2,653
Settlements and lapses in statutes of limitations	(373)
Unrecognized tax benefits balance at December 31, 2013	$35,500

Included in the balances of unrecognized tax benefits at December 31, 2013 are $62,000 of tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2013 and 2012, the Company recorded approximately $0 and $0.2 million, respectively, of accrued interest related to uncertain tax positions.

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. In the fourth quarter of 2013, the Company reduced its uncertain tax liability by approximately $552,000, including a related interest accrual of approximately $236,000, due to the expiration of the statute of limitations applicable to the 2008 taxable year and the completion of its 2006 and 2007 state tax returns. The Company is also subject to various federal income tax examinations for the 2003 through 2012 calendar years due to the availability of net operating loss carryforwards. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years. However, because audit outcomes and the timing of audit settlements are subject to significant uncertainty, the Company's current estimate of the total amounts of unrecognized tax benefits could increase or decrease for all open years.

11. Commitments and Contingencies

Capital Leases

The Company did not purchase equipment under capital leases during the year ended December 31, 2013 or 2012. At December 31, 2013 and 2012, assets held under capital leases had a net book value of $0, net of accumulated amortization of $510,000. The present value of the net minimum lease payments as of December 31, 2013 is $0.

Operating Leases

The Company leases its office space and certain equipment under non-cancelable operating leases with various terms through 2017. The minimum annual rent on the Company's office space is subject to increases based on stated rental adjustment terms, property taxes and operating costs and contains rent concessions. For financial reporting purposes, rent expense is recognized on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as deferred rent. Rental expense under operating leases in 2013, 2012 and 2011 was $4.1 million, $4.5 million and $4.7 million, respectively. The Company's office space lease contains incentives in the form of reimbursement from the landlord for a portion of the costs of leasehold improvements incurred by the Company which are recorded to rent expense on a straight-line basis over the term of the lease.

The minimum future lease payments under non-cancelable operating leases as of December 31, 2013 are as follows (in thousands):

For the Period Ending December 31,	Amount
2014	$ 3,626
2015	3,417
2016	3,394
2017	806
2018	422
Thereafter	653
Total minimum lease payments	$12,318

Committed Purchase Orders

The Company has entered into purchase commitments totaling approximately $52.0 million with certain contract manufacturers under which the Company has committed to buy a minimum amount of designated products between January 2014 and December 2014. In certain of these agreements, the Company may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

Management Retention Agreements

During 2004 and 2005, the Company entered into management retention agreements with certain of the Company's executive officers. The agreements entitle those employees to enumerated severance benefits if, within the one year period immediately following a change of control (as defined in the agreement) or at the direction of an acquirer in anticipation of such an event, the Company terminates the employee's employment other than for cause or disability or the employee terminates his or her employment for good reason. These severance benefits would include a lump sum payment of three times the sum of the employee's annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, accelerated vesting of the employee's stock incentive awards, a tax equalization payment to eliminate the effects of any applicable excise tax and financial planning and outplacement services.

In November 2007, the Company entered into an employment agreement with the Company's Chief Executive Officer, with an initial term of three years. Under the agreement, Mr. Leparulo will continue to serve as Chairman of the Board and as the Company's most senior officer. The agreement entitles Mr. Leparulo to enumerated severance benefits under various circumstances if Mr. Leparulo's employment with the Company is terminated. These enumerated severance benefits vary according to whether (a) Mr. Leparulo's employment with the Company is terminated within the one year period immediately following a change in control (as defined in the agreement) or at the direction of an acquirer in anticipation of such an event; (b) the Company terminates his employment other than for cause or he terminates his employment for good reason; or (c) the Company terminates his employment for cause or he terminates his employment for other than good reason. Depending on the cause of the employment termination, the enumerated severance benefits include a lump sum payment ranging from one to three years annual base salary then in effect, an additional lump sum bonus payment representing certain multiples of his targeted bonus, and varying periods of ongoing employee benefits including health care and outplacement services.

During 2010, the Company entered into management retention agreements with certain of the Company's executive officers. The agreements entitle those employees to enumerated severance benefits if, within the two year period immediately following a change of control (as defined in the agreement), the Company terminates the employee's employment other than for cause or disability or the employee terminates his or her employment for good reason. These severance benefits would include a lump sum payment of three times the sum of the employee's annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, accelerated vesting of the employee's stock incentive awards and financial planning and outplacement services. The agreements do not provide for any additional payments by the Company for excise or other taxes.

Legal Matters and Indemnification

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 for June 20, 2014, for final approval of the settlement of the Litigation.

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

The Company has accrued $14.3 million as of December 31, 2013 related to our best estimate of potential settlements on legal and indemnification matters for which we have deemed the outcome to be probable.

Credit Facility

The Company has a credit facility with a bank to allow margin borrowings based on the Company's investments in cash equivalents and marketable securities held with the bank. This facility is collateralized by the Company's cash equivalents and marketable securities held with the bank. Borrowings under the facility incur an interest rate at the bank's base rate plus 1%. This margin account facility provides the Company with the flexibility to access cash for short periods of time and avoids the need to sell marketable securities for these short-term requirements. At December 31, 2013, the Company had approximately $5.2 million in marketable securities held at this bank, and the Company's unused borrowing capacity at December 31, 2013 under the credit facility was $1.8 million. Any monies borrowed and interest incurred are payable on demand, and there is no express expiration date to the credit facility. During the twelve months ended December 31, 2012, the Company borrowed $14.0 million against the facility and repaid the entire amount during the same period. During the twelve months ended December 31, 2013, the Company borrowed $20.3 million against the facility and had outstanding borrowings of $2.6 million under this facility at December 31, 2013. Under the terms of the credit facility, the bank may liquidate any of the Company's cash equivalents or marketable securities held at any time in order to recoup the outstanding balance of the facility. Accordingly, a like amount of marketable equity securities have been classified by the Company as restricted marketable securities on the balance sheet at December 31, 2013. At December 31, 2013 the Company had no cash equivalents held at this bank.

12. Segment Information and Concentrations of Risk

Segment Information

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

> 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. All products within the segment represent a single product family.
>
> 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 net revenues and segment operating income (loss) represent the primary financial measures used by senior management to assess performance and include the net revenues, cost of net revenues, sales and other operating expenses for which management is held accountable. Segment operating expenses include sales and marketing, research and development, general and administration, and amortization expenses that are directly related to individual segments. Segment earnings (loss) also includes acquisition-related costs, purchase price amortization, impairment charges, restructuring and integration costs.

The table below presents net revenues from external customers, operating income (loss) and identifiable assets for our reportable segments (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net revenues by reportable segment:			
Mobile Computing Products	$297,499	$312,508	$358,106
M2M Products and Solutions	37,554	31,780	44,756
Total	$335,053	$344,288	$402,862
Operating loss:			
Mobile Computing Products	$ (27,939)	$ (22,924)	$ (13,764)
M2M Products and Solutions	(15,282)	(65,819)	(19,963)
Total	$ (43,221)	$ (88,743)	$ (33,727)

	Year Ended December 31,	
	2013	2012
Identifiable assets by reportable segment:		
Mobile Computing Products	$ 96,516	$141,045
M2M Products and Solutions	14,949	20,486
Total	$111,465	$161,531

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

	Year Ended December 31,	
	2013	2012
United States	$108,932	$157,661
Canada	808	2,836
Europe, Latin America and Asia	1,725	1,034
	$111,465	$161,531

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

	Year Ended December 31,		
	2013	2012	2011
United States and Canada	95.6%	93.1%	93.5%
Latin America	0.8	2.4	0.0
Europe, Middle East and Africa	3.4	4.1	4.0
Asia and Australia	0.2	0.4	2.5
	100.0%	100.0%	100.0%

Concentrations of Risk

Substantially all of the Company's net revenues are derived from sales of wireless access products. Any significant decline in market acceptance of the Company's products or in the financial condition of the Company's customers would have an adverse effect on the Company's results of operations and financial condition.

A significant portion of the Company's net revenues come from a small number of customers. One customer accounted for 58.0% of 2013 net revenues. One customer accounted for 57.5% of 2012 net revenues. Two customers accounted for 50.8% and 13.1% of 2011 net revenues. All significant customers are included in the Company's Mobile Computing Products segment.

A significant portion of the Company's accounts receivables comes from a small number of customers. At December 31, 2013, the Company had three customers who accounted for 24.5%, 12.6% and 12.0% of total accounts receivable. At December 31, 2012, the Company had three customers who accounted for 20.7%, 18.5% and 11.5% of total accounts receivable.

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

13. Retirement Savings Plan

The Company has a defined contribution 401(K) retirement savings plan (the "Plan"). Substantially all of the Company's U.S. employees are eligible to participate in the Plan after meeting certain minimum age and service requirements. Employees may make discretionary contributions to the Plan subject to Internal Revenue Service limitations. Employer matching contributions under the plan amounted to approximately $1.0 million, $1.2 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Employer matching contributions vest over a two-year period. The Company has a registered retirement savings plan for its Canadian employees. Substantially all of the Company's Canadian employees are eligible to participate in this plan. Employees make discretionary contributions to the plan subject to local limitations. Employer contributions to the Canadian plan amounted to approximately $157,000, $232,000 and $280,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

14. Restructuring

In September 2013, the Company commenced certain restructuring initiatives including the closure of the Company's development site in Calgary, Canada, and the consolidation of certain supply chain management activities, resulting in a reduction in force of 72 employees across all functional areas of the Company. During the year ended December 31, 2013, the Company recorded restructuring charges of $3.3 million consisting primarily of employee-related compensation charges, as well as expenses from vacating all or a portion of certain facilities in the United States, Canada and the United Kingdom in the fourth quarter of 2013. The restructuring charges for the year ended December 31, 2013 consisted of $2.3 million in employee severance costs and $1.0 million in facility exit related costs. Of the $3.3 million of restructuring charges for the year ended December 31, 2013, $3.1 million relates to the Mobile Computing Products segment, and $206,000 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 $893,000 in restructuring expense in the fourth quarter of 2013 relating to exiting these facilities, which is included in operating expenses in the consolidated statement of operations. As of December 31, 2013, accrued liabilities relating to this restructuring totaled $881,000, which includes $424,000 of deferred rent previously recorded for these properties. Of the $1.5 million in facilities exit related costs, $348,000 relates to fixed asset impairments.

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 year ended December 31, 2013, which is primarily comprised of employee severance costs (in thousands):

	Employee Severance Costs	Facility Exit Related Costs	Total
Balance at December 31, 2012	$ 0	$ 0	$ 0
Accruals	2,273	1,455	3,728
Payments	(2,273)	(574)	(2,847)
Balance at December 31, 2013	$ 0	$ 881	$ 881

The balance of the restructuring liability at December 31, 2013 consists of $610,000 in short-term and $271,000 in long-term. The balance of the restructuring liability at December 31, 2013 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.

15. Subsequent Event

During February 2014, the Company commenced certain reduction in force initiatives as part of an overall plan to reduce annual operating costs. As a result of these reduction in force initiatives, the Company estimates it will incur employee-related compensation charges of approximately $0.8 million in the first quarter of 2014.

16. Quarterly Financial Information (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2013 and 2012.

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share amounts)			
2013:				
Net revenues	$ 85,921	$ 91,124	$ 92,673	$ 65,335
Gross profit	16,848	19,024	20,383	12,039
Net loss applicable to common stockholders	(9,122)	(7,892)	(5,093)	(21,306)
Basic and diluted net loss per common share	(0.27)	(0.23)	(0.15)	(0.63)
2012:				
Net revenues	$100,150	$102,446	$ 71,017	$ 70,675
Gross profit	20,988	23,251	14,646	13,558
Net loss applicable to common stockholders	(37,921)	(4,500)	(31,933)	(14,912)
Basic and diluted net loss per common share	(1.17)	(0.14)	(0.97)	(0.44)

SCHEDULE II

NOVATEL WIRELESS, INC.

Valuation and Qualifying Accounts
For the Years Ended December 31, 2013, 2012 and 2011 (in thousands):

	Balance At Beginning of Year	Additions Charged to Operations	Deductions From Reserves	Balance At End of Year
Allowance for Doubtful Accounts:				
December 31, 2013	$ 627	$ 1,936	$ 114	$ 2,449
December 31, 2012	245	439	57	627
December 31, 2011	228	41	24	245
Warranty:				
December 31, 2013	2,329	5,055	5,140	2,244
December 31, 2012	1,525	6,261	5,457	2,329
December 31, 2011	2,279	2,642	3,396	1,525
Deferred Tax Asset Valuation Allowance:				
December 31, 2013	63,881	15,577	0	79,458
December 31, 2012	36,395	27,486	0	63,881
December 31, 2011	21,783	14,612	0	36,395
Sales Returns and Allowances:				
December 31, 2013	911	196	380	727
December 31, 2012	545	497	131	911
December 31, 2011	346	911	712	545

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EXHIBIT INDEX

The following Exhibits are filed as part of, or incorporated by reference into, this Report on Form 10-K:

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 5, 2010, by and between Novatel Wireless, Inc., England Acquisition Corp. and Enfora, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on November 10, 2010).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed March 27, 2001).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed November 14, 2002).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.4	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.5	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Amendment No. 1 to Form 10-K on Form 10-K/A for the year ended December 31, 2003, filed March 31, 2004).
3.6	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 27, 2001).
4.1	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among the Company and certain of its stockholders (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000, as amended).
4.2	Form of Securities Purchase Agreement entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.3	Registration Rights Agreement, dated as of March 12, 2003, entered into in connection with the Company's 2003 Series B Convertible Preferred Stock Financing (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K, filed March 28, 2003).
4.4	Registration Rights Agreement, dated as of January 13, 2004, entered into in connection with the Company's January 2004 Common Stock and Warrant Financing Transaction (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 15, 2004).
10.1*	Amended and Restated 1997 Employee Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-42570), filed July 28, 2000 as amended).
10.2*	Amended and Restated Novatel Wireless, Inc. 2000 Stock Incentive Plan ("2000 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007).
10.3*	Form of Executive Officer Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).

Exhibit Number	Description
10.4*	Form of Director Stock Option Agreement under the 2000 Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 16, 2006).
10.5*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 1997 Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.6*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.7*	Form of Amendment of Stock Option Agreements, dated July 20, 2006, by and between the Company and Optionee with respect to the 2000 Plan and grants made pursuant thereto in 2004 and subsequently (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed November 9, 2006).
10.8*	Amended and Restated Novatel Wireless, Inc. 2000 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed May 2 2011).
10.9*	Form of Restricted Share Award Agreement for restricted stock granted to non-employee directors (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.10*	Form of Restricted Share Award Agreement for restricted stock granted to executive officers (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed August 9, 2006).
10.11*	Form of Indemnification Agreement by and between the Company and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009, filed November 2, 2009).
10.12*	Form of Change of Control Letter Agreement by and between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 16, 2004).
10.13*	Employment Agreement, dated November 2, 2007, by and between Peter V. Leparulo and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed November 9, 2007).
10.14*	2009 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed May 2, 2011).
10.15*	2010 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 13, 2010).
10.16*	Form of Severance Agreement between Novatel Wireless, Inc. and each of Kenneth G. Leddon and Robert M. Hadley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 2, 2010.
10.17	2011 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 9, 2011).
10.18	2012 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 6, 2012).
10.19**	Memorandum of Understanding: In re Novatel Wireless Secs. Litig., Civil Action No. 08-CV-01689-AJB (RBB) United States District Court for the Southern District of California, executed December 6, 2013.

Exhibit Number	Description
21**	Subsidiaries of Novatel Wireless, Inc.
23.1**	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (See signature page).
31.1**	Certification of our Principal Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of our Principal Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and footnotes from the Novatel Wireless, Inc. Annual Report on Form 10-K for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.

* Management contract, compensatory plan, or arrangement

** Filed herewith

CORPORATE INFORMATION

Corporate Headquarters

Novatel Wireless, Inc.
9645 Scranton Road
San Diego, CA 92121
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Fax: (858) 812-3402
website: www.nvtl.com

Other Locations

251 Renner Parkway
Richardson, TX 75080

Regus Basingstoke
Crockford Lane
Pinewood Chineham Business Park
Basingstoke RG24 8AL
United Kingdom

Suite 1103, Ascendas Plaza
XuHui District
333 Tian Yao Qiao Road
Shanghai 200030
China

Stock Information

The Company's common stock is traded on The NASDAQ Global Select Market under the symbol "NVTL".

Investor Relations

Requests for printed materials and other information can be made at our investor relations website: www.investor.novatelwireless.com

Transfer Agent and Registrar

Computershare Investor Services
250 Royall Street
Canton, MA 02021
Telephone (800) 962-4284

Independent Registered Public Accounting Firm

Ernst & Young
4370 La Jolla Village Drive
Suite 500
San Diego, CA 92122

Annual Meeting

The Company's annual meeting of stockholders will be held at the Hyatt House San Diego 10044 Pacific Mesa Blvd., San Diego, CA 92121, June 24, 2014 at 2:00 p.m. local time.

BOARD OF DIRECTORS

Peter V. Leparulo
Chief Executive Officer
Novatel Wireless, Inc.

Russell Gerns
Private Investor

Dr. Richard Karp
Private Investor

James Ledwith
Retired Partner
CohnReznick, LLP

Alex Mashinsky
Managing Partner
Governing Dynamics

Sue Swenson
Retired President and
Chief Executive Officer
Sage Software, Inc.

David A. Werner
Co-Chief Executive Officer
Aerofit, Inc.

General John D. Wakelin (U.S. Army, Retired)
Program Manager
Leidos, Inc.

EXECUTIVE OFFICERS

Peter V. Leparulo
Chief Executive Officer

Kenneth Leddon
Sr. Vice President and Chief Financial Officer

Robert M. Hadley
Chief Marketing Officer

Catherine F. Ratcliffe
Sr. Vice President Business Affairs,
General Counsel and Secretary

Slim S. Souissi
Sr. Vice President and Chief Technology Officer

novatelwireless.com

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