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9 UNITED STATES DISTRICT COURT
10 SOUTHERN DISTRICT OF CALIFORNIA

11 MAUREEN BACKE, et al., Individually and)	Lead Case No. 08-CV-01689-H(RBB)
on Behalf of All Others Similarly Situated,)	
12)	(Consolidated)
Plaintiffs,)	
13)	<u>CLASS ACTION</u>
vs.)	
14)	CONSOLIDATED COMPLAINT FOR
NOVATEL WIRELESS, INC., PETER V.)	VIOLATION OF THE FEDERAL
15 LEPARULO, GEORGE B. WEINERT,)	SECURITIES LAWS
ROBERT M. HADLEY, SLIM S. SOUSSI)	
16 and CATHERINE F. RATCLIFFE,)	
17)	
Defendants.)	<u>DEMAND FOR JURY TRIAL</u>

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1 **INTRODUCTION**

2 1. This is a class action for violations of the federal securities laws on behalf of all
3 purchasers of Novatel Wireless, Inc. (“Novatel” or the “Company”) common stock between
4 February 27, 2007, and November 10, 2008 (the “Class Period”) who were damaged thereby.

5 2. Novatel is a provider of wireless broadband access solutions for the worldwide
6 mobile communications market. During the Class Period, defendants caused Novatel to report
7 extremely strong financial results and repeatedly exceeded Novatel’s financial guidance in the face
8 of a market that analysts believed would experience slow growth through the 2007 fiscal year.
9 Defendants explained that Novatel’s products were technically superior to the competition and that,
10 as a result, the Company’s flagship USB modem was seeing strong acceptance by Novatel’s
11 customers, which was driving the Company’s results. In fact, defendants told investors that
12 “[a]doption of USB wireless modems has been a primary growth driver” for Novatel as evidenced by
13 “over \$85 million in sales in the nine months since its introduction.” Sales of this flagship product
14 would account for more than 50% of Novatel’s sales during the Class Period.

15 3. Defendants’ statements misled investors and analysts. At the same time that they
16 were reporting extraordinary results and highlighting the demand for Novatel’s products, defendants
17 knew that Novatel was losing market share because of increased competition. For example,
18 defendants saw the Company’s most popular 720 USB modem canceled at Sprint (months before
19 Novatel would have a replacement) and later replaced by Sierra Wireless’s new USB modem, which
20 was introduced to the market just months earlier. In a brazen disregard for investors and the
21 securities laws, defendants unloaded \$23.8 million of their holdings (61% of the stock they would
22 sell the entire Class Period) only days before the market learned of the Sprint cancellation. Indeed,
23 analysts directly attributed a collapse in Novatel’s stock price to this loss of Sprint business, which
24 defendants had known “for some time” but failed to disclose prior to unloading their shares:

25 NVTL shares were off sharply this morning, we believe in response to a rumor that
26 NVTL may lose market share at Sprint, who was a 38% customer for NVTL in Q1.
27 We agree with the notion making the rounds indicating that the popular EU 720 USB
28 card from NVTL will in fact be end-of-lifed at Sprint as early as next week

1 4. Defendants' sales were extremely suspicious in timing and amount. They sold their
2 shares just days before the market learned of the Sprint cancellation, and despite the fact that Novatel
3 was securing certifications with large wireless carriers (and gaining access to millions of
4 subscribers), and during a time when analysts believed that the industry was in the "early-innings" of
5 the wireless broadband game. Instead of purchasing shares in this environment, as one would
6 expect, defendants bailed out of their stock. In fact, defendants' sales in May-July 2007 were even
7 more suspicious as defendants either established or amended Rule 10b5-1 plans to increase their
8 sales immediately before the Sprint revelation.

9 5. Things grew worse for Novatel as the Class Period progressed. Novatel was
10 eliminated from the list of vendors for a popular new WiMAX platform offered by Sprint and was
11 being replaced at Verizon with lower cost products as carriers shifted to the consumer market, which
12 Novatel's "enterprise" modems could not support. Instead of disclosing a loss of market share to
13 investors, defendants explained that "we're certainly in a leadership position, in both the express
14 card and USB markets and we're adding a lot of value with the next generation, so I certainly would
15 expect to be able to continue to demand a premium because of the quality and the class of the
16 products." In fact, defendants were boasting as late as 2008 of Novatel's "industry-leading USB
17 products" and emphasizing an ability "to bring highly innovative products to market well ahead of
18 our competitors" as key to Novatel's success. Novatel's loss of market share directly undermined
19 these statements.

20 6. In the meantime, defendants also knew but failed to disclose that Novatel's purported
21 strong financial performance in 2007 resulted not from legitimate demand but instead from what a
22 former employee described as a "regular practice" of shipping product early to meet Wall Street
23 expectations. In fact, Novatel would admit after the Class Period that its internal controls were
24 insufficient to prevent this practice because of "material weaknesses," and the Company's auditors
25 have forced it to move revenue out of the final quarter of the Class Period because of these practices.
26 Tellingly, Novatel's Days Sales Outstanding ("DSOs") – a measure of the average number of days
27 that a company takes to collect revenue after a sale – almost doubled in 3Q07 as Novatel filled its
28 channel with product sold on credit with extended payment terms. The act of shipping product early

1 enabled defendants to paint a false picture of the then-current financial state of the Company, and
2 would lead to a collapse as customers inevitably cleared their inventory. Not surprisingly, analysts
3 would confirm later that Novatel's two most important customers would do just that at the beginning
4 of 2008 because they were flush with inventory:

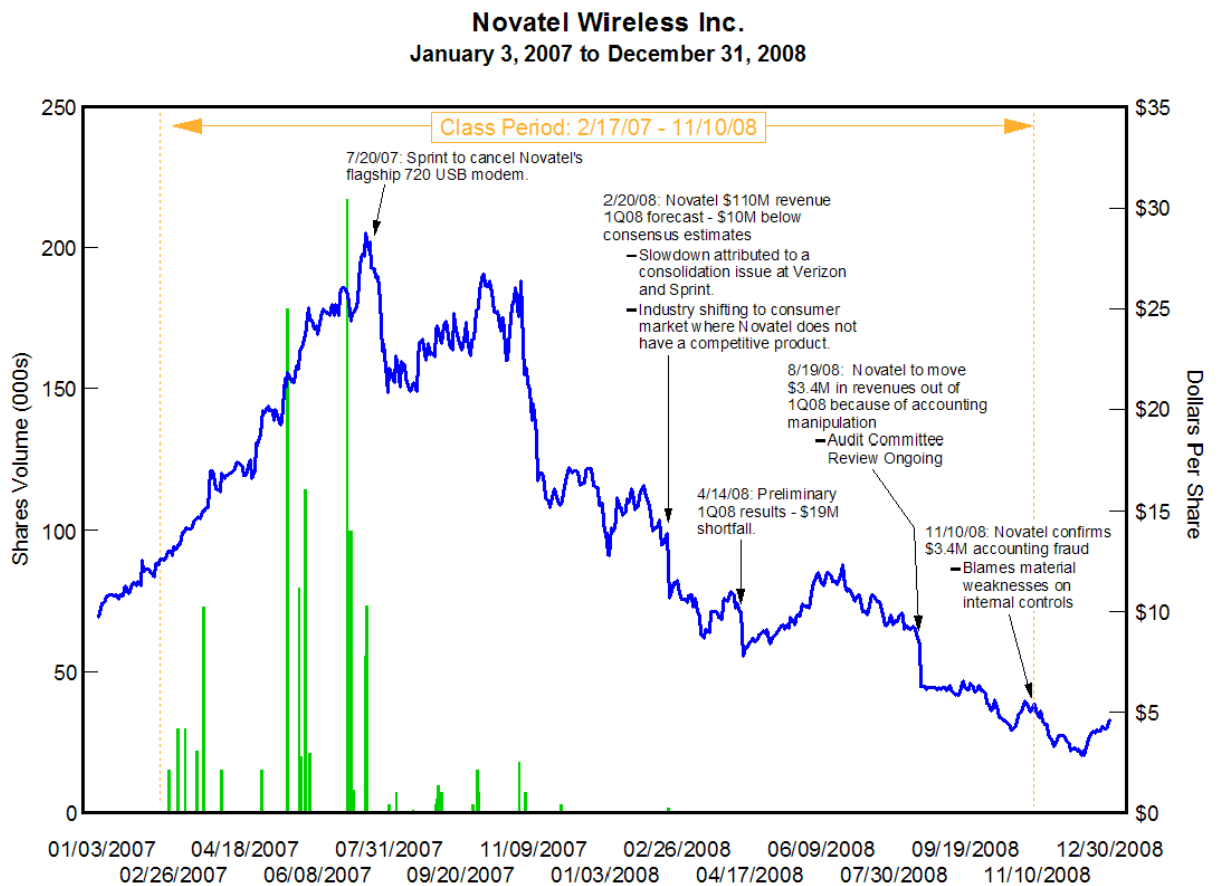
- 5 • Avondale Partners – “[A] larger impact is expected [in 1Q08] from an inventory
6 surplus at one of NVTL's chief North American customers”
- 7 • Morgan Joseph – “In the U.S., operators appear to be ordering more frequently [in
8 1Q08], but requesting smaller lots due to concerns about inventory levels.”

9 7. Defendants' scheme began to unravel at the beginning of 2008. After reporting a
10 successful 2007, defendants caught investors and analysts by complete surprise on February 20,
11 2008, when they announced guidance for 1Q08 that was \$10 million below analyst revenue
12 estimates. Analysts were bewildered by defendants' explanation for the shortfall – that Verizon and
13 Sprint were consolidating vendors – first, because they were not aware of it, and second, because
14 none of Novatel's competitors mentioned it when they raised their guidance for the same time
15 period. Defendants also disclosed that carriers were emphasizing the consumer market where
16 Novatel “historically had not placed an emphasis,” which meant that it did not have a competitive
17 product. Novatel's stock collapsed in response, falling 23% in a single day of trading on volume of
18 11 million shares.

19 8. Then, after reiterating Novatel's 1Q08 guidance throughout the quarter (less than one
20 month before announcing preliminary results) and shortly after boasting that “we are very pleased
21 with the long-term trends and how we are positioned to fulfill them,” defendants shocked the market
22 again on April 14, 2008, by announcing preliminary results for the quarter that were \$19 million
23 short of Novatel's own revenue projections and \$0.08 (36%) short of its earnings per share (“EPS”)
24 projection. This time, Novatel explained that demand for its modem was weak and next that it had
25 lost out to the competition for a key promotional slot at Verizon. The reason – Novatel's products
26 were too expensive for the consumer market. As one analyst put it – “NVTL's products are priced
27 and geared for the enterprise segment and the [C]ompany has little shelf space at the store level.”
28 Novatel's stock collapsed another 23% on volume of nearly 12 million shares.

1 9. Defendants wrapped it up on November 10, 2008, by admitting that the Company had
 2 improperly recognized revenue in 1Q08 in violation of Generally Accepted Accounting Principles
 3 (“GAAP”) and its own revenue cut-off procedures (increasing Novatel’s revenue miss by an
 4 additional \$3.4 million and \$0.01 per share) and by disclosing that their Sarbanes-Oxley
 5 certifications were false – “[O]ur principal executive officer and our principal financial and
 6 accounting officer concluded that there were several control deficiencies in our internal control over
 7 financial reporting that in the aggregate constituted a material weakness.” Novatel’s stock fell
 8 another 12% in the days following this disclosure.

9 10. The following chart depicts how defendants unloaded their shares at inflated prices
 10 and how Novatel’s stock crashed each time investors learned the truth about Novatel’s operations:



1 **STATEMENT OF THE CASE**

2 11. Novatel is a child of the internet craze and the telecom stock market bubble. Founded
3 in 1996, it originally went public in November 2000 – at the very height of the internet and telecom
4 boom. Like many of the companies that went public during that time, it generated little by way of
5 revenues, yet its stock price immediately soared on the wings of the promise of the digital age. Only
6 months later in 2001, its stock price came back to earth with a thud, collapsing 98% from \$220 per
7 share to \$5 per share in less than a year as investors returned to valuing publicly-traded companies
8 based upon more traditional measures – revenues, earnings and real prospects for growth.

9 12. The years that immediately followed for Novatel were difficult, to say the least. The
10 Company suffered the slings and arrows of an unforgiving, bottom-line oriented market. Shortly
11 after its stock price crashed to earth, its business prospects dried up along with the rest of the telecom
12 industry. And the Company shrank substantially by every measure – especially market cap. Not
13 surprisingly, the Company’s stock price did not fair well during the years leading up to the Class
14 Period. Indeed, the Company’s stock price traded in the single digits for most of the preceding six
15 years. And the Company’s executives had lost a fortune on their Novatel holdings as a result. For
16 defendants to sell their substantial holdings in the Company at a profit, its stock had to be trading at
17 a price higher than what they paid for it. As such, defendants engaged in a fraudulent scheme to
18 inflate its value and unload their stock.

19 **Defendants Bail Out of Their Novatel Holdings with Knowledge that Sprint Had Canceled**
20 **Its Popular 720 USB Modem and Opened the Door to Novatel’s Competitors**

21 13. The industry in which the Company operates is intensely competitive and was
22 growing more so throughout the Class Period. Five companies entered the marketplace in 2007
23 alone to directly compete with Novatel – Huawei, Kyocera, Pantech, ZTE and Qualcomm. And one
24 of its closest competitors, Sierra Wireless, was set to launch its first USB product in the second
25 quarter of 2007, which would directly compete with Novatel’s popular 720 USB modem – the very
26 modem that Sprint was telling defendants it would cancel in early 2007.

27 14. Novatel’s success was largely dependent on its ability to supply wireless modems to
28 its two largest customers, Sprint and Verizon. A shift in demand from either of these two companies

1 would dramatically impact Novatel's fortunes. In 2006, the year before the Class Period, Sprint
2 represented 38.2% of Novatel's revenue while Verizon added another 19.7%. Combined, these two
3 companies controlled 57.9% of Novatel's sales. As a result, defendants knew that the market was
4 particularly sensitive to information about these customers. Strong financial results would surely
5 spur an increase in Novatel's stock price whereas any negative information regarding these
6 customers would reduce it.

7 15. At the beginning of 2007, Novatel reported strong financial results and exceeded
8 increasingly aggressive guidance. They told investors that its USB modem was extremely successful
9 in the market and that Novatel was seeing strong sales to Verizon and, more importantly, Sprint. At
10 the same time, defendants were unloading massive amounts of their Novatel holdings. During the
11 Class Period, defendants sold 1,258,466 shares of Novatel stock for almost \$29 million in insider
12 trading proceeds. Defendants sold their shares predominantly between May 2007 and November
13 2007, at prices near the Class Period high of approximately \$29 per share.

14 16. Defendants' sales were extremely suspicious in timing and amount. Including vested
15 options, each defendant sold at least 39% of their Novatel holdings and their sales were dramatically
16 out of line with their prior trading habits. In fact, while defendants told the Securities and Exchange
17 Commission ("SEC") that many of their sales were made pursuant to Rule 10b5-1 trading plans,
18 those sales increased dramatically just days prior to the market learning that Sprint would no longer
19 be purchasing Novatel's 720 USB modem. ***In fact, an extraordinary 62% of defendants' Class***
20 ***Period sales occurred in June and July – just before analysts attributed a collapse in Novatel stock***
21 ***to the Sprint cancellation.*** Defendants knew of Sprint's decision when they sold their stock.
22 According to a July 20, 2007 Craig-Hallum analyst report, Novatel had known "for some time" that
23 Sprint would transition away from Novatel's 720 USB modem. And while defendants tried to
24 characterize Sprint's decision as a mere "transition," Novatel did not and would not have its next
25 generation modem ready for shipment until months later. Novatel's competitors, especially Sierra
26 Wireless and its new USB modem, were perfectly positioned to replace or largely minimize Novatel
27 as its largest customer.

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1 17. As defendants knew and expected, the market reacted harshly to this information.
2 Novatel’s stock price collapsed from \$29 in late July to almost \$20 by the beginning of August on
3 learning of a “rumor” that Novatel was losing position at Sprint. In fact, analysts attributed a drop in
4 Novatel stock directly to Sprint’s decision to “end-of-life” Novatel’s popular EU720 USB card –
5 “NVTL shares were off sharply this morning, we believe in response to a rumor that NVTL may lose
6 market share at Sprint, who was a 38% customer for NVTL in Q1. We agree with the notion making
7 the rounds indicating that the popular EU 720 USB card from NVTL will in fact be end-of-lifed at
8 Sprint as early as next week.” All told, Novatel’s stock collapsed 31% as a result of Sprint’s
9 decision to abandon Novatel’s popular modem. Defendants were obligated to disclose this
10 information or abstain from trading. By failing to do either, they avoided a multi-million dollar loss
11 in their Novatel investment.

12 18. Defendants’ sales were even more suspicious given the environment in which they
13 occurred. Beyond losing share at Sprint, defendants unloaded their stock at the same time that
14 Novatel was certified by Vodafone to sell its products in late June 2007, and when Novatel was on
15 the verge of being certified at Telefonica and T-Mobile. Vodafone alone was the world’s largest
16 wireless carrier and this one certification gave Novatel access to nearly 200 million subscribers. The
17 Vodafone certification was supposed to be even more promising for Novatel as Vodafone had just
18 slashed its data pricing plan to make it more affordable for the consumer market, which analysts in
19 turn had believed would be a boon to Novatel’s sales. Indeed, analysts spoke of a “broad consumer
20 adoption” as other wireless carriers would likely follow suit and purportedly open up a tremendous
21 opportunity for Novatel. Instead of purchasing Novatel shares in this environment, as one would
22 expect, Novatel’s executives bailed out of the stock – and did so even though the industry was
23 considered to be in the “early innings” of the broad-band wireless game.

24 **Novatel Was Losing Market Share Even as Defendants Reported Remarkably Strong**
25 **Financial Results**

26 19. To neutralize a perception that Novatel was indistinguishable from its competitors,
27 defendants represented the Company as adept at managing the delivery of quality wireless modems
28 to their two main domestic customers. Defendants repeatedly stated that the Company had

1 committed sufficient resources to research and development projects, which gave the Company a
2 competitive advantage in quickly supplying state-of-the-art wireless modems to its customers and
3 ramping up volume manufacturing. Novatel pointed to its strong financial results, quarter after
4 quarter, as proof that it was leading the market in providing unrivaled, industry-leading technology.
5 And each time they did, defendants told the SEC and investors through Sarbanes-Oxley
6 certifications that Novatel's financial results were supported by disclosure controls that defendants
7 themselves were responsible for establishing, and that those controls ensured that Novatel's financial
8 statements were accurate and not misleading.

9 20. Defendants' statements were false and misleading. Beyond losing market share with
10 the 720 USB modem at Sprint, Novatel continued to lose market share to its competitors throughout
11 2007. In fact, Novatel continued to lose its position at Sprint even as defendants reported
12 extraordinary results. By the third quarter of 2007, Sprint decided to implement a new WiMax
13 platform and planned to spend approximately \$2.5 billion to \$3 billion deploying this new
14 technology. But in a dramatic loss for Novatel, Sprint initially selected Samsung, ZTE and ZyXEL
15 as its partners for providing WiMax data cards and USB modems to customers. Left out of the mix
16 – Novatel. In fact, analysts and investors expressed hope that Novatel would rebound and compete
17 for this contract “later in 2008.” Regardless, Novatel was losing considerable market share at its
18 largest customer. Indeed, one analyst reported on November 2, 2007, that “[o]ur quarterly channel
19 checks suggest that Novatel did not gain any share at Sprint where the Pantech PX500 PC Card and
20 Sierra U595 USB modem fared well, similar to Q2.” In truth, Novatel was losing market share at
21 Sprint but defendants told no one.

22 21. While investors knew that Sprint would adopt the WiMax platform and that they
23 excluded Novatel, defendants concealed the reasons that Novatel was losing its market share –
24 Novatel's products did not enable it to compete for this valuable business when needed. According
25 to Sprint's press release, WiMAX was a nationwide mobile broadband network that was designed to
26 offer faster access speeds at a much lower cost. Indeed, media reports reveal that Sprint planned to
27 price WiMAX similar to DSL, which ranged from \$15 to \$38 per month. But Novatel's modem was
28 what analysts characterized as a “long in the tooth” enterprise modem that was much more feature

1 rich and expensive than the modems offered by Novatel's customers. Indeed, Novatel's USB
2 modem offered features not offered by its competitors, but those features and its higher speeds came
3 at a cost of \$149.99, which was more expensive than the USB modems offered by Sierra and
4 Pantech. Given the shift in the market to USB modems and the reduced rate plans offered to the
5 end-user by Novatel's customers, defendants knew that Novatel's products were not a viable option
6 for the users that Sprint (and ultimately Verizon) were trying to reach.

7 **Novatel Continued to Lose Market Share as the Industry Shifted to the Retail Market**

8 22. Simultaneously, defendants also knew, or recklessly disregarded, that Novatel would
9 continue to lose market share. In early 2007, the wireless modem market was shifting its preference
10 from PC cards to USB devices. Indeed, in the second quarter of 2007, Novatel attributed its strong
11 financial results predominantly to the Company's increased sales in USB products, which
12 incidentally offset the Company's weak PC card sales. USB products alone, according to
13 defendants, had been a "primary growth driver" for Novatel with \$85 million in sales in just nine
14 months since its introduction. This was also the same quarter that Sierra announced the launch of its
15 new USB product, subsequently chosen by Sprint in late July 2007.

16 23. During the same period, wireless carriers were slashing monthly service fees to target
17 the consumer market – a market that defendants knew they could not adequately serve because of the
18 demand for low-cost wireless access. In June 2007, Vodafone announced that it would be cutting
19 monthly data rates in half. And, in November 2007, T-Mobile made dramatic cuts to its data rates in
20 Europe. Analysts expected domestic carriers to quickly follow suit – and they did. Weeks after T-
21 Mobile announced their rate cut, Sprint began testing \$30 data plans in the U.S. This represented a
22 50% discount to Sprint's previous data rates – which were \$60 per month. The significant decrease
23 in monthly service fees resulted in a surge of sales of USB modems to retail consumers who could
24 utilize those devices on laptop or desktop computers.

25 24. But as defendants knew and concealed from the market, Novatel did not have a viable
26 USB product at the time to immediately compete in this retail market. As an analyst from Craig-
27 Hallum later confirmed on April 15, 2008 (*only after defendants disclosed that they were losing*
28 *market share because demand had shifted to lower-end consumer products*) "NVTL's products are

1 priced and geared for the enterprise segment and the [C]ompany has little shelf space at the store
2 level.” By the time Novatel was ready to compete in this retail space, other competitors such as
3 Pantech and Sierra Wireless had already secured business at Novatel’s largest and most important
4 customers, including Sprint and Verizon. In fact, a 2007 industry study later confirmed that
5 Novatel’s competitors were stealing considerable market share during this time period not only at
6 Sprint, but also with Verizon. Sierra Wireless had increased its modem penetration at Verizon by
7 50% compared to Novatel’s 14% and competitors categorized as “Other,” which excluded Sierra
8 Wireless and Option, had increased penetration at Sprint 100% compared to Novatel’s 0%. And in
9 Europe, with the exception of Vodafone, Novatel’s competitors had surpassed Novatel’s penetration
10 rate at all carriers, including T-Mobile, Telefonica/O2, and Orange.

11 **Novatel Focuses on Low-Margin International Sales Because of Domestic Market Share 12 Loss**

13 25. Because defendants knew that Novatel was losing market share in the U.S., the
14 Company shifted its focus to the European market in the second half of 2007. In fact, the
15 Company’s international sales were trending upward throughout the year (1Q07 – 21%; 2Q07 –
16 23%; 3Q07 – 26%), even though Novatel came out with its second-generation USB modem in
17 September of that year. Although some sales of this new USB product were expected to come from
18 the U.S., analysts explained that defendants’ initial projections for 4Q07, the first quarter after
19 Novatel introduced the modem, showed international sales outpacing domestic sales.

20 26. Defendants’ decision to shift the Company’s focus to Europe establishes their
21 knowledge that Novatel’s domestic market share was suffering. In fact, unlike Novatel’s domestic
22 sales, its international sales were plagued by lower margins and reduced the overall profitability of
23 the Company. As one analyst from Morgan Joseph reported on November 6, 2007, the Company’s
24 3Q07 results were highlighted by sales in the European data market, which was considered a
25 business swing that significantly reduced the Company’s margins.

26 Contributing to the 90% Y-Y and 7% Q-Q sales growth was the European data
27 market, driven by the uptake of Novatel’s new MC950 USB modem addressing new
28 HSPA networks. ***This business caused a swing in Novatel’s sales mix*** that now
represents 30% HSPA, up from 26% HSPA in June, while CDMA-based technology
is now 70% of the mix, down from 74% in June, ***and brought a corresponding***

1 *change to gross margin, which fell about 180 bpt to 29.8% in 3Q07 from 31.6% in*
2 *2Q07.*¹

3 27. To make matters worse, the industry was suffering from component shortages during
4 the Class Period that prevented Novatel from meeting international demand. In fact, the Company
5 was not able to supply a power amplifier for its MC950 HSUPA USB modem and ran out of a key
6 radio chain component used in several of its modems, which required Novatel to pay expensive
7 “expedite charges” to create and ship its products. These charges further eroded Novatel’s margins
8 on international sales. Defendants’ shift to Europe in the face of these problems shows that they
9 knew that their domestic operations were suffering.

10 **Mature Inventory Levels Lead to an Expected Drop in Future Revenues**

11 28. Novatel’s financial results and its statements about the demand for its products were
12 false and misleading for another reason. At the same time that defendants were making these
13 statements, defendants failed to disclose that Novatel was prematurely shipping products into a
14 channel that had become over-saturated. In 2007, Novatel began prematurely shipping as much
15 product as it could to its customers to meet its quarterly and year-end forecasts. As one former
16 Novatel employee (who had frequent discussions with shipping department employees about
17 Novatel’s early shipments) explained it, “there was always a ‘crunch time’ at the end of each
18 quarter.” The Company would frequently ship large amounts of product up to “four weeks” early so
19 they could recognize the revenue up front in the current quarter and meet or exceed Wall Street
20 expectations. Indeed, Novatel would admit after the Class Period that its internal controls suffered
21 from material weaknesses that permitted these early shipments.

22 29. By employing this practice, defendants took advantage of a lack of internal controls
23 and continued to post strong results throughout fiscal 2007. Novatel’s financial results clearly
24 misled analysts about end-market demand and sales execution. In fact, while an analyst at JP
25 Morgan on November 5, 2007, noted that the industry was “at peak sell-in,” he told investors that his
26 view had been wrong in the past – “That said, we have clearly under-estimated end-market demand,

27 ¹ Here, as elsewhere, emphasis is added and citations omitted unless otherwise noted.

1 to-date, and execution had been first-rate in 2007.” Defendants’ false statements were having their
2 intended effect – they were convincing analysts and investors that Novatel was in a different position
3 than its competitors.

4 30. As the scheme went on, Novatel’s receivables and DSOs, which is a measure of the
5 average number of days that a company takes to collect revenue after a sale, increased materially in
6 3Q07 due to large premature shipments to Sprint and Verizon shortly before quarter-end. Indeed,
7 Novatel’s DSOs almost doubled from 38 in 2Q07 to 61 in 3Q07, which demonstrates that Novatel
8 sold the product on credit with extended payment terms. In other words, it was shipping product
9 early to increase its results.

10 31. By 4Q07, PC Card sales were down 11% quarter-to-quarter and embedded modem
11 sales were down 12% quarter-to-quarter. Although USB sales remained consistently strong,
12 Novatel’s top domestic customers, Sprint and Verizon, were flush with inventory by 4Q07 and were
13 actively working on reducing their inventories. In fact, an analyst from Avondale Partners stated on
14 February 21, 2008 (after the Company disclosed that its results would be far below consensus
15 estimates in 1Q08 because of inventory issues) that “a larger impact is expected from an inventory
16 surplus at one of NVTL’s chief North American customers” And an analyst from Morgan
17 Joseph stated a month later on March 24, 2008 that “In the U.S., operators appear to be ordering
18 more frequently, but requesting smaller lots due to concerns about inventory levels.” These post-
19 disclosure confirmations directly undermined defendants’ claims that Verizon and Sprint were
20 flushing inventory from other vendors who they no longer intended to use.

21 **Defendants Prematurely Recognized Revenue in Violation of its Own Revenue Cut-Off**
22 **Procedures and Generally Accepted Accounting Principles**

23 32. Defendants’ scheme to inflate revenues started to unravel in the first quarter of 2008.
24 After announcing consecutive quarters of extremely impressive financial results, defendant shocked
25 the market on February 20, 2008, by announcing that the bottom had fallen out of Novatel’s
26 aggressive growth streak. They forecasted \$110 million in revenues for 1Q08 – \$10 million below
27 consensus estimates – and attributed the slowdown to a consolidation issue at Sprint and Verizon.
28 Defendants also disclosed that its customers were clearly focusing on the consumer market where

1 the Company did not historically focus. Defendants' forecast, and their explanation for it, took
2 analysts by complete surprise as none of Novatel's competitors had mentioned the consolidation
3 issue at Verizon and Sprint when raising their outlooks for the quarter. In reality, Novatel's main
4 customers were over-extended because of early shipments and had to clear their inventory.
5 Novatel's stock price dropped from approximately \$14 to as low as \$10.20, or roughly 27%, after
6 defendants' disclosures.

7 33. Through 1Q08, defendants repeated the Company's guidance and told analysts that
8 "we are very pleased with the long-term trends and how we are positioned to fulfill them." But on
9 April 14, 2008, less than a month after reiterating guidance, defendants shocked the market again by
10 reducing Novatel's 1Q08 guidance from \$110 million to \$91 million – \$30 million below analysts'
11 original estimates. As the market began losing confidence in the Company, defendants began
12 scrambling to meet its newly-forecasted revenues. Knowing that it would still fall short because
13 demand was shifting to an area where Novatel did not have a competitive product, the Company
14 began improperly "pulling in" revenue into the first quarter of 2008 – revenue that it was not yet
15 permitted to recognize under GAAP. By prematurely recognizing future revenues, defendants gave
16 a boost to the revenues reported in the current quarter to minimize an already sizeable miss.
17 Defendants repeatedly told the SEC and investors that they had designed and implemented
18 disclosure controls to prevent this type of accounting manipulation – claims that Novatel would later
19 admit were false.

20 34. As the Company's top executives were also Audit Committee members, the scheme
21 was relatively simple to carry out. The Company was small, consisting of approximately 300
22 employees throughout the entire Class Period. The vast majority of these employees were on sales
23 and research and development. The defendants essentially controlled the Company, including its
24 accounting practices, earnings announcements and SEC filings. According to the Company's 2007
25 10-K, of the 301 employees as of December 31, 2007, only 44 of the Company's employees worked
26 in "operations," including the Chief Executive Officer and Chief Financial Officer.

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1 35. On May 13, 2008, defendants told investors that the Company was unable to file its
2 Form 10-Q with the SEC on time because of a review of a single customer contract which they
3 represented was “substantially completed today.” The release stated in part:

4 Novatel Wireless, Inc. (the “Company”) was unable to finalize preparation of
5 its financial statements in sufficient time to file its Quarterly Report on Form 10-Q
6 for the period ended March 31, 2008 (the “Form 10-Q”) by the prescribed due date
7 without unreasonable effort and expense. The Company and its Audit Committee
8 undertook an enhanced review of the accounting for a specific customer contract,
9 which review was substantially completed today. As a result of such review, the
10 Company and its Audit Committee do not expect any change to the accounting under
11 that contract, or to any previously reported financial statements or earnings disclosed
12 in the Company’s Current Report on Form 8-K filed on May 1, 2008. However, the
13 Company has filed this Form 12b-25 for an extension to finalize its Form 10-Q, and
14 expects to file its Form 10-Q on or before May 19, 2008, the fifth calendar day
15 following its prescribed due date.

16 36. Over three months later, on August 19, 2008, defendants admitted that the review was
17 still ongoing, that it involved at least six transactions representing \$9.1 million in revenue, and that it
18 would be moving \$3.4 million in improperly recognized revenue out of 1Q08. As a result of this
19 disclosure, Novatel’s stock price dropped from \$8.40 to \$6.29 the next day, a 25% decline. This
20 decrease in Novatel’s stock price was a result of the artificial inflation caused by defendants’
21 misleading statements coming out of the stock price as investors learned that defendants engaged in
22 accounting manipulation to inflate 1Q08 results.

23 37. Finally, on November 10, 2008, Novatel issued its delayed Form 10-Qs for the
24 quarters ended March 31, 2008 and June 30, 2008. As a result of the Company’s accounting review,
25 Novatel disclosed that the revenues for the quarter ended March 31, 2008 were false. The Company
26 confirmed that \$3.4 million in revenue had been improperly recognized in violation of revenue
27 cutoff procedures. The Company also revealed that defendants’ Sarbanes-Oxley certifications were
28 false. Indeed, the Company admitted that there were “several control deficiencies in [the
Company’s] internal control over financial reporting that in the aggregate constituted a material
weakness” during the Class Period. The Form 10-Qs stated:

1. The Company’s policies and procedures did not provide sufficient
detail regarding revenue recognition requirements related to cutoff periods across
time zones, continuing performance obligations and shipping terms for such
transactions resulting from a design deficiency in our internal control.

1 43. Defendant Novatel is a provider of wireless broadband access solutions for the
2 worldwide mobile communications market, with its headquarters located in San Diego, California.
3 Novatel's stock is traded under the symbol NVTL on the Nasdaq, which is an efficient market.

4 44. Defendant Peter V. Leparulo ("Leparulo") was, at relevant times, Chairman and Chief
5 Executive Officer ("CEO") of the Company. During the Class Period, Leparulo prepared and signed
6 the Company's Form 10-K, attesting that he had reviewed the contents of the filings to confirm that
7 they did not contain untrue statements of a material fact or omit to state a material fact necessary to
8 make the statements made, in light of the circumstances under which such statements were made, not
9 misleading. At no time during the Class Period did Leparulo or any other defendant assert that they
10 were not aware of material aspects of Novatel's business or finances. Moreover, Leparulo issued
11 statements in press releases and led the Company's conference calls with analysts and investors,
12 representing himself as a primary person with knowledge about the Company's business, outlook,
13 financial reports and business practices. While in possession of non-public material information,
14 defendant Leparulo sold 473,357 shares of his Novatel stock for insider trading proceeds of
15 \$11,530,258 during the Class Period.

16 45. Defendant George Brad Weinert ("Weinert") was, at relevant times, President of the
17 Company. During the Class Period, Weinert prepared and signed the Company's Forms 10-K and
18 10Q, and Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") certifications filed with the SEC,
19 attesting that he had reviewed the contents of the filings to confirm that they did not contain any
20 untrue statement of a material fact or omit to state a material fact necessary to make the statements
21 made, in light of the circumstances under which such statements were made, not misleading. At no
22 time during the Class Period did Weinert or any other defendant assert that they were not aware of
23 material aspects of Novatel's business or finances. Moreover, Weinert issued statements in press
24 releases and led the Company's conference calls with analysts and investors, representing himself as
25 a primary person with knowledge about the Company's business, outlook, financial reports and
26 business practices. While in possession of non-public material information, defendant Weinert sold
27 121,985 shares of his Novatel stock for insider trading proceeds of \$3,305,560 during the Class
28

1 Period. On December 8, 2008, defendant Weinert resigned shortly after the full extent of Novatel's
2 accounting fraud was disclosed to the public.

3 46. Defendant Robert M. Hadley ("Hadley") was, at all relevant times, Senior Vice
4 President of Worldwide Sales and Marketing. While in possession of non-public material
5 information, defendant Hadley sold 247,198 shares of his Novatel stock for insider trading proceeds
6 of \$4,681,696 during the Class Period.

7 47. Defendant Slim S. Souissi ("Souissi") was, at all relevant times, Senior Vice
8 President and Chief Technology Officer. While in possession of non-public material information,
9 defendant Souissi sold 272,560 shares of his Novatel stock for insider trading proceeds of
10 \$5,488,870 during the Class Period.

11 48. Defendant Catherine F. Ratcliffe ("Ratcliffe") was, at all relevant times, Senior Vice
12 President of Business Affairs and General Counsel. While in possession of non-public material
13 information, defendant Ratcliffe sold 143,366 shares of her Novatel stock for insider trading
14 proceeds of \$3,646,804 during the Class Period.

15 49. As the senior executive officers and as controlling persons of a publicly traded
16 company whose stock was, and is, registered with the SEC pursuant to the Securities Act of 1933,
17 and was traded on the NASDAQ and governed by the federal securities laws, the defendants had a
18 duty to promptly disseminate accurate and truthful information with respect to Novatel's financial
19 condition and performance, growth, operations, financial statements, business, products, markets,
20 management, earnings and present and future business prospects, and to correct any previously
21 issued statements that had become materially misleading or untrue, so that the market price of
22 Novatel's stock would be based upon truthful and accurate information. The defendants'
23 misrepresentations and omissions during the Class Period violated these specific requirements and
24 obligations.

25 50. Further, the defendants violated their duty to abstain or disclose inside information
26 before trading Novatel stock. While in possession of material non-public information, defendants
27 improperly sold 1,258,466 shares of Novatel stock for almost \$29 million in insider trading
28 proceeds.

1 **FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD**

2 51. On February 27, 2007, Novatel issued a press release announcing Novatel’s financial
3 results for 4Q06 and the full fiscal year. With respect to the first quarter of 2007, defendant Weinert
4 stated:

5 “Our record backlog and strong Q1 order flow has increased our visibility and
6 we are expecting sequential and year-over-year growth in what has historically been
7 a seasonally softer first quarter for us Our focus is primarily on execution and
8 innovation, as we continue to ramp to meet increasing demand in the
9 marketplace”

10 52. On February 27, 2007, on the Company’s earnings conference call, Weinert made the
11 following statements:

12 [Weinert:]

13 I think that, as we talked about a little bit in the script, there certainly will continue to
14 be competitors entering the space. But I think Novatel has also done a very good job
15 of differentiating ourselves and adding value to the proposition for the OEM
16 customers, in particular. So you’re seeing a lot of things we’re doing now from
17 customization and value adds with software. And we’re really diversifying, as well as
18 continuing to lead the pack in terms of innovative solution and new technologies.
19 When you see these larger companies start to try to enter the market, they’re
20 typically trying to do so with fairly well tried out, older technologies and really the
21 market isn’t ready for that right now. So, we think we’ll continue to see that from
22 time to time but we think we have a very defensible position going forward.

23 53. On May 1, 2007, Novatel issued a press release entitled “Novatel Wireless Reports
24 Record Results Driven by Strong Sales Across Multi-Pronged 3G Product Portfolio; First Quarter
25 Revenue Increases 174% Year Over Year and 43% Sequentially GAAP EPS of \$0.34 Per Share and
26 Non-GAAP EPS of \$0.40 Per Share 2007 Non-GAAP EPS Guidance Increases by Over 50% to
27 \$1.00 to \$1.05 Per Share,” which stated:

28 Revenue for the first quarter was up 43% sequentially to approximately \$110
million versus revenues of \$77 million in the prior quarter and up 174% over
revenue of \$40.2 million reported in the same period last year. First quarter GAAP
net income was \$10.1 million or \$0.34 per diluted share. This compares to GAAP
net loss of \$1.3 million or a loss of \$0.05 per diluted share in the prior year period.

54. In the press release, defendant Weinert stated:

 “Our first quarter performance was the best in Company history, with record
sales, strong gross margins and impressive operating leverage Sales were even
higher than forecasted in our revised guidance due to strong end-of-the-quarter
momentum for newly introduced ExpressCards and Ovation USB devices. During
the quarter, shipments of the Company’s ExpressCards – the most successful new
product introduction in our history – grew to almost \$50 million in sales.

1 Additionally, some initial stocking orders for Ovation USB modems, previously
2 expected to be shipped in Q2, were shipped within the quarter contributing to the
3 higher-than-expected revenue. Over the last month, we have received more follow-
4 on orders for Ovation devices and are seeing strong demand across our multi-
pronged 3G product portfolio, offering clear evidence of the success of our
diversification strategy and the increasing demand for innovative wide-area wireless
data solutions.”

5 55. On May 1, 2007, on the Company’s earnings conference call, Leparulo and Weinert
6 made the following statements:

7 [Leparulo:]

8 The market for 3G Wireless is taking off and we believe we’re perfectly
9 positioned to take advantage of that growth.

10 [Weinert:]

11 We certainly see very strong demand for [our first generation] products, and
12 we’re leading the way, we’re certainly in a leadership position, in both the express
13 card and the USB markets and we’re adding a lot of value with the next generation,
so I certainly would expect to be able to continue to demand a premium because of
the quality and the class of the products.

14 56. On May 10, 2007, Novatel filed its Quarterly Report on Form 10-Q with the SEC.
15 The Company’s Form 10-Q was signed by defendant Weinert, and reaffirmed the Company’s
16 financial results previously announced on May 1, 2007. The Company’s Form 10-Q also contained
17 Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) certifications, signed by defendant Weinert who
18 stated:

- 19 1. I have reviewed this quarterly report on Form 10-Q of Novatel Wireless, Inc.;
- 20 2. Based on my knowledge, this report does not contain any untrue statement of
21 a material fact or omit to state a material fact necessary to make the
statements made, in light of the circumstances under which such statements
were made, not misleading with respect to the period covered by this report;
- 22 3. Based on my knowledge, the financial statements, and other financial
23 information included in this report, fairly present in all material respects the
financial condition, results of operations and cash flows of the registrant as
24 of, and for, the periods presented in this report;
- 25 4. The registrant’s other certifying officer and I are responsible for establishing
26 and maintaining disclosure controls and procedures (as defined in Exchange
Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial
27 reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the
registrant and have:
 - 28 (a) Designed such disclosure controls and procedures, or caused such
disclosure controls and procedures to be designed under our

1 supervision, to ensure that material information relating to the
2 registrant, including its consolidated subsidiaries, is made known to
3 us by others within those entities, particularly during the period in
4 which this report is being prepared;

5 (b) Designed such internal control over financial reporting, or caused
6 such internal control over financial reporting to be designed under our
7 supervision, to provide reasonable assurance regarding the reliability
8 of financial reporting and the preparation of financial statements for
9 external purposes in accordance with generally accepted accounting
10 principles;

11 (c) Evaluated the effectiveness of the registrant's disclosure controls and
12 procedures and presented in this report our conclusions about the
13 effectiveness of the disclosure controls and procedures, as of the end
14 of the period covered by this report based on such evaluation; and

15 (d) Disclosed in this report any change in the registrant's internal control
16 over financial reporting that occurred during the registrant's most
17 recent fiscal quarter (the registrant's fourth fiscal quarter in the case
18 of an annual report) that has materially affected, or is reasonably
19 likely to materially affect, the registrant's internal control over
20 financial reporting; and

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

25 (a) All significant deficiencies and material weaknesses in the design or
26 operation of internal control over financial reporting which are
27 reasonably likely to adversely affect the registrant's ability to record,
28 process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or
other employees who have a significant role in the registrant's
internal control over financial reporting.

57. As alleged in detail in ¶¶11-39, the statements alleged in ¶¶51-56 were each
materially false and/or misleading when made because:

(a) Novatel's financial results concerning revenues and earnings, reported in press
releases, SEC filings and conference calls, were materially misleading and did not fairly present the
financial condition of the Company throughout fiscal quarter ended March 31, 2007 for the
following reasons:

(i) Novatel failed to disclose that the Company was prematurely shipping
product to meet or exceed its quarterly and year-end forecasts;

1 (ii) Novatel failed to disclose that one of the Company's largest customers,
2 Sprint, would discontinue all further orders of the Company's popular 720 USB card by the end of
3 July 2007; and

4 (iii) Novatel concealed that the Company's product mix failed to
5 adequately meet the immediate needs of its two largest domestic customers, Sprint and Verizon,
6 which was causing Novatel to lose considerable market share.

7 (b) The Sarbanes-Oxley certifications signed by defendant Weinert in Novatel's
8 SEC filings, attesting to the accuracy of the financial results and effectiveness of the Company's
9 internal controls, were false. As the Company admitted on November 10, 2008 in its delayed Form
10 10-Qs for the quarters ended March 31, 2008 and June 30, 2008, there were several control
11 deficiencies in the Company's internal control over financial reporting that in the aggregate
12 constituted a material weakness during the Class Period. Specifically, the Form 10-Qs stated:

13 1. The Company's policies and procedures did not provide sufficient
14 detail regarding revenue recognition requirements related to cutoff periods across
15 time zones, continuing performance obligations and shipping terms for such
16 transactions resulting from a design deficiency in our internal control.

17 2. The Company did not have effective processes in place to ensure that
18 all relevant contractual and sales information was communicated in a timely manner
19 among the sales, operations and accounting organizations for non-standard and
20 modified sales transactions resulting from a design and operating deficiency in our
21 internal control.

22 3. The Company did not provide adequate training for certain personnel
23 regarding the Company's revenue recognition cutoff policies and procedures to
24 ensure that revenues from these transactions were recognized in the proper period
25 resulting from an operating deficiency in our internal control.

26 58. On June 8, 2007, Novatel issued a press release entitled "Novatel Wireless Increases
27 Second Quarter Guidance; Company Announces Resignation of CFO Dan Halvorson," which stated:

28 "We are currently seeing strong demand across our major product lines, most
notably for our ExpressCards and Ovation USB devices," commented Brad Weinert,
Novatel Wireless' acting Chief Executive Officer. "Wireless data is clearly
becoming a vital component of carrier plans, as enterprises and consumers
increasingly recognize the benefits of the technology."

59. On August 6, 2007, Novatel issued a press release entitled "Novatel Wireless Reports
Strong Second Quarter Financial Results; Revenue Grows 113% Year Over Year, Gross Margins
Increase as Company Raises 2007 Guidance." Therein, the Company stated:

1 Novatel Wireless, Inc., . . . a leading provider of wireless broadband access
2 solutions, today reported financial results for the second quarter ended June 30, 2007.

3 Revenue for the second quarter was up 113% to \$97.4 million compared to
4 revenue of \$45.7 million reported in the same period last year. Second quarter
5 GAAP net income was \$8.0 million, or \$0.25 per diluted share. This compares to
6 GAAP net income of \$95,000, or \$0.00 per diluted share in the prior year period.
2007 second quarter GAAP results include approximately \$1.8 million of non-cash
share-based compensation, or \$0.06 per diluted share, net of taxes. Excluding the
effect of these charges, non-GAAP net income was \$9.8 million or \$0.31 per diluted
share for the second quarter of 2007.

7 “Results for the second quarter 2007 continued to demonstrate that Novatel
8 Wireless is executing ahead of plan and capitalizing on the growing worldwide
9 demand for 3G wireless broadband access solutions,” commented Brad Weinert,
10 president of Novatel Wireless. “Demand is strong across a wide range of products
including Ovation USB devices, Merlin PC and Express cards, and Expedite
embedded modems. Adoption of USB wireless modems has been a primary growth
driver with over \$85 million in sales in the nine months since its introduction.”

11 60. On August 6, 2007, on the Company’s earnings conference call, Leparulo and
12 Weinert made the following statements:

13 [Leparulo:]

14 With innovative products and strong partnerships, we’re well positioned to continue
15 to capitalize on this demand and our progress is evident in our second-quarter results.

16 * * *

17 [Weinert:]

18 We had an exceptionally strong first half of the year with Sprint and our competitors
19 also did well, a clear testament to a growing market opportunity and expanding
20 market for wireless data products. We think these trends will continue as we sell a
21 broader range of products into our core customers, our focus not just being on
fulfilling expanding customer demand and taking market share but seizing the best
opportunities with the most differentiated products and leveraging our R&D efforts
to sell multiple products into our end customers. . . .

22 In the second half of the year, we continue to expect strong results, driven by both
23 continuing demand for existing products and the introduction of new products.

24 * * *

25 While the exact timeline is still unclear and it is still a little early to go into
26 detail on our design effort, we fully expect to be well positioned as WiMAX moves
into volume demand which isn’t expected until later in 2008. Our recent results
demonstrate that we’re executing on plan and capitalizing on the tremendous
opportunities that lie ahead of the Company.

27 61. On August 9, 2007, Novatel filed its Quarterly Report on Form 10-Q with the SEC.
28 The Company’s Form 10-Q was signed by defendant Weinert, and reaffirmed the Company’s

1 financial results announced on August 6, 2007. The Company's Form 10-Q also contained
2 Sarbanes-Oxley certifications, substantially similar to the certifications quoted above in ¶56.

3 62. As alleged in detail in ¶¶11-39, the statements alleged in ¶¶58-61 were each
4 materially false and/or misleading when made because:

5 (a) Novatel's financial results concerning revenues and earnings, reported in press
6 releases, SEC filings and conference calls, were materially misleading and did not fairly present the
7 financial condition of the Company throughout fiscal quarter ended June 30, 2007 for the following
8 reasons;

9 (i) Novatel failed to disclose that the Company was prematurely shipping
10 product to meet or exceed its quarterly and year-end forecasts; and

11 (ii) Novatel concealed that the Company's product mix failed to
12 adequately meet the immediate needs of its two largest domestic customers, Sprint and Verizon,
13 which was causing Novatel to lose considerable market share.

14 (b) The Sarbanes-Oxley certifications signed by defendant Weinert in Novatel's
15 SEC filings, attesting to the accuracy of the financial results and effectiveness of the Company's
16 internal controls, were false. As the Company admitted on November 10, 2008, in its delayed Form
17 10-Qs for the quarters ended March 31, 2008 and June 30, 2008, there were several control
18 deficiencies in the Company's internal control over financial reporting that in the aggregate
19 constituted a material weakness during the Class Period. Specifically, the Form 10-Qs stated:

20 1. The Company's policies and procedures did not provide sufficient
21 detail regarding revenue recognition requirements related to cutoff periods across
22 time zones, continuing performance obligations and shipping terms for such
transactions resulting from a design deficiency in our internal control.

23 2. The Company did not have effective processes in place to ensure that
24 all relevant contractual and sales information was communicated in a timely manner
25 among the sales, operations and accounting organizations for non-standard and
modified sales transactions resulting from a design and operating deficiency in our
internal control.

26 3. The Company did not provide adequate training for certain personnel
27 regarding the Company's revenue recognition cutoff policies and procedures to
ensure that revenues from these transactions were recognized in the proper period
28 resulting from an operating deficiency in our internal control.

1 63. On November 5, 2007, Novatel issued a press release entitled “Novatel Wireless
2 Reports Strong Third Quarter Financial Results; Revenue Grows 90% Year Over Year, GAAP EPS
3 of \$0.28 per share and Non-GAAP EPS of \$0.31 per share,” which stated:

4 Novatel Wireless, Inc., . . . a leading provider of wireless broadband access
5 solutions, today reported financial results for the third quarter ended September 30,
6 2007.

7 Revenue for the third quarter increased 90% to approximately \$104.6 million
8 versus revenue of \$55.1 million reported in the same period last year. Third quarter
9 GAAP net income was \$9.2 million, or \$0.28 per diluted share. This compares to
10 GAAP net loss of \$895,000 or \$0.03 per diluted share in the prior year period. Third
11 quarter GAAP results include approximately \$1.1 million of non-cash share-based
12 compensation expense, net of taxes, or \$0.03 per diluted share. Excluding the effect
13 of these charges, non-GAAP net income was \$10.3 million or \$0.31 per diluted share
14 for the third quarter of 2007.

15 “Revenues were above previous guidance, increasing by 90% year-over-year
16 as we continued to benefit from our leadership position as an innovative provider of
17 3G wireless products to our strategic customers,” said Brad Weinert, president of
18 Novatel Wireless. “Quarterly revenues were spread across a balanced range of
19 products with upside to the quarter from strong performance across our entire USB
20 product line and major contributions from our next generation USB products in
21 Europe and the U.S. which accounted for over \$40 million in revenue.”

22 64. On November 5, 2007, on the Company’s earnings conference call, Leparulo and
23 Weinert made the following statements:

24 [Leparulo:]

25 The third quarter was another exciting quarter for Novatel. We launched innovative,
26 market-leading products, saw strong demand for these products, and beat guidance
27 and expectations once again. Our market continues to grow rapidly as 3G wireless
28 data proliferates into mainstream technology.

 With innovative products and strong partnerships, we are well positioned to
continue to lead this market, and our progress is evident in our third-quarter results.

* * *

 Our relationships with carriers are strong and we continue to leverage our
unique position as a trusted supplier across multiple technologies and form factors to
expand our addressable market opportunity. New products, added functionality, and
new services and software are all on the horizon as we expect to surprise the market
with our next generation of innovation, which we will develop in close consultation
with our customers.

 [Weinert:]

[D]emand for our new products is very encouraging. We have transitioned to Next
Generation USB products (technical difficulty) seeing a stronger uptick in both the
U.S. and Europe. Due to this demand, we enter the fourth quarter with strong backlog

1 and record order flow. In fact, our major hurdle is tightness in our supply channel for
2 selected components due to the strong demand.

3 * * *

4 [W]e don't see any shortage of demand. . . . we are very optimistic over the long
5 haul, . . . we see very strong demand, . . . we are optimistic.

6 65. On November 9, 2007, Novatel filed its Quarterly Report on Form 10-Q with the
7 SEC. The Company's Form 10-Q was signed by defendant Weinert, and reaffirmed the Company's
8 financial results previously announced on November 5, 2007. The Company's Form 10-Q also
9 contained Sarbanes-Oxley certifications, substantially similar to the certifications quoted above in
10 ¶¶56.

11 66. As alleged in detail in ¶¶11-39, the statements alleged in ¶¶63-65 were each
12 materially false and/or misleading when made because:

13 (a) Novatel's financial results concerning revenues and earnings, reported in press
14 releases, SEC filings and conference calls, were materially misleading and did not fairly present the
15 financial condition of the Company throughout fiscal quarter ended September 30, 2007 for the
16 following reasons:

17 (i) Novatel failed to disclose that the Company was prematurely shipping
18 product to meet or exceed its quarterly and year-end forecasts; and

19 (ii) Novatel concealed that the Company's product mix failed to
20 adequately meet the immediate needs of its two largest domestic customers, Sprint and Verizon,
21 which was causing Novatel to lose considerable market share.

22 (b) The Sarbanes-Oxley certifications signed by defendant Weinert in Novatel's
23 SEC filings, attesting to the accuracy of the financial results and effectiveness of the Company's
24 internal controls, were false. As the Company admitted on November 10, 2008 in its delayed Form
25 10-Qs for the quarters ended March 31, 2008 and June 30, 2008, there were several control
26 deficiencies in the Company's internal control over financial reporting that in the aggregate
27 constituted a material weakness during the Class Period. Specifically, the Form 10-Qs stated:

28 1. The Company's policies and procedures did not provide sufficient
detail regarding revenue recognition requirements related to cutoff periods across

1 time zones, continuing performance obligations and shipping terms for such
2 transactions resulting from a design deficiency in our internal control.

3 2. The Company did not have effective processes in place to ensure that
4 all relevant contractual and sales information was communicated in a timely manner
5 among the sales, operations and accounting organizations for non-standard and
6 modified sales transactions resulting from a design and operating deficiency in our
7 internal control.

8 3. The Company did not provide adequate training for certain personnel
9 regarding the Company's revenue recognition cutoff policies and procedures to
10 ensure that revenues from these transactions were recognized in the proper period
11 resulting from an operating deficiency in our internal control.

12 **THE TRUTH BEGINS TO EMERGE**

13 67. On February 20, 2008, Novatel issued a press release entitled "Novatel Wireless
14 Announces Fourth Quarter and FY2007 Results; Revenues Increase 97% in 2007 and 53% in Q4;
15 GAAP Net Income Reaches \$1.19 per Diluted Share in 2007; More than Triples in Q4 Y-Y to \$0.34
16 per Diluted Share," which stated:

17 Novatel Wireless, Inc., . . . a leading provider of wireless broadband access
18 solutions, today announced financial results for the fourth quarter and year ended
19 December 31, 2007. Novatel Wireless reported fourth quarter revenue increased
20 53% to \$118 million compared to the fourth quarter ended December 31, 2006. Net
21 income on a generally accepted accounting principles (GAAP) basis increased to
22 \$11.1 million or \$0.34 per diluted share, compared to GAAP net income of \$2.6
23 million or \$0.09 per diluted share in the prior year period. GAAP net income
24 includes \$2.0 million in stock-based compensation expenses, net of income tax.
25 Excluding these charges, non-GAAP net income was \$13.1 million or \$0.40 per
26 diluted share, compared to non-GAAP net income of \$4.4 million or \$0.14 per
27 diluted share for the prior year period.

28 For the full year, the Company reported revenue of \$430 million, GAAP net
income of \$38.4 million or \$1.19 per diluted share, and non-GAAP net income of
\$45.3 million or \$1.40 per diluted share.

"Novatel Wireless delivered outstanding 2007 results with 97% revenue
growth year over year, and record order growth driven by our industry-leading USB
products," said Peter Leparulo, executive chairman of Novatel Wireless. "Our ability
to bring highly innovative products to market well ahead of our competitors has been
key to our success. During the year, we introduced seven new products, including
two generations of USB products, and made significant progress in our goal to
steadily increase our product momentum throughout EMEA. As we enter 2008, our
innovation pipeline is in excellent shape, we are focused on profitable growth, and
we will continue to execute our long-term diversification strategy."

68. Novatel also issued disappointing revenue guidance for the quarter of \$110 million,
which was \$10 million below analysts' estimates. Defendants attributed their disappointing

1 guidance to a consolidation issue at its customers who were supposedly focusing on eliminating
2 inventory from Novatel's competitors:

3 We believe that the major North American carriers are looking to
4 significantly consolidate vendors down to two suppliers. This allows them to have
5 more volume leverage over suppliers, keep tighter inventory, and have greater
6 quality control. The feedback that we've received is that the carriers are clearly
7 recognizing that the cost of support and repair problems for many low performing
8 devices quickly erases the benefits of the lower priced units. While they want a
9 reasonable price, they are now willing to give market share commitments so that they
10 can get both value and quality it at the lower end of the market. . . .

11 Over the short term, this may have some modest impact as carriers flush through
12 competitors' products as they consolidate vendors and lower inventory.

13 69. Defendants' explanation took analysts by surprise. Indeed, one analyst questioned
14 defendants about why Novatel's largest competitor had not mentioned the same inventory flush.
15 Defendants refused to elaborate:

16 Anthony Stoss, Analyst, Craig-Hallum Capital

17 Hi guys, just a little bit more clarity in a couple of things. Peter, if you wouldn't
18 mind, your biggest competitor didn't mention any budget flush. Can you let us know
19 also if it's either Verizon or Sprint, or both? And why do you think your biggest
20 competitor never mentioned it in their call recently? Then I have a follow-up
21 question.

22 [Leparulo:]

23 Sure. I can't speak to that, it's certainly in North America and on – the major
24 carriers in North America. So, yes, we see this happening. There's consolidation
25 taking place within both North American operators.

26 70. Defendants also disclosed that Novatel was seeing the market shift to the consumer
27 segment but told investors that it was a positive for Novatel and its first generation USB modem.
28 They did so even though Novatel did not have any meaningful shelf space at the retail level:

 There are a number of trends that we believe will improve Novatel Wireless
over the long term. First, we believe that most of our key carrier customers are
moving to a two-tiered approach to wireless broadband, pushing a more expensive,
high quality product to the enterprise and a lower cost product to the consumer. We
have already seen the impact of these changes in the USB market where we are the
clear pioneer and technology leader. Sprint and Verizon are using our MC 727
product for their higher end offering. At the same time, we continue to see robust
sales of our first generation USB products, the MCD 3000 at the lower end. ***Clearly,
the current emphasis is on driving the most data subscriptions possible and
advertising dollars and subsidies have pushed lower end products where we
historically have not put our emphasis.***

1 *Even yesterday, we saw evidence of this shift with Verizon's announcement*
2 *of its low cost data plan, moving from \$59 to \$39 a month. This is a positive move*
3 *that increases our addressable market.*

4 71. The same day, defendants also continued to misrepresent demand for the Company's
5 products:

6 [Weinert:]

7 Our next-generation USB products continue to drive revenue and gross margins
8 during the quarter. We are pleased with the ramp of our new MC 727, the most
9 innovative USB modem ever introduced with features like storage, GPS capabilities
10 and Linux support.

11 * * *

12 As we enter 2008, we are very pleased with the long-term trends and how we
13 are positioned to fulfill them.

14 [Lebbon:]

15 Now, turning to the first quarter 2008 guidance, our guidance for the first quarter of
16 2008 is as follows. We expect solid revenues in the range of approximately \$110
17 million. We expect gross margins to be modestly impacted by a higher percentage of
18 [inaudible] revenues and currently expect gross margins of approximately 28. We
19 expect operating margins to remain strong in the range of 11% to 12%. Based on our
20 current view, we expect GAAP earnings of approximately \$0.22 per diluted share
21 and non-GAAP earnings of approximately \$0.27 per diluted share based on
22 approximately 33 million shares outstanding.

23 72. On March 3, 2008, Novatel filed its Annual Report on Form 10-K with the SEC. The
24 Company's Form 10-K was signed by defendants Weinert and Leparulo, and largely reaffirmed the
25 Company's financial results previously announced on February 20, 2008. The Company's Form 10-
26 K also contained Sarbanes-Oxley certifications, substantially similar to the certifications quoted
27 above in ¶56.

28 73. As alleged in detail in ¶¶11-39, the statements alleged in ¶¶67-72 were each
materially false and/or misleading when made because:

(a) Novatel's financial results concerning revenues and earnings, reported in press
releases, SEC filings and conference calls, were materially misleading and did not fairly present the
financial condition of the Company throughout fiscal year ended December 31, 2007 for the
following reasons:

1 (i) Novatel failed to disclose that the Company was prematurely shipping
2 product to meet or exceed its quarterly and year-end forecasts; and

3 (ii) Novatel concealed that the Company's product mix failed to
4 adequately meet the immediate needs of its two largest domestic customers, Sprint and Verizon,
5 which was causing Novatel to lose considerable market share.

6 (b) The Sarbanes-Oxley certifications signed by defendant Weinert in Novatel's
7 SEC filings, attesting to the accuracy of the financial results and effectiveness of the Company's
8 internal controls, were false. As the Company admitted on November 10, 2008 in its delayed Form
9 10-Qs for the quarters ended March 31, 2008 and June 30, 2008, there were several control
10 deficiencies in the Company's internal control over financial reporting that in the aggregate
11 constituted a material weakness during the Class Period. Specifically, the Form 10-Qs stated:

12 1. The Company's policies and procedures did not provide sufficient
13 detail regarding revenue recognition requirements related to cutoff periods across
14 time zones, continuing performance obligations and shipping terms for such
15 transactions resulting from a design deficiency in our internal control.

16 2. The Company did not have effective processes in place to ensure that
17 all relevant contractual and sales information was communicated in a timely manner
18 among the sales, operations and accounting organizations for non-standard and
19 modified sales transactions resulting from a design and operating deficiency in our
20 internal control.

21 3. The Company did not provide adequate training for certain personnel
22 regarding the Company's revenue recognition cutoff policies and procedures to
23 ensure that revenues from these transactions were recognized in the proper period
24 resulting from an operating deficiency in our internal control.

25 74. On March 24, 2008, an analyst with Morgan Joseph revealed that defendant Weinert
26 had reiterated the guidance that defendants gave for 1Q08 during a discussion with the analyst "early
27 last week":

28 Novatel offered its March quarter guidance of \$110.0mm during the third week of
February, and based on our discussions with the company's president early last week,
we believe that the company is tracking toward.

75. Defendant Weinert's statement was false. With just four weeks remaining in the
quarter, he knew that the Company was not on track to reach its original guidance. Indeed, as
defendant Leparulo disclosed on February 20, 2008, Novatel's customers were focused on driving
the most subscriptions possible at the retail level, where Novatel did not have any meaningful shelf

1 space. In fact, Leparulo himself explained that Novatel historically had not put its emphasis on the
2 retail channel. As a result of this shift and an inability to compete at the retail level, Weinert knew
3 that his statement was false and misleading.

4 76. On April 14, 2008, the Company shocked the market again with preliminary results
5 for 1Q08 that were \$19 million below the Company's original disappointing forecast and \$29
6 million below original analyst estimates. The Company disclosed that demand for its products was
7 weak and that its enterprise modem could not serve what defendants described as "the low-end
8 market":

9 Novatel Wireless, Inc., . . . a leading provider of wireless broadband access solutions,
10 today reported preliminary financial results for the first quarter ended March 31,
2008

11 Revenues for the first quarter are expected to be approximately \$91 million,
12 lower than the company's prior guidance of \$110 million. GAAP earnings per share
13 are expected to be in the range of \$0.13 to \$0.15 and non-GAAP EPS is expected to
be between \$0.16 and \$0.18 per share.

14 "We are very disappointed with our first quarter results," said Peter Leparulo.
15 "Approximately \$10 million of the shortfall was attributable to a delayed launch of
16 the MC930D with a major European carrier customer. Additionally, we had lower
17 than expected sales of our enterprise-class MC727 USB products to one major
18 customer. We are between product launch cycles for our USB devices and demand
in the current environment has shifted toward lower end products. We continue to
see solid demand for our first generation MCD3000 USB products selling into this
market shift, and we expect our second generation USB products to become the low
end promotional offering as we introduce our third generation products mid-year."

19 77. The same day, Leparulo repeated the explanation on the Company's earnings
20 conference call:

21 [Leparulo:]

22 I'm very disappointed to report preliminary results for the first quarter which are
23 below our expectations. Currently, we expect to report revenues of approximately
\$91 million, GAAP EPS in the range of \$0.13 to \$0.15 per share, and non-GAAP
EPS of \$0.16 to \$0.18 per share.

24 The revenue shortfall was a result of a number of factors. First, one of our
25 carrier partners in Europe delayed the launch of our MC930D products into their
26 network. That delay, which was due to technical issues unrelated to our products,
pushed back approximately \$10 million in orders. We have already begun shipping
these orders in the new quarter.

27 Secondly, we are between product cycles with one of our key partners.
28 Demand has shifted to lower-end products at many carriers. And while our

1 MCD3000 continues to sell well, sales of our Enterprise class MC727 products were
2 lower than expected at one key customer.

3 Compounding these two issues, we clearly did not adequately execute both
4 from an operations basis and with our sales effort, especially toward the end of the
5 quarter. In some cases, we did not have the right products for the right customers.
6 We were also not able to close other pieces of business in a timely fashion before the
7 quarter end.

8 Everyone around this table agrees that better execution is required for this
9 unforgiving market, where carriers are looking to maintain leaner inventories.

10 78. On May 1, 2008, the Company confirmed the results it announced on April 14, 2008,
11 and issued a press release entitled "Novatel Wireless Reports First Quarter 2008 Results," which
12 stated in part:

13 Novatel Wireless, Inc., a leading provider of wireless broadband access
14 solutions, today reported financial results for the first quarter ended March 31, 2008.
15 Revenues for the first quarter of 2008 were \$91.3 million compared to \$109.8 million
16 in the prior year period. Net income on a generally accepted accounting principles
17 (GAAP) basis was \$4.4 million or \$0.14 per diluted share, compared to GAAP net
18 income of \$10.1 million or \$0.34 per diluted share in the prior year period. GAAP
19 net income includes \$1.2 million in stock-based compensation expenses, net of
20 income tax. Excluding these charges, non-GAAP net income was \$5.6 million or
21 \$0.17 per diluted share, compared to non-GAAP net income of \$12.1 million or
22 \$0.40 per diluted share for the prior year period.

23 79. On May 13, 2008, the Company filed a Form 12b-25 with the SEC for an extension
24 of time to file its Form 10-Q. The Form 12b-25 disclosed that Novatel could not file its Form 10-Q
25 for the quarter because the Company and its Audit Committee undertook an enhanced review of the
26 accounting for a specific customer contract. The Company also claimed that the review would not
27 impact Novatel's financial results for the quarter:

28 Novatel Wireless, Inc. (the "Company") was unable to finalize preparation of
its financial statements in sufficient time to file its Quarterly Report on Form 10-Q
for the period ended March 31, 2008 (the "Form 10-Q") by the prescribed due date
without unreasonable effort and expense. The Company and its Audit Committee
undertook an enhanced review of the accounting for a specific customer contract,
which review was substantially completed today. As a result of such review, the
Company and its Audit Committee do not expect any change to the accounting under
that contract, or to any previously reported financial statements or earnings disclosed
in the Company's Current Report on Form 8-K filed on May 1, 2008. However, the
Company has filed this Form 12b-25 for an extension to finalize its Form 10-Q, and
expects to file its Form 10-Q on or before May 19, 2008, the fifth calendar day
following its prescribed due date.

* * *

1 The Company expects to report that its net income for the quarter ended
2 March 31, 2008 was \$4.4 million, or \$0.14 per diluted share, compared to net income
3 of \$10.1 million, or \$0.34 per diluted share, for the quarter ended March 31, 2007.
4 The decrease in net income was primarily due to a decrease in revenue from \$109.8
5 million for the quarter ended March 31, 2007 to \$91.3 million for the quarter ended
6 March 31, 2008.

7 80. As alleged in detail in ¶¶11-39, the statements alleged in ¶¶76-78 were each
8 materially false and/or misleading when made because:

9 (a) Novatel's financial results concerning revenues and earnings, reported in press
10 releases, SEC filings and conference calls, were materially false and misleading throughout fiscal
11 quarter ended March 31, 2008 for the following reasons:

12 (i) Novatel failed to disclose that the Company was prematurely shipping
13 product to meet or exceed its quarterly and year-end forecasts; and

14 (ii) Novatel failed to disclose that the Company was recognizing revenue
15 in violation of its own revenue cut-off procedures and GAAP, thus rendering the Company's
16 publicly reported financial results materially false. Specifically, the Company has admitted that \$3.4
17 million in revenue had been improperly recognized in violation of revenue cutoff procedures.

18 81. On August 19, 2008, the Company shocked the market again by announcing that it
19 had broadened its accounting review and determined to move at least \$3.4 million in revenue out of
20 1Q08:

21 Review Update

22 As previously announced, the Audit Committee of the Company's board of
23 directors is conducting an expanded review into the Company's revenue cut-off
24 procedures, internal control and accounting related to certain customer contracts.
25 During the course of the review to date, six transactions have undergone further
26 accounting review, principally as to whether these shipments were recognized as
27 revenue in the appropriate quarter. These shipments involved aggregate revenues of
28 \$9.1 million and pre-tax income of \$1.1 million. As discussed above, the review has
29 resulted in a preliminary determination to move approximately \$3.4 million of
30 revenues from the first quarter to the second quarter of 2008.

31 As previously noted, the accounting review is ongoing and may identify other
32 issues. The Audit Committee review may, among other things, result in additional
33 revenue moving between quarters or years. To date, no determination has been made
34 as to whether a restatement of our 2007 audited financial statements will be required.
35 Upon completion of the Audit Committee review, a decision will be made as to
36 whether a restatement is required. Following the completion of this review, we will
37 finalize our financial statements for the first and second quarters. The fees and

1 expenses billed through June 30, 2008 by outside professionals in connection with
2 the review are approximately \$2.6 million, on a pre-tax basis.

3 “We are continuing to work closely with our independent auditors,” said
4 Kenneth Leddon, chief financial officer for Novatel Wireless. “The Audit
5 Committee review is primarily focused on the timing of certain revenue and related
6 income and could result in revenue and income moving from one quarter or year to
7 another. Although this process has taken us longer and is more expensive than we
8 initially expected, it is important to commit the time and resources required to ensure
9 a thorough and comprehensive review and implement appropriate remedial
10 measures.”

11 82. On August 19, 2008, on the Company’s earnings conference call, defendants made
12 the following statements:

13 Anthony Stoss – Craig-Hallum Capital – Analyst

14 Also, Peter, can you talk about what kind of controls you are putting in place
15 on the accounting side? Are we beefing up staff? Were we understaffed? Help us
16 understand why we are so off kilt on Q1 and Q2, and what kind of assurances
17 investors might have for Q3, Q4 or whatever that something is not going to pop-up
18 again?

19 [Leparulo:]

20 Sure. Like we said, these involve principally revenue cut-off procedures
21 relating to the timing of revenue. We have not seen any significant issue about the
22 validity of any revenue.

23 So because they involve revenue cut-off procedures, we are putting in place
24 really controls at the end of the quarter to make sure that the items related to
25 deliveries at the end of a quarter tick and tie.

26 They get fairly technical in terms of what the actual controls will be. But
27 about suffice it to say that there has not been any control that has been recommended
28 by any outside adviser that we do not intend to implement, if we haven’t already, in
the next several months.

83. As a result of those disclosures, Novatel’s stock price dropped from \$8.40 to \$6.29 in
one day. This decrease in Novatel’s stock price was a result of the artificial inflation caused by
defendants’ misleading statements coming out of the stock price.

84. Finally, on November 10, 2008, Novatel issued its delayed Form 10-Qs for the
quarters ended March 31, 2008 and June 30, 2008. As a result of the Company’s accounting review,
Novatel disclosed that the revenues for the quarter ended March 31, 2008 were misstated by \$3.4
million due to improper revenue cutoff procedures and accounting irregularities relating to certain
customer contracts. The Form 10-Qs also indicate that there were several control deficiencies in the

1 Company's internal control over financial reporting that in the aggregate constituted a material
2 weakness during the Class Period. For instance, the Form 10-Qs stated:

3 1. The Company's policies and procedures did not provide sufficient
4 detail regarding revenue recognition requirements related to cutoff periods across
5 time zones, continuing performance obligations and shipping terms for such
6 transactions resulting from a design deficiency in our internal control.

7 2. The Company did not have effective processes in place to ensure that
8 all relevant contractual and sales information was communicated in a timely manner
9 among the sales, operations and accounting organizations for non-standard and
10 modified sales transactions resulting from a design and operating deficiency in our
11 internal control.

12 3. The Company did not provide adequate training for certain personnel
13 regarding the Company's revenue recognition cutoff policies and procedures to
14 ensure that revenues from these transactions were recognized in the proper period
15 resulting from an operating deficiency in our internal control.

16 85. After this disclosure, Novatel's stock slid below \$5 per share, trading as low as \$3.90
17 per share by November 17, 2008, a 27% decline from its November 10, 2007 open of \$15.33 per
18 share.

19 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

20 86. During the Class Period, the defendants had actual knowledge of the misleading
21 nature of the statements they made or acted in reckless disregard of the true information known to
22 them at the time. In so doing, the defendants participated in a scheme to defraud and committed
23 acts, practices and participated in a course of business that operated as a fraud or deceit on
24 purchasers of Novatel securities during the Class Period. The fraudulent scheme: (a) deceived the
25 investing public regarding Novatel's financial statements, operations and management, internal
26 controls and the value of the Company's securities; (b) enabled the defendants to sell almost \$29
27 million worth of their Novatel stock at artificially inflated prices; and (c) caused Plaintiff and other
28 Class members to purchase Novatel stock at artificially inflated prices, causing them damage.

29 **NOVATEL MATERIALLY FALSE AND MISLEADING FINANCIAL STATEMENTS**

30 87. To overstate Novatel's revenues and EPS during the Class Period, defendants caused
31 Novatel to employ several improper accounting schemes, in violation of GAAP and SEC guidance,
32 including the improper and premature recognition of revenue where:

1 (a) All or portions of the product in certain sales transactions had not been
2 delivered or formally accepted in the quarter revenue was recognized; and

3 (b) title and the risks of ownership had not yet transferred to the customer.

4 88. These accounting shenanigans resulted in the material overstatement of Novatel's
5 revenues in its financial statements filed with the SEC on Forms 10-Q for the first and second
6 quarters of fiscal 2008. Ultimately, when Novatel's various improper accounting schemes reflected
7 in these financial statements came to light, the Company was forced to admit that the revenues for
8 the quarter ended March 31, 2008 were misstated by \$3.4 million due to improper revenue cutoff
9 procedures and accounting irregularities relating to certain customer contracts, which overstated EPS
10 by \$0.01 (7.1%).

11 89. GAAP are those principles recognized by the accounting profession as the
12 conventions, rules, and procedures necessary to define accepted accounting practice at a particular
13 time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the
14 SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate,
15 despite footnotes and other disclosure. Regulation S-X requires that interim financial statements
16 must also comply with GAAP, with the exception that interim financial statements need not include
17 disclosure that would be duplicative of disclosures accompanying annual disclosures, per 17 C.F.R.
18 §210.10-01(a).

19 90. The original representations that Novatel's financial statements were properly stated
20 and a fair representation of Novatel's financial condition were false and misleading, as the financial
21 information was neither in conformity with GAAP, nor was the financial information a "fair
22 representation" of Novatel's financial condition.

23 91. The overstatement of revenue is not disputed. On August 19, 2008, defendants ability
24 to hide their ongoing accounting fraud finally came to an end, and Novatel announced that as a result
25 of their improper accounting practices, Novatel was forced to retroactively adjust its reported or
26 previously announced financial statements for the quarter ended March 31, 2008. Defendants
27 admitted that Novatel made improper accounting entries to the Company's books and engaged in
28

1 improper accounting schemes to prematurely recognize revenue totaling \$3.4 million for the quarter
2 ended March 31, 2008, representing 4% of the \$87.9 million in adjusted revenues during this period.

3 **Novatel's Revenue Adjustments Establish Scienter**

4 92. As a result of employing the improper accounting practices as alleged herein
5 throughout the Class Period, Novatel was ultimately forced to restate its previously released
6 financial statements for the quarter ended March 31, 2008 to comply with GAAP and SEC guidance.
7 This adjustment was material and decreased both revenues by 4% in the first quarter of 2008 and
8 EPS by \$0.01 (7.1%).

9 93. The fact that Novatel adjusted its previous financial statements is an admission that:
10 (i) the financial results originally issued during the Class Period and its public statements regarding
11 those results were materially false and misleading; and (ii) the financial statements reported during
12 the Class Period were incorrect based on information available to the defendants at the time the
13 results were originally reported.

14 94. The adjustment at issue was not due to simple mathematical error or honest
15 misapplication of an accounting standard or oversight. It was due to misuse of the facts. As alleged
16 herein, Novatel knew that revenues were being recorded prematurely and without support. Despite
17 this knowledge, Novatel refused to make the required adjustments to correct the financial statements
18 because they would have decreased its net revenues, reduced earnings per share and adversely
19 affected the stock price.

20 95. Further, the improper accounting corrected by this adjustment did not occur as a
21 result of good faith differences in accounting judgments, or interpretations of complicated, vague, or
22 arcane accounting rules. The accounting gimmicks used by Novatel are as old, simple and
23 fundamental as they come – namely, improper revenue recognition by failing to meet the
24 fundamental criteria of revenue recognition, such as delivery of the goods and the ability to collect
25 payment from customers.

26 96. Moreover, it is more than sheer coincidence that the adjustment had the effect of
27 inflating, not reducing, revenues, and to reducing the Company's earnings per share.

28

1 **All or Portions of Products Bundled in Sales Transactions Had Not Been Delivered or**
2 **Performed in the Quarter Revenue Was Recognized**

3 97. Novatel has admitted it improperly and prematurely recognized at least \$3.4 million
4 of revenue when all or portions of the products “sold” to certain customers had not yet been provided
5 or accepted, but rather had only been promised to be provided in the future at the time revenue was
6 originally recognized. Despite the fact that these portions of sales agreements would not be provided
7 or accepted until some future date, if at all, Novatel improperly recognized all the revenue up front
8 rather than properly deferring portions of the sale until the products or services were actually
9 delivered or accepted.

10 98. By improperly recognizing this revenue, Novatel failed to comply with the most basic
11 accounting rules governing revenue recognition, including Securities and Exchange Commission
12 Staff Accounting Bulletin (“SAB”) 104, SEC Codification of Staff Accounting Bulletins, Topic 13;
13 Revenue Recognition, as amended, and SAB 101, Revenue Recognition in Financial Statements.
14 SAB 104 and the other SEC pronouncements concisely and clearly state that revenue is realized or
15 realizable and earned only if and when all of the following criteria are met:

- 16 (a) “Persuasive evidence of an arrangement exists,” with the term “arrangement”
17 meaning the final understanding between the parties as to the specific nature
18 and terms of the agreed-upon transaction;
- 19 (b) “Delivery has occurred or services have been rendered”;
- 20 (c) “The seller’s price to the buyer is fixed or determinable”; and
- 21 (d) “Collectibility is reasonably assured.”

22 99. In addition, Novatel violated the overarching accounting principle that revenues and
23 gains should not be recognized in financial statements until they are both earned and realizable
24 (FASB Statement of Concepts (“CON”) No. 5, Recognition and Measurement in Financial
25 Statements of Business Enterprises):

- 26 (a) “Revenues and gains generally are not recognized until realized or realizable.
27 Revenues and gains are realized when products (goods or services),
28 merchandise, or other assets are exchanged for cash or claims to cash.
Revenues and gains are realizable when related assets received or held are
readily convertible to known amounts of cash or claims to cash [CON 5
83a].”

1 (b) “Revenues are not recognized until earned. An entity’s revenue-earning
2 activities involve delivering or producing goods, rendering services, or other
3 activities that constitute its ongoing major or central operations, and revenues
4 are considered to have been earned when the entity has substantially
5 accomplished what it must do to be entitled to the benefits represented by the
6 revenues [CON 5, 83b].”

7 (c) “The two conditions (being realized or realizable and being earned) are
8 usually met by the time product or merchandise is delivered or services are
9 rendered to customers [CON 5, 84a].”

10 100. Defendants intentionally ignored these long-standing accounting rules and, in doing
11 so, improperly recognized at least \$3.4 million in revenue in the first quarter of 2008.

12 **Novatel Improperly Recognized Revenue Before Title and Ownership of Products Passed**
13 **to Customers**

14 101. Novatel improperly tried to squeeze in revenues at the end of each quarter by
15 prematurely shipping product to customers who had not yet requested delivery or requested/received
16 delivery after quarter end. In doing so, Novatel violated the principle that revenues and gains should
17 not be recognized until they are both earned and realizable (FASB CON 5, 83).

18 102. By not disclosing this improper shipping practice, Novatel also violated SEC Staff
19 Accounting Bulletin No. 101, *Revenue Recognition* (SAB 101), which notes the following MD&A
20 disclosure requirement analogous to premature shipments of product at the end of a reporting period:

21 Shipments of product at the end of a reporting period that significantly reduce
22 customer backlog and that reasonably might be expected to result in lower shipments
23 and revenue in the next period.

24 **Novatel’s Financial Statements Violated Fundamental Accounting Concepts of GAAP and**
25 **SEC Guidance**

26 103. In addition to the above-referenced departures from GAAP and SEC guidance, as a
27 result of the defendants’ accounting improprieties, Novatel presented its financial results in a manner
28 that violated GAAP and SEC guidance, including the following fundamental accounting principles
and SEC guidance:

(a) The principle that financial reporting should provide information that is
useful to present and potential investors and creditors and other users of the
financial reports in making rational investment, credit, and similar decisions
(FASB Statement of Concepts No. 1, 34);

(b) The principle that financial reporting should provide information about the
economic resources of an enterprise, the claims to those resources, and the

1 effects of transactions, events, and circumstances that change resources and
2 claims to those resources (FASB Statement of Concepts No. 1, 40);

3 (c) The principle that financial reporting should provide information about an
4 enterprise's financial performance during a period. Investors and creditors
5 often use information about the past to help in assessing the prospects of an
6 enterprise. Thus, although investment and credit decisions reflect investors'
7 expectations about future enterprise performance, those expectations are
8 commonly based, at least partly, on evaluations of past enterprise
9 performance (FASB Statement of Concepts No. 1, 42);

10 (d) The principle that financial reporting should provide information about how
11 management of an enterprise has discharged its stewardship responsibility to
12 owners (stockholders) for the use of enterprise resources entrusted to it.
13 (FASB Statement of Concepts No. 1, 50);

14 (e) The principle that financial reporting should be reliable in that it represents
15 what it purports to represent. That information should be reliable as well as
16 relevant is a notion that is central to accounting (FASB Statement of
17 Concepts No. 2, 58-59);

18 (f) The principle of completeness, which means that nothing is left out of the
19 information that may be necessary to insure that it validly represents
20 underlying events and conditions (FASB Statement of Concepts No. 2, 79);

21 (g) The principle that revenues and gains should not be recognized until they are
22 both earned and realizable (FASB Statement of Concepts No. 5, 83);

23 (h) The principle that if collectibility of assets received for products, services, or
24 other assets is doubtful, revenues may be recognized on the basis of the cash
25 received (FASB Statement of Concepts No. 5, 84); and

26 (i) The principle that conservatism be used as a prudent reaction to uncertainty
27 to try to ensure that uncertainties and risks inherent in business situations are
28 adequately considered (FASB Statement of Concepts No. 2, 95).

29 **NOVATEL LACKED ADEQUATE INTERNAL CONTROLS**

30 104. Defendants were able to scheme Novatel shareholders and inflate Novatel stock
31 prices through accounting improprieties which resulted in materially misleading financial statements
32 by means of circumventing and failing to establish and maintain adequate internal accounting
33 controls. In its delayed Form 10-Qs for the quarters ended March 31, 2008 and June 30, 2008, the
34 Company admitted the following material weaknesses:

35 1. The Company's policies and procedures did not provide sufficient
36 detail regarding revenue recognition requirements related to cutoff periods across
37 time zones, continuing performance obligations and shipping terms for such
38 transactions resulting from a design deficiency in our internal control.

2. The Company did not have effective processes in place to ensure that
all relevant contractual and sales information was communicated in a timely manner

1 among the sales, operations and accounting organizations for non-standard and
2 modified sales transactions resulting from a design and operating deficiency in our
internal control.

3 3. The Company did not provide adequate training for certain personnel
4 regarding the Company's revenue recognition cutoff policies and procedures to
5 ensure that revenues from these transactions were recognized in the proper period
6 resulting from an operating deficiency in our internal control.

7 105. Section 13(b)(2) of the 1934 Act states, in pertinent part, that every reporting
8 company must:

9 (A) make and keep books, records, and accounts, which, in reasonable detail,
10 accurately and fairly reflect the transactions and dispositions of the assets of the
11 issuer;

12 (B) devise and maintain a system of internal accounting controls sufficient to
13 provide reasonable assurances that –

14 * * *

15 (i) transactions are recorded as necessary . . . to permit
16 preparation of financial statements in conformity with [GAAP].

17 15 U.S.C. §78m(b)(2)(A)-(B).

18 106. These provisions require an issuer to employ and supervise reliable personnel, to
19 maintain reasonable assurances that transactions are executed as authorized, to properly record
20 transactions on an issuer's books and, at reasonable intervals, to compare accounting records with
21 physical assets.

22 107. Defendants caused Novatel to violate §13(b)(2)(A) of the 1934 Act by failing to
23 maintain accurate records concerning its revenue recognition requirements related to cutoff periods
24 across time zones, continuing performance obligations and shipping terms for certain transactions.

25 108. In addition, defendants caused Novatel to violate §13(b)(2)(B) of the 1934 Act by
26 failing to implement procedures reasonably designed to prevent accounting irregularities. Novatel
27 failed to ensure that proper review and checks were in place to ensure that it was recording and
28 properly reporting revenues. In fact, despite knowing the true dismal state of the Company's lack of
adequate internal controls, defendants regularly issued quarterly financial statements throughout the
Class Period without ever disclosing the deficiencies in Novatel's internal accounting controls and
falsely asserted that its financial statements complied with GAAP.

1 of each quarter.” The Company would frequently ship large amounts of product “up to 4 weeks
2 early” so they could recognize the revenue up front in the current quarter and meet or exceed Wall
3 Street expectations.

4 113. Defendants knew of, or recklessly disregarded, these practices. Novatel’s revenue
5 recognition practices were of critical importance to Novatel’s financial operations such that the
6 defendants would undoubtedly have focused on this aspect of the Company’s operations. Indeed,
7 they were required to investigate and establish procedures directly addressing this type of activity.
8 By certifying that they had done so when, in fact, they had not, defendants acted recklessly, at a
9 minimum.

10 114. Defendants also knew of the practice of shipping product early through their
11 proximity to Novatel’s operations. The Company was small, consisting of approximately 300
12 employees throughout the entire Class Period. The vast majority of these employees were on sales
13 and research and development. According to the Company’s 2007 Form 10-K, of the 301 employees
14 as of December 31, 2007, only 44 of the Company’s employees worked in “operations,” including
15 the CEO and CFO. Thus, these defendants knew of the fraudulent acts alleged herein.

16 115. The defendants were, at best, acting in reckless disregard for the truth by ignoring
17 numerous red flags and warnings concerning the improprieties alleged. Wireless modem suppliers
18 such as Novatel must maintain sophisticated internal controls to monitor vendor shipments and
19 revenue recognition requirements related to cutoff periods. During the Class Period, defendant
20 Weinert told investors that Novatel had instituted such controls and that they had personally
21 supervised their operation. Novatel subsequently admitted that these defendants’ statements (and
22 certifications) were false when made. Given the significance of the Company’s revenue recognition
23 practices and the substantial internal control deficiencies the Company had during the Class Period,
24 defendants were acting with extreme recklessness in assuring investors that Novatel’s controls were
25 effective and its financial statements were prepared in compliance with GAAP and fairly presented
26 the financial condition of the Company.

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28

1 **Red Flags Concerning Defendants' Insider Sales**

2 116. Defendants were further motivated to engage in this course of conduct in order to sell
 3 1,258,466 shares of their personally held Novatel stock and thereby reap almost \$29 million in
 4 insider trading proceeds.

5 **Novatel Wireless
 Insider Sales:
 2/27/07 – 8/19/08**

Last Name	Date	Shares	Price	Proceeds	End of CP Unrestricted Stock		End of CP Vested In-the-Money Options + Unrestricted Stock	
					Holdings	% Sold	Stock	% Sold
Hadley	3/1/2007	15,000	\$12.94	\$194,100				
	3/7/2007	30,214	\$14.00	\$422,996				
	3/20/2007	73,334	\$15.00	\$1,100,010				
	5/18/2007	14,650	\$20.90	\$306,185				
	6/1/2007	83,099	\$23.51	\$1,953,657				
	6/1/2007	8,000	\$23.51	\$188,080				
	6/1/2007	6,901	\$23.51	\$162,243				
	7/2/2007	2,667	\$26.05	\$69,475				
	8/1/2007	2,666	\$20.25	\$53,987				
	9/4/2007	2,667	\$22.75	\$60,674				
	10/1/2007	2,667	\$23.10	\$61,608				
	11/1/2007	2,666	\$25.26	\$67,343				
	12/3/2007	2,667	\$15.50	\$41,339				
		247,198		\$4,681,696	3,149	98.74%		
Leparulo	5/18/2007	35,658	\$20.99	\$748,461				
	5/29/2007	28,666	\$22.04	\$631,799				
	5/29/2007	27,310	\$22.04	\$601,912				
	5/29/2007	24,024	\$22.04	\$529,489				
	5/30/2007	20,000	\$22.04	\$440,800				
	7/2/2007	137,699	\$25.99	\$3,578,797				
	7/3/2007	100,000	\$25.90	\$2,590,000				
	7/5/2007	100,000	\$24.09	\$2,409,000				
		473,357		\$11,530,258	43,754	91.54%	660,420	41.75%
Ratcliffe	5/18/2007	17,350	\$21.01	\$364,524				
	7/2/2007	25,920	\$26.07	\$675,734				
	7/2/2007	19,080	\$26.07	\$497,416				
	7/6/2007	8,016	\$24.62	\$197,354				
	7/16/2007	45,000	\$28.07	\$1,263,150				
	8/7/2007	7,000	\$22.47	\$157,290				
	9/7/2007	7,000	\$23.33	\$163,310				
	10/4/2007	7,000	\$24.80	\$173,600				
	11/6/2007	5,500	\$22.00	\$121,000				
	11/6/2007	500	\$22.50	\$11,250				
	11/6/2007	500	\$22.30	\$11,150				
	11/6/2007	300	\$22.03	\$6,609				
11/6/2007	200	\$22.09	\$4,418					
		143,366		\$3,646,804	9,160	93.99%	190,061	43.00%

Novatel Wireless
 Insider Sales:
 2/27/07 – 8/19/08

Last Name	Date	Shares	Price	Proceeds	End of CP		End of CP	
					Unrestricted Stock Holdings	% Sold	Vested In-the- Money Options + Unrestricted Stock	% Sold
Souissi	2/23/2007	15,000	\$13.00	\$195,000				
	3/1/2007	15,000	\$13.00	\$195,000				
	3/15/2007	15,000	\$14.65	\$219,750				
	3/15/2007	6,947	\$14.65	\$101,774				
	4/2/2007	15,000	\$15.99	\$239,850				
	5/1/2007	7,963	\$18.20	\$144,927				
	5/1/2007	7,037	\$18.20	\$128,073				
	5/18/2007	78,667	\$20.93	\$1,646,500				
	5/18/2007	16,000	\$20.93	\$334,880				
	5/18/2007	15,991	\$20.93	\$334,692				
	6/5/2007	8,099	\$24.00	\$194,376				
	6/5/2007	6,901	\$24.00	\$165,624				
	6/5/2007	1,333	\$24.00	\$31,992				
	6/5/2007	1,000	\$24.00	\$24,000				
	7/2/2007	15,000	\$25.87	\$388,050				
	8/17/2007	1,015	\$21.35	\$21,670				
	9/5/2007	5,089	\$24.00	\$122,136				
	9/6/2007	9,911	\$24.00	\$237,864				
	10/3/2007	12,677	\$24.00	\$304,248				
	10/3/2007	745	\$24.08	\$17,940				
10/3/2007	700	\$24.06	\$16,842					
10/3/2007	478	\$24.01	\$11,477					
10/3/2007	100	\$24.03	\$2,403					
10/3/2007	100	\$24.04	\$2,404					
10/3/2007	100	\$24.05	\$2,405					
10/3/2007	100	\$24.07	\$2,407					
11/1/2007	15,000	\$25.35	\$380,250					
2/20/2008	1,607	\$13.90	\$22,337					
		272,560		\$5,488,870	3,264	98.82%	62,597	81.32%
Weinert	6/1/2007	5,189	\$23.56	\$122,253				
	6/1/2007	4,000	\$23.56	\$94,240				
	6/1/2007	3,000	\$23.56	\$70,680				
	6/1/2007	2,500	\$23.56	\$58,900				
	6/1/2007	1,500	\$23.56	\$35,340				
	6/1/2007	500	\$23.56	\$11,780				
	6/1/2007	100	\$23.56	\$2,356				
	6/5/2007	3,500	\$24.00	\$84,000				
	7/2/2007	4,000	\$25.85	\$103,400				
	7/2/2007	3,500	\$25.85	\$90,475				
	7/2/2007	3,000	\$25.85	\$77,550				
	7/2/2007	2,500	\$25.85	\$64,625				
	7/2/2007	2,000	\$25.85	\$51,700				
	7/2/2007	1,500	\$25.85	\$38,775				
	7/2/2007	500	\$25.85	\$12,925				
	7/2/2007	100	\$25.85	\$2,585				
7/16/2007	10,871	\$28.05	\$304,932					
7/17/2007	17,500	\$28.20	\$493,500					

1 **Novatel Wireless**
 2 **Insider Sales:**
 3 **2/27/07 – 8/19/08**

<u>Last Name</u>	<u>Date</u>	<u>Shares</u>	<u>Price</u>	<u>Proceeds</u>	<u>End of CP Unrestricted Stock Holdings</u>	<u>% Sold</u>	<u>End of CP Vested In-the- Money Options + Unrestricted Stock</u>	<u>% Sold</u>
	7/17/2007	15,500	\$28.20	\$437,100				
	7/17/2007	12,500	\$28.20	\$352,500				
	7/17/2007	9,129	\$28.20	\$257,438				
	7/17/2007	9,096	\$28.20	\$256,507				
	7/17/2007	7,500	\$28.20	\$211,500				
	7/17/2007	2,500	\$28.20	\$70,500				
		121,985		\$3,305,560	13,274	90.19%	192,157	38.83%
	Total:	<u>1,258,466</u>		<u>\$28,653,188</u>				

9
 10 *Plaintiff was unable to determine (from publicly available information) defendant Hadley's Class
 11 Period vested options holdings. Therefore, this information is omitted from the spreadsheet above.

12 117. Defendants' insider sales were suspicious in timing. Defendants' sales were
 13 predominantly made between May 2007 and November 2007, at prices near the Class Period high of
 14 approximately \$29 per share. Not surprisingly, defendants Leparulo and Weinert's selling spree
 15 increased abruptly just days before the market learned in late July that Sprint would no longer be
 16 purchasing Novatel's flagship product, the EU720 USB card. Tellingly, defendants Hadley,
 17 Leparulo, Ratcliffe, Souissi and Weinert all adopted or amended their 10b5-1 trading plans –
 18 allowing them to sell more shares of stock – months before the market learned of Sprint's decision.
 19 Similarly suspicious, defendants Hadley, Ratcliffe and Souissi managed to make over 98% of their
 20 insider sales shortly before Novatel's stock tumbled from over \$25 per share on November 1, 2007
 21 to almost \$15 by November 21, 2007, a 40% decline in three weeks. As illustrated in the stock chart
 22 herein, Novatel's stock price never recovered and currently trades in the \$5 range. The
 23 suspiciousness of defendants' stock sales and their proximity to the market learning of the Sprint
 24 cancellation raises a strong inference that defendants knew of the Sprint cancellation when they sold
 25 their shares and used that information in connection with the sales.

26 118. Defendants' insider sales were also suspicious in amount. Defendants Hadley,
 27 Leparulo, Ratcliffe, Souissi and Weinert all sold over 90% of their Novatel holdings (excluding
 28

1 vested options) during the Class Period for a combined total of almost \$29 million. Including vested
 2 options, the percentages remain suspicious at between 39% and 81%.

3 119. Further, defendants' insider sales were unusual compared to their prior trading
 4 history. The following chart showing defendants' insider sales in the five years prior to the Class
 5 Period:

6 **Novatel Wireless Inc.**

Insider Sales: 12/1/03 - 2/27/07

Last Name	Date	Shares	Price	Proceeds
Hadley	2/17/2004	42,300	\$16.41	\$694,143
	8/17/2004	44,500	\$18.55	\$825,475
	8/18/2004	5,500	\$18.31	\$100,705
	9/3/2004	4,200	\$21.05	\$88,410
	9/13/2004	4,200	\$23.09	\$96,978
	9/28/2004	4,200	\$23.61	\$99,162
	10/13/2004	3,250	\$23.27	\$75,628
	10/22/2004	3,456	\$25.17	\$86,988
	10/26/2004	3,250	\$24.44	\$79,430
	10/28/2004	10,000	\$26.01	\$260,100
	11/15/2004	3,339	\$20.00	\$66,780
	12/1/2004	6,411	\$21.33	\$136,747
	12/13/2004	180	\$22.48	\$4,046
	1/12/2007	15,000	\$11.05	\$165,750
	2/1/2007	15,000	\$11.61	\$174,150
2/5/2007	50,000	\$12.50	\$625,000	
		214,786		\$3,579,491
Leparulo	2/17/2004	127,300	\$16.41	\$2,088,993
	8/18/2004	46,579	\$18.78	\$874,754
	8/19/2004	30,000	\$20.17	\$605,100
	8/20/2004	12,500	\$20.31	\$253,875
	8/23/2004	17,500	\$20.46	\$358,050
	8/24/2004	10,000	\$21.78	\$217,800
	9/3/2004	15,000	\$20.68	\$310,200
	9/13/2004	19,000	\$23.02	\$437,380
	9/28/2004	19,000	\$23.26	\$441,940
	10/13/2004	19,000	\$23.20	\$440,800
	10/22/2004	20,104	\$25.07	\$504,007
	10/22/2004	6,500	\$25.07	\$162,955
	10/27/2004	112,500	\$25.08	\$2,821,500
	11/15/2004	19,000	\$19.99	\$379,810
	11/15/2004	4,958	\$19.99	\$99,110
12/1/2004	20,000	\$21.33	\$426,600	
12/13/2004	20,000	\$22.28	\$445,600	
12/15/2004	32,873	\$22.42	\$737,013	
1/12/2005	15,000	\$15.41	\$231,150	
		566,814		\$11,836,637

28

1 **Novatel Wireless Inc.**

2 Insider Sales: 12/1/03 - 2/27/07

3	Last Name	Date	Shares	Price	Proceeds
4	Souissi	2/20/2004	29,654	\$17.95	\$532,289
5		8/16/2004	45,000	\$18.16	\$817,200
6		9/13/2004	15,642	\$23.08	\$361,017
7		10/13/2004	8,142	\$23.16	\$188,569
8		10/15/2004	7,500	\$22.41	\$168,075
9		11/12/2004	2,842	\$20.72	\$58,886
10		11/15/2004	2,800	\$20.56	\$57,568
11		12/13/2004	5,642	\$22.36	\$126,155
12		1/13/2005	2,821	\$15.03	\$42,400
13		1/14/2005	2,821	\$14.16	\$39,945
14		2/14/2005	5,642	\$13.39	\$75,546
15		6/13/2005	22,568	\$13.50	\$304,668
16		7/14/2005	5,642	\$13.60	\$76,731
17			156,716		\$2,849,050
18		Total:	<u>938,316</u>		<u>\$18,265,178</u>

12 120. During the five years prior to the Class Period, defendants Hadley, Leparulo,
13 Ratcliffe, Souissi and Weinert sold only 938,316 shares of their Novatel stock, resulting in proceeds
14 of \$18.3 million. During a nine month span of the Class Period, however, these same defendants
15 engaged in a selling spree of 1,258,466 shares of their Novatel stock for proceeds of almost \$29
16 million.

17 121. Defendants had actual knowledge of Sprint's decision when they sold their stock.
18 According to a July 20, 2007 Craig-Hallum analyst report, Novatel had known "for some time" that
19 its largest and most important customer would transition away from Novatel's flagship 720 USB
20 modem. And while defendants tried to characterize Sprint's decision as a mere "transition," Novatel
21 did not and would not have its next generation modem ready for shipment until months later. Given
22 the importance of Sprint to Novatel (it accounted for 38% of Novatel's revenue in 2006) and the
23 importance of the flagship 720 USB modem to Novatel's operations, defendants undoubtedly knew
24 of the Sprint cancellation.

25 122. Defendants also knew that Novatel was losing market share throughout the Class
26 Period. Indeed, more than half of Novatel's sales were to the two largest wireless carriers in the
27 United States, Sprint and Verizon. Because these companies were critical to Novatel's survival,
28

1 defendants undoubtedly knew about their choices of product, especially because the market in which
2 Novatel operated was so competitive. Indeed, Novatel's largest customer, Sprint, cancelled
3 Novatel's flagship product in July 2007 and selected other vendors to supply modems for its new
4 WiMAX technology. Because of the importance of this customer to Novatel, defendants knew that
5 these decisions cost it market share. Defendants also knew that the market was transitioning to the
6 retail level as reflected in the reduction in data rates by Sprint, Vodafone, and ultimately Verizon,
7 and that this shift would and did cost Novatel market share. Defendants themselves admitted that the
8 reduction in rates represented a shift to a part of the market that Novatel had not historically focused
9 and therefore that Novatel could not effectively compete with low-cost suppliers. As a result of this
10 shift, defendants knew that Novatel could not serve a major part of the market that its customers
11 were targeting to serve and that it was therefore losing market share.

12 **LOSS CAUSATION/ECONOMIC LOSS**

13 123. The markets for Novatel common stock were open, well-developed and efficient at all
14 relevant times. During the Class Period, as detailed herein, defendants made false and misleading
15 statements regarding the Company's financial performance and demand for the Company's products,
16 and engaged in a scheme to deceive the market. This artificially inflated Novatel's stock price and
17 operated as a fraud or deceit on the Class. Later, when defendants' prior misrepresentations and
18 fraudulent conduct became apparent to the market, Novatel's stock price fell precipitously, as the
19 prior artificial inflation came out of the stock price. Plaintiff and other members of the Class
20 purchased or otherwise acquired Novatel's common stock relying upon the integrity of the market
21 price of Novatel's common stock and market information relating to Novatel. As a result of their
22 purchases of Novatel securities during the Class Period, plaintiff and other members of the Class
23 suffered economic loss, *i.e.*, damages, under the federal securities laws.

24 124. At all relevant times, the material misrepresentations and omissions particularized in
25 this Consolidated Complaint directly or proximately caused or were a substantial contributing cause
26 of the damages sustained by plaintiff and other members of the Class. As described herein, during
27 the Class Period, defendants made or caused to be made a series of materially false or misleading
28 statements about Novatel's business, prospects and operations. These material misstatements and

1 omissions had the cause and effect of creating in the market an unrealistically positive assessment of
2 Novatel and its business, prospects and operations, thus causing the Company's common stock to be
3 overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading
4 statements during the Class Period resulted in plaintiff and other members of the Class purchasing
5 the Company's common stock at artificially inflated prices, thus causing the damages complained of
6 herein, upon defendants' revelations of the truth and resulting collapse of Novatel's stock price.

7 125. On July 20, 2007, the market learned that Sprint would no longer be purchasing
8 Novatel's flagship product, the 720 USB modem. As this information (and the fact that Novatel
9 could not immediately provide an adequate replacement product) was digested in the market,
10 Novatel's stock price plummeted from \$28.31 on July 20, 2007 to \$20.83 by August 1, 2007, a 26%
11 decline. This immediate decrease in Novatel's stock price was a result of the artificial inflation
12 caused by defendants' misleading statements concerning their well-positioned product mix and
13 strong market share coming out of the stock price. This partial revelation was a proximate cause of
14 plaintiff's losses.

15 126. On February 21, 2008, Novatel's stock price dropped from approximately \$14 to as
16 low as \$10.20 after the Company announced their disappointing 1Q08 outlook of \$110 million in
17 revenues and attributed that drop to excess inventory at Novatel's customers and disclosing that the
18 market had shifted to where Novatel had not historically focused. These partial revelations
19 regarding the truth about Novatel's product mix and demand for Novatel's products caused
20 Novatel's stock to drop 23% from February 20, 2008 to February 21, 2008.

21 127. On April 14, 2008, Novatel guided the market even lower by adjusting their 1Q08
22 guidance from \$110 million to \$91 million and disclosing that demand continued to be weak for its
23 enterprise modem and a loss to the competition at a key customer. As a direct result of defendants'
24 partial revelation regarding the truth about Novatel's previous representations regarding the demand
25 for Novatel's products, Novatel's stock price plummeted over 22% on April 15, 2008, on unusually
26 high volume, falling from a closing price of \$10.01 on April 14, 2008 to close at \$7.76 on April 15,
27 2008.

28

1 128. On August 19, 2008, defendants admitted that the Audit Committee review was still
2 ongoing, that it involved at least six transactions representing \$9.1 million in revenue, that it
3 revolved around improper revenue recognition, and that \$3.4 million would be moved out of 1Q08
4 because it violated revenue cut-off procedures. As a result of this revelation that Novatel inflated its
5 financial results by prematurely recognizing revenue, Novatel's stock price dropped from \$8.40 to
6 \$6.29 the next day, a 25% decline.

7 129. On November 10, 2008, Novatel issued its delayed Form 10-Qs for the quarters ended
8 March 31, 2008 and June 30, 2008. As a result of the Company's accounting review, Novatel
9 confirmed that the revenues for the quarter ended March 31, 2008 were misstated by \$3.4 million
10 due to improper revenue cutoff procedures and accounting irregularities relating to certain customer
11 contracts. The Form 10-Qs also disclosed that there were several control deficiencies in the
12 Company's internal control over financial reporting that in the aggregate constituted a material
13 weakness during the Class Period. As a result of this confirmation that Novatel inflated its financial
14 results by prematurely recognizing revenue, Novatel's stock slid below \$5 per share, trading as low
15 as \$3.90 per share by November 17, 2008, a 27% decline from its November 10, 2007 open of
16 \$15.33 per share.

17 130. In sum, the significant decline in Novatel's stock price at the end of the Class Period
18 was a direct result of the nature and extent of defendants' fraud finally being revealed to investors
19 and the market. The timing and magnitude of Novatel's stock price decline negates any inference
20 that the loss suffered by plaintiff and other Class members was caused by changed market
21 conditions, macroeconomic or industry factors or Company-specific facts unrelated to the
22 defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by plaintiff and other
23 Class members was a direct result of defendants' fraudulent scheme to artificially inflate Novatel's
24 stock price and the subsequent significant decline in the value of Novatel's stock when defendants'
25 prior misrepresentations and other fraudulent conduct was revealed.

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1 **NO SAFE HARBOR**

2 131. Novatel’s verbal “Safe Harbor” warnings accompanying its oral forward-looking
3 statements (“FLS”) issued during the Class Period were ineffective to shield those statements from
4 liability.

5 132. The defendants are also liable for any false or misleading FLS pleaded because, at the
6 time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was
7 authorized and/or approved by an executive officer of Novatel who knew that the FLS was false.
8 None of the historic or present tense statements made by defendants were assumptions underlying or
9 relating to any plan, projection or statement of future economic performance, as they were not stated
10 to be such assumptions underlying or relating to any projection or statement of future economic
11 performance when made, nor were any of the projections or forecasts made by defendants expressly
12 related to or stated to be dependent on those historic or present tense statements when made. On the
13 contrary, such statements concealed critical information about Novatel’s financial performance.

14 **APPLICABILITY OF PRESUMPTION OF**
15 **RELIANCE: FRAUD ON THE MARKET**

16 133. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-
17 market doctrine in that, among other things:

18 (a) Defendants made public misrepresentations or failed to disclose material facts
19 during the Class Period;

20 (b) The omissions and misrepresentations were material;

21 (c) The Company’s stock traded in an efficient market;

22 (d) The misrepresentations alleged would tend to induce a reasonable investor to
23 misjudge the value of the Company’s stock; and

24 (e) Plaintiff and other members of the Class purchased Novatel stock between the
25 time defendants misrepresented or failed to disclose material facts and the time the true facts were
26 disclosed, without knowledge of the misrepresented or omitted facts.

27 134. At all relevant times, the market for Novatel stock was efficient for the following
28 reasons, among others:

1 (a) Since November 2000, Novatel's stock has been listed and actively traded on
2 the NASDAQ National Market, a highly efficient and automated market;

3 (b) As a regulated issuer, Novatel filed periodic public reports with the SEC; and

4 (c) Novatel regularly communicated with public investors via established market
5 communication mechanisms, including through regular disseminations of press releases on the major
6 news wire services and through other wide-ranging public disclosures, such as communications with
7 the financial press, securities analysts and other similar reporting services.

8 CLASS ACTION ALLEGATIONS

9 135. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules
10 of Civil Procedure on behalf of all persons who purchased Novatel common stock during the Class
11 Period (the "Class"). Excluded from the Class are defendants, directors and officers of Novatel and
12 their families and affiliates.

13 136. The members of the Class are so numerous that joinder of all members is
14 impracticable. The disposition of their claims in a class action will provide substantial benefits to
15 the parties and the Court. Novatel had more than 31 million shares of stock outstanding, owned by
16 thousands of persons.

17 137. There is a well-defined community of interest in the questions of law and fact
18 involved in this case. Questions of law and fact common to the members of the Class which
19 predominate over questions which may affect individual Class members include:

20 (a) Whether the 1934 Act was violated by defendants;

21 (b) Whether defendants omitted and/or misrepresented material facts;

22 (c) Whether defendants' statements omitted material facts necessary in order to
23 make the statements made, in light of the circumstances under which they were made, not
24 misleading;

25 (d) Whether defendants knew or recklessly disregarded that their statements were
26 false and misleading;

27 (e) Whether the price of Novatel stock was artificially inflated; and

28

1 (f) The extent of damage sustained by Class members and the appropriate
2 measure of damages.

3 138. Plaintiff's claims are typical of those of the Class because plaintiff and the Class
4 sustained damages from defendants' wrongful conduct.

5 139. Plaintiff will adequately protect the interests of the Class and has retained counsel
6 who are experienced in class action securities litigation. Plaintiff has no interests which conflict
7 with those of the Class.

8 140. A class action is superior to other available methods for the fair and efficient
9 adjudication of this controversy.

10 **COUNT I**

11 **For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against Leparulo and Weinert**

12 141. Plaintiff incorporates ¶¶1-140 by reference.

13 142. During the Class Period, defendants disseminated or approved the false statements
14 specified above, which they knew or recklessly disregarded were misleading in that they contained
15 misrepresentations and failed to disclose material facts necessary in order to make the statements
16 made, in light of the circumstances under which they were made, not misleading.

17 143. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

18 (a) Employed devices, schemes and artifices to defraud;

19 (b) Made untrue statements of material facts or omitted to state material facts
20 necessary in order to make the statements made, in light of the circumstances under which they were
21 made, not misleading; or

22 (c) Engaged in acts, practices, and a course of business that operated as a fraud or
23 deceit upon plaintiff and others similarly situated in connection with their purchases of Novatel
24 securities during the Class Period.

25 144. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
26 the market, they paid artificially inflated prices for Novatel securities. Plaintiff and the Class would
27 not have purchased Novatel securities at the prices they paid, or at all, if they had been aware that the
28 market prices had been artificially and falsely inflated by defendants' misleading statements.

1 paid artificially inflated prices for Novatel common stock as a result of the violations of §10(b) and
2 Rule 10b-5 alleged herein; and (2) would not have purchased Novatel common stock at the prices
3 they paid, or at all, if they had been aware that the market prices had been artificially and falsely
4 inflated by defendants' misleading statements and concealment. At the time of the purchases by
5 plaintiff and members of the Class, the fair and true value of Novatel common stock was
6 substantially less than the prices paid by them.

7 153. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and
8 the other members of the Class suffered damages in connection with their purchases of Novatel
9 securities during the Class Period.

10 **COUNT III**

11 **For Violation of §20(a) of the 1934 Act Against All Defendants**

12 154. Plaintiff incorporates ¶¶1-153 by reference.

13 155. The defendants acted as controlling persons of Novatel within the meaning of §20 of
14 the 1934 Act. By virtue of their positions and their power to control public statements about
15 Novatel, the defendants had the power and ability to control the actions of Novatel and its
16 employees. Novatel controlled the defendants and its other officers and employees. By reason of
17 such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

18 **PRAYER FOR RELIEF**

19 WHEREFORE, plaintiff prays for judgment as follows:

- 20 A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
21 B. Awarding plaintiff and the members of the Class damages and interest;
22 C. Awarding plaintiff's reasonable costs, including attorneys' fees; and
23 D. Awarding such equitable/injunctive or other relief as the Court may deem just and
24 proper.

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JURY DEMAND

Plaintiff demands a trial by jury.

DATED: January 9, 2009

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1 CERTIFICATE OF SERVICE

2 I hereby certify that on January 9, 2009, I electronically filed the foregoing with the Clerk of
3 the Court using the CM/ECF system which will send notification of such filing to the e-mail
4 addresses denoted on the attached Electronic Mail Notice List, and I hereby certify that I have
5 mailed the foregoing document or paper via the United States Postal Service to the non-CM/ECF
6 participants indicated on the attached Manual Notice List.

7 I certify under penalty of perjury under the laws of the United States of America that the
8 foregoing is true and correct. Executed on January 9, 2008.

9 s/ DOUGLAS R. BRITTON
10 DOUGLAS R. BRITTON

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Manual Notice List

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- (No manual recipients)