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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 001-35135

SEQUANS COMMUNICATIONS S.A.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

French Republic

(Jurisdiction of incorporation or organization)

19 Le Parvis

92073 Paris-La Défense, France

(Address of principal executive offices)

Georges Karam

Chairman and Chief Executive Officer

Sequans Communications S.A.

19 Le Parvis

92073 Paris-La Défense, France

Telephone: +33 1 70 72 16 00

Facsimile: +33 1 70 72 16 09

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, nominal value €0.02 per share Ordinary shares, nominal value €0.02 per share	New York Stock Exchange New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares, nominal value €0.02 per share: 34,683,839 as of December 31, 2012

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis for accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS IN THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

SEQUANS COMMUNICATIONS S.A.

FORM 20-F

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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INTRODUCTION

Unless otherwise indicated, “Sequans Communications S.A.,” “Sequans Communications,” “the Company,” “we,” “us” and “our” refer to Sequans Communications S.A. and its consolidated subsidiaries.

In this annual report, references to the “euro” or “€” are to the euro currency of the European Union and references to “U.S. dollars” or “\$” are to United States dollars.

Reference to the “the Shares” are references to Sequans Communications’ Ordinary Shares, nominal value €0.02 per share, and references to “the ADSs” are to Sequans Communications’ American Depositary Shares (each representing one Ordinary Share), which are evidenced by American Depositary Receipts (ADRs).

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our management’s beliefs and assumptions and on information currently available to our management. All statements other than present and historical facts and conditions contained in this annual report on Form 20-F, including statements regarding our future results of operations and financial positions, business strategy, plans and our objectives for future operations, are forward looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, but are not limited to, those concerning the following:

- forecasts and trends in the markets in which we compete and in which our products are sold, including statements regarding the WiMAX and LTE markets;
- our intent to expand our product platform to address the single-mode LTE market;
- our expectations regarding our expenses, sales and operations;
- our expectations regarding our operating results;
- our expectations regarding our customer concentration;
- trends and challenges in the markets in which we operate, including average selling price reductions, cyclicalities in the wireless communications industry and transitions to new process technologies;
- our ability to anticipate the future market demands and future needs of our customers;
- our ability to achieve new design wins or for design wins to result in shipments of our products at levels and in the timeframes we currently expect;
- our plans for future products and enhancements of existing products;
- anticipated features and benefits of our current and future products;
- our growth strategy elements and our growth rate;
- our ability to protect and defend our intellectual property against potential third party intellectual property infringement claims;
- general economic conditions in our domestic and international markets; and
- our future cash needs and our estimates regarding our capital requirements and our need for additional financing.

In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” as well as similar expressions. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks, uncertainties and other important factors. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. We cannot assure you that our plans, intentions or expectations will be achieved. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this annual report, including, but not limited to, those factors described in “Item 3.D—Risk Factors,” “Item 4—Information on the Company” and “Item 5—Operating and Financial Review and Prospects”. Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this annual report. Also, these forward-looking statements represent our estimates and assumptions only as of the date such forward-looking statements are made. Except as required by law, we assume no obligation to update any forward-looking statements publicly, whether as a result of new information, future events or otherwise.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables set forth our selected consolidated financial and other data. You should read the following selected consolidated financial data in conjunction with “Item 5 — Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes appearing elsewhere in this annual report. Our historical results are not necessarily indicative of results to be expected for future periods. The consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012, the consolidated statements of financial position data at December 31, 2010, 2011 and 2012, and the consolidated statements of cash flow data for the years ended December 31, 2010, 2011 and 2012 have been derived from our audited Consolidated Financial Statements included elsewhere in this annual report. The consolidated statements of operations data for the years ended December 31, 2008 and 2009, consolidated statements of financial position data at December 31, 2008 and 2009, and the consolidated statements of cash flow data for the years ended December 31, 2008 and 2009, have been derived from our audited Consolidated Financial Statements not included in this annual report.

Our financial statements included in this annual report were prepared in U.S. dollars in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

	Years ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Product revenue	\$15,777	\$ 15,564	\$64,933	\$91,742	\$ 19,600
Other revenue	6,967	3,992	3,611	1,972	2,654
Total revenue	<u>22,744</u>	<u>19,556</u>	<u>68,544</u>	<u>93,714</u>	<u>22,254</u>
Cost of revenue ⁽¹⁾ :					
Cost of product revenue	7,370	7,863	33,272	46,167	11,781
Cost of other revenue	320	330	340	247	176
Total cost of revenue	<u>7,690</u>	<u>8,193</u>	<u>33,612</u>	<u>46,414</u>	<u>11,957</u>
Gross profit	15,054	11,363	34,932	47,300	10,297
% of revenue	66%	58%	51%	50%	46%
Operating expenses ⁽¹⁾ :					
Research and development	12,030	13,857	17,917	24,935	28,408
Sales and marketing	8,277	9,242	13,541	12,963	6,562
General and administrative	3,546	3,410	3,953	8,327	8,096
Total operating expenses	<u>23,853</u>	<u>26,509</u>	<u>35,411</u>	<u>46,225</u>	<u>43,066</u>
Operating income (loss)	(8,799)	(15,146)	(479)	1,075	(32,769)
Financial income (expense)	593	(1,665)	(2,063)	(1,133)	(21)
Profit (Loss) before income taxes	(8,206)	(16,811)	(2,542)	(58)	(32,790)
Income tax expense (benefit)	70	61	150	371	234
Profit (Loss)	<u>\$ (8,276)</u>	<u>\$ (16,872)</u>	<u>\$ (2,692)</u>	<u>\$ (429)</u>	<u>\$ (33,024)</u>
Basic earnings (loss) per share ⁽²⁾	<u>\$ (0.36)</u>	<u>\$ (0.73)</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>	<u>\$ (0.95)</u>
Diluted earnings (loss) per share ⁽²⁾	<u>\$ (0.36)</u>	<u>\$ (0.73)</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>	<u>\$ (0.95)</u>
Number of shares used for computing ⁽²⁾ :					
Basic	<u>22,906</u>	<u>23,257</u>	<u>24,980</u>	<u>32,611</u>	<u>34,680</u>
Diluted	<u>22,906</u>	<u>23,257</u>	<u>24,980</u>	<u>32,611</u>	<u>34,680</u>

	At December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Consolidated Statements of Financial Position Data:					
Cash and cash equivalents	\$15,849	\$ 7,792	\$ 9,739	\$ 57,220	\$ 28,751
Total current assets	27,643	21,919	39,365	86,255	49,539
Total assets	34,591	28,813	49,717	101,030	68,402
Current loans and borrowings	255	3,754	3,564	—	—
Total current liabilities	8,520	14,182	27,556	16,087	11,954
Total equity	14,810	893	20,699	84,244	55,471

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Consolidated Statements of Cash Flow Data:					
Net cash flow from (used in) operating activities	\$(7,960)	\$(11,852)	\$ 1,481	\$ 2,763	\$(22,848)
Net cash flow used in investments activities	(4,141)	(3,555)	(7,377)	(10,333)	(5,752)
Net cash flow from (used in) financing activities	17,424	7,338	7,844	55,057	122
Net foreign exchange difference	(20)	12	(1)	(6)	9
Cash and cash equivalents at January 1	10,546	15,849	7,792	9,739	57,220
Cash and cash equivalents at December 31	15,849	7,792	9,739	57,220	28,751

(1) Includes share-based compensation as follows:

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Cost of revenue	\$ 31	\$ 24	\$ 23	\$ 208	\$ 156
Operating expenses	902	1,151	1,108	3,966	3,033
Share-based compensation	\$ 933	\$ 1,175	\$ 1,131	\$ 4,174	\$ 3,189

(2) All per share data reflect a 1-for-2 reverse split of our share capital that was effective on April 12, 2011.

Exchange Rate Information

In this annual report, for convenience only, we have translated the euro amounts reflected in our financial statements as of and for the year ended December 31, 2012 into U.S. dollars at the rate of €1.00 = \$1.3186, the noon buying rate for euros in New York City, as certified for customs purposes by the Federal Reserve Bank of New York, on December 31, 2012. You should not assume that, on that or on any other date, one could have converted these amounts of euros into U.S. dollars at that or any other exchange rate.

The following table sets forth, for each period indicated, the low and high exchange rates for euros expressed in U.S. dollars, the exchange rate at the end of such period and the average of such exchange rates on the last day of each month during such period, based on the noon buying rate in the City of New York for cable transfers in Euros as certified for customs purposes by the Federal Reserve Bank of New York. The source of the exchange rate is: (i) with respect to any period ending on or prior to December 31, 2008, the Federal Reserve Bank of New York, and (ii) with respect to any period ending on or after January 1, 2009, the H.10 statistical release of the Federal Reserve Board. The exchange rates set forth below demonstrate trends in exchange rates, but the actual exchange rates used throughout this annual report may vary.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
High	1.6010	1.5100	1.4536	1.4875	1.3463
Low	1.2446	1.2547	1.1959	1.2926	1.2062
Period End	1.3919	1.4432	1.3269	1.2973	1.3186
Average Rate	1.4726	1.3935	1.3261	1.3931	1.2859

The following table sets forth, for each of the last six months, the low and high exchange rates for Euros expressed in U.S. Dollars and the exchange rate at the end of the month based on the noon buying rate as described above. The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

	Last Six Months					
	September	October	November	December	January	February
High	1.3142	1.3133	1.3010	1.3260	1.3584	1.3692
Low	1.2566	1.2876	1.2715	1.2930	1.3047	1.3054
End of Month	1.2856	1.2958	1.3010	1.3186	1.3584	1.3079

On March 22, 2013, the noon buying rate for Euros in New York City, as certified for customs purposes by the Federal Reserve Bank of New York, was €1.00 = \$1.2996.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the United States Securities and Exchange Commission (“SEC”), including the following risk factors which we face and which are faced by our industry. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements, as a result of certain factors including the risks described below and elsewhere in this report and our other SEC filings. See “Special Note Regarding Forward-Looking Statements” on page 1.

Risks Related to Our Business and Industry

We have a history of losses and experienced a significant decline in revenue in 2012, and we may not achieve or sustain profitability in the future, on a quarterly or annual basis.

We were established in 2003 and began operations in 2004, and have incurred losses on an annual basis since inception. We experienced net losses of \$2.7 million, \$0.4 million and \$33.0 million in 2010, 2011 and 2012, respectively. At December 31, 2012, our accumulated deficit was \$87.7 million. We expect to incur significant expense related to the development of our LTE products and expansion of our business, including research and development and sales and administrative expenses. Additionally, we may encounter unforeseen difficulties, complications, product delays and other unknown factors that require additional expense. As a result of these increased expenditures, we will have to generate and sustain substantially increased revenue to achieve profitability. We experienced a significant decline in revenue in 2012 to \$22.3 million from \$93.7 million in 2011 due to lower sales of WiMAX products, following changes in the WiMAX market in the United States beginning in the second half of 2011. Our revenue growth trends in periods prior to 2012 may not be repeated. Accordingly, we may not be able to achieve or maintain profitability, and we may continue to incur significant losses in the future.

We currently derive the majority of our revenue from sales of our semiconductor solutions for the WiMAX segment of the 4G market. If the WiMAX market continues to significantly decline prior to us generating significant revenue from LTE products, our results of operations will be further harmed.

We currently derive the majority of our revenue from the sale of our semiconductor solutions for the WiMAX market and expect we could do so through the first half of 2013. In the second half of 2011, the WiMAX market experienced a decline due to the global economic factors and a shift in strategy by large WiMAX carriers, including Sprint, the largest driver of demand for WiMAX semiconductor solutions, to LTE, which significantly harmed our results of operations for the fourth quarter of 2011 and the year ended December 31, 2012. We believe this reduction in the size of the WiMAX market to be permanent, although we expect the market will continue to exist on a reduced basis for a number of years as it will take time for all WiMAX operators to make the transition to LTE. If the WiMAX market continues to significantly decline prior to us generating significant revenue from LTE products, our results of operations will be further harmed. We have invested substantial time and resources in developing products that support LTE, and do not currently expect to generate significant revenue from LTE products before the second half of 2013 at the earliest. If we fail to accurately predict market requirements or market demand for LTE, or if our solutions are not successfully developed or adopted by our customers, we will be unable to generate significant revenue from the LTE market and our business will

suffer. If LTE networks are deployed to a lesser extent or more slowly than we currently anticipate, especially in light of the decline of the WiMAX market, or if other competing 4G protocols achieve greater market acceptance or operators do not migrate to LTE, we may not realize any benefits from this investment. As a result, our business, operating results and financial condition will be significantly harmed.

If we are unsuccessful in developing and selling new products on a timely and cost-effective basis or in penetrating new markets, in particular the LTE market, our business and operating results would suffer.

The markets in which we and our customers compete or plan to compete are characterized by rapidly changing technologies and industry standards and technological obsolescence. Our ability to compete successfully depends on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our target markets could harm our competitive position within these markets. In addition, such shifts can cause a significant decrease in our revenues and adversely affect our operating results, as we saw in 2012 with technology shifting from WiMAX to LTE. Our failure to anticipate these shifts, to develop new technologies or to react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenue and a loss of design wins. The development of new technologies and products generally requires substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new technologies and products, including our LTE products, and it is possible that our development efforts will not be successful and that our new technologies and products will not be accepted by customers or result in meaningful revenue. If the semiconductor solutions we develop fail to meet market or customer requirements or do not achieve market acceptance, our operating results and competitive position would suffer.

Our success and the success of our new products will depend on accurate forecasts of future technological developments, customer and consumer requirements and long-term market demand, as well as on a variety of specific implementation factors, including:

- accurate prediction of the size and growth of the LTE markets;
- accurate prediction of changes in device manufacturer requirements, technology, industry standards or consumer expectations, demands and preferences;
- timely and efficient completion of process design and transfer to manufacturing, assembly and test, and securing sufficient manufacturing capacity to allow us to continue to timely and cost-effectively deliver products to our customers;
- market acceptance, adequate consumer demand and commercial production of the products in which our semiconductor solutions are incorporated;
- the quality, performance and reliability of our products as compared to competing products and technologies; and
- effective marketing, sales and customer service.

The markets for our semiconductor solutions are characterized by frequent introduction of next generation and new products, short product life cycles and significant price competition. If we or our customers are unable to manage product transitions in a timely and cost-effective manner, our business and results of operations would suffer. In addition, frequent technology changes and introduction of next generation products may result in inventory obsolescence, which could reduce our gross margins and harm our operating performance. If we fail to timely introduce new products that meet the demands of our customers or our target markets, or if we fail to penetrate new markets, our revenue will decrease and our financial condition would suffer.

We depend on the commercial deployment of 4G wireless communications equipment, products and services to grow our business, and our business may be harmed if wireless carriers delay or are unsuccessful in the commercial deployment of 4G technology or if they deploy technologies that are not supported by our solutions.

We depend upon the commercial deployment of 4G wireless communications equipment, products and services based on our technology. While many wireless carriers have commercially deployed 3G networks, we cannot predict the timing or success of commercial deployments of 4G networks whether by existing 2G/3G network operators or by new wireless carriers. Deployment of new networks by wireless carriers requires significant capital expenditures, well in advance of any revenue from such networks. In the past, wireless carriers have cancelled or delayed planned deployments of new networks. If existing deployments are not commercially successful or do not continue to grow their subscriber base, or if new commercial deployments of 4G networks are delayed or unsuccessful, our business and financial results would be harmed.

During network deployment, wireless carriers often anticipate a certain rate of subscriber additions and, in response, operators typically procure devices to satisfy this forecasted demand. If the rate of deployment of new networks by wireless carriers is slower than we expect or if 4G technology is not as widely adopted by consumers as we expect, the rate of subscriber additions may be slower than expected, which will reduce the sales of our products and cause OEMs and ODMs to hold excess inventory. This would harm our sales and our financial results. A limited number of wireless carriers have started testing 4G networks and a smaller number of wireless carriers have launched limited 4G networks, but the timing and extent of 4G network deployments remains uncertain, and we might not be successful in developing and marketing our semiconductor solutions targeting 4G markets.

In addition, wireless carriers may choose to deploy technologies not supported by our solutions. If a 4G technology that is not supported by our semiconductor solutions gains significant market share or is favored by a significant wireless carrier, we could be required to expend a significant amount of time and capital to develop a solution that is compatible with that alternative technology. If we are not successful, we could lose design wins with respect to that technology and our business and financial results would be harmed. Moreover, once a competitor's solution is chosen by a wireless carrier, OEM or ODM we will have difficulty supplanting those solutions with ours.

We depend on a small number of customers for a significant portion of our revenue. If we fail to retain or expand customer relationships, our business could be harmed.

A significant amount of our total revenue is attributable to a small number of customers, and we anticipate that this will continue to be the case for the foreseeable future. These customers may decide not to purchase our semiconductor solutions at all, to purchase fewer semiconductor solutions than they did in the past or to alter the terms on which they purchase our products. In addition, to the extent that any customer represents a disproportionately high percentage of our accounts receivable, our exposure to that customer is further increased should they be unable or choose not to pay such accounts receivable on a timely basis or at all.

Our top ten customers accounted for 91%, 95% and 80% of our total revenue in 2010, 2011 and 2012, respectively. HTC accounted for 66%, 78% and 32% of our total revenue in 2010, 2011 and 2012, respectively. HTC also accounted for 10% of our accounts receivable at December 31, 2012. Huawei accounted for less than 10% of our total revenue in 2010 and 2011 and 16% of our revenue in 2012. Huawei also accounted for 15% of our accounts receivable at December 31, 2012. We expect that some of these customers, who currently purchase primarily WiMAX solutions, could continue to represent a significant percentage of our revenue in 2013 because we expect that the number of WiMAX customers is likely to be limited as the WiMAX industry consolidates and customers prepare for the adoption and commercialization of LTE technology. We also expect to have a limited number of LTE customers and could experience similar customer concentration in that market as it evolves. The loss of any significant customer, a significant reduction in sales we make to them in general or during any period, or any issues with collection of receivables from customers would harm our financial condition and results of operations. For example, in the fourth quarter of 2011 and for the year ended December 31, 2012, our revenue decreased significantly compared to the prior periods as a result of the decline in sales to HTC. Furthermore, we must obtain orders from new customers on an ongoing basis to increase our revenue and grow our business. If we fail to expand our customer relationships, our business could be harmed.

We have significant ongoing capital requirements that could have a material effect on our business and financial condition if we are unable to generate sufficient cash from operations.

Our business requires significant capital investment to carry out extensive research and development in order to remain competitive. If the net proceeds from our February 2013 public offering, our cash on hand and cash generated from operations are not sufficient to fund our operations and capital requirements, we may be required to limit our growth, utilize our existing capital, or enter into financing arrangements at unfavorable terms, any of which could harm our business and financial condition.

Our LTE semiconductor solutions do not incorporate support for 2G or 3G protocols, and we currently focus on selling these solutions into the market for LTE-only devices. If the market for LTE-only devices materializes more slowly or at a lower volume level than we anticipate, our results of operations may be harmed.

Our semiconductor solutions currently support only 4G protocols. As a result, our LTE strategy focuses primarily on selling into the LTE-only device market. The growth rate and size of the market for LTE-only devices is dependent on a number of factors, including the degree of geographic and population coverage by LTE networks. If this coverage does not materialize as quickly as we expect, if fewer LTE carriers than we expect offer comprehensive LTE coverage in their geographic operating areas, or if these LTE carriers require support for 2G or 3G protocols in a larger proportion of their overall device portfolio than we expect, then demand for LTE-only semiconductor solutions like ours would be lower and our results of operations would be harmed.

We depend on one independent foundry to manufacture our products and do not have a long-term agreement with such foundry, and loss of this foundry or our failure to obtain sufficient foundry capacity would significantly delay our ability to ship our products, cause us to lose revenue and market share and damage our customer relationships.

Access to foundry capacity is critical to our business because we are a fabless semiconductor company. We depend on a sole independent foundry, Taiwan Semiconductor Manufacturing Company Limited, or TSMC, in Taiwan to manufacture our semiconductor wafers. Because we outsource our manufacturing to a single foundry, we face several significant risks, including:

- constraints in or unavailability of manufacturing capacity;

- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs; and
- the unavailability of, or potential delays in obtaining access to, key process technologies.

If we do not accurately forecast our capacity needs, TSMC may not have available capacity to meet our immediate needs or we may be required to pay higher costs to fulfill those needs, either of which could harm our business, results of operations or financial condition. For example, in the third quarter of 2010, an unexpected sharp increase in demand for one of our products caused us to incur capacity utilization surcharges from TSMC in order to secure the necessary capacity and production of our semiconductor solutions in quantities and on a timeline sufficient to meet our customers' expectations. Payment of these surcharges increased our cost of product revenue significantly and reduced our product margins in the third quarter of 2010 and for the year ended December 31, 2010.

The ability of TSMC to provide us with semiconductor wafers is limited at any given time by their available capacity and we do not have a guaranteed level of manufacturing capacity. We do not have any agreement with TSMC and place our orders on a purchase order basis. As a result, if TSMC raises its prices or is not able to satisfy our required capacity for any reason, including natural or other disasters, allocates capacity to larger customers or to different sectors of the semiconductor industry, experiences labor issues or shortages or delays in shipment of semiconductor equipment or materials used in the manufacture of our semiconductors, or if our business relationship with TSMC deteriorates, we may not be able to obtain the required capacity and would have to seek alternative foundries, which may not be available on commercially reasonable terms, in a timely manner, or at all.

Locating and qualifying a new foundry would require a significant amount of time, which would result in a delay in production of our products. In addition, using foundries with which we have no established relationship could expose us to unfavorable pricing and terms, delays in developing and qualifying new products, unsatisfactory quality or insufficient capacity allocation. We place our orders on the basis of our customers' purchase orders and sales forecasts; however, foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. Many of the customers of TSMC, or foundries that we may use in the future, are larger than we are, or have long-term agreements with such foundries, and as a result those customers may receive preferential treatment from the foundries in terms of price, capacity allocation and payment terms. Any delay in qualifying a new foundry or production issues with any new foundry would result in lost sales and could damage our relationship with existing and future customers as well as our reputation in the market.

If our foundry vendor does not achieve satisfactory yields or quality, our reputation and customer relationships could be harmed.

The fabrication of semiconductor solutions such as ours is a complex and technically demanding process. Minor deviations in the manufacturing process can cause substantial decreases in yields, and in some cases, cause production to be suspended. TSMC, or foundries that we may use in the future, could, from time to time, experience manufacturing defects and reduced manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundry vendor could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from our foundry vendor, or defects, integration issues or other performance problems in our semiconductor solutions could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. In addition, because we have a sole source of wafer supply, these risks are magnified because we do not have an alternative source to purchase from should these risks materialize. If TSMC fails to provide satisfactory product to us, we would be required to identify and qualify other sources, which could take a significant amount of time and would result in lost sales. In addition, we indemnify our customers for losses resulting from defects in our products, which costs could be substantial. A product liability or other indemnification claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend.

Our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory, which could harm our business.

We do not have firm, long-term purchase commitments from our customers. Substantially all of our sales are made on a purchase order basis which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty. Because production lead times often exceed the amount of time required to fulfill orders, we often must manufacture in advance of orders, relying on an imperfect demand forecast to project volumes and product mix. Our ability to accurately forecast demand can be harmed by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, changes in our product order mix and demand for our customers' products. Even after an order is received, our customers may cancel these orders or request a decrease in production quantities. Any such cancellation or decrease subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory, which we may be unable to sell to other customers. For example, in the fourth quarter of 2011, HTC, our largest customer, requested to take delivery of only 40% of the chips previously scheduled for delivery in December and to cancel the remainder of the scheduled shipment, as a result of global economic conditions and reduced WiMAX demand. As a

result, our expected revenue for the fourth quarter of 2011 decreased significantly. Alternatively, if we are unable to project customer requirements accurately, we may not manufacture enough semiconductor solutions, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources, which could affect our ongoing relationships with these customers. We have in the past had customers significantly increase their requested production quantities with little or no advance notice. If we do not fulfill customer demands in a timely manner, our customers may cancel their orders and we may be subject to customer claims for cost of replacement. Underestimating or overestimating demand would lead to insufficient, excess or obsolete inventory and could harm our operating results, cash flow and financial condition, as well as our relationships with our customers and our reputation in the marketplace.

If customers do not design our semiconductor solutions into their product offerings or if our customers' product offerings are not commercially successful, our revenue and our business would be harmed.

We sell our semiconductor solutions directly to OEMs who include them in their products, and to ODMs who include them in their products they supply to OEMs. As a result, we rely on OEMs to design our semiconductor solutions into the products they sell. Because our semiconductor solutions are generally a critical component of our customers' products, they are typically incorporated into our customers' products at the design stage and the sales cycle typically takes 12 months or more to complete. Without these design wins, our revenue and our business would be significantly harmed. We often incur significant expenditures on the development of a new semiconductor solution without any assurance that an OEM will select our semiconductor solution for design into its own product. Because the types of semiconductor solutions we sell are a critical aspect of an OEM's product, once an OEM designs a competitor's semiconductor into its product offering, it becomes significantly more difficult for us to sell our semiconductor solutions to that customer for a particular product offering because changing suppliers involves significant cost, time, effort and risk for the customer. Further, if we are unable to develop new products in a timely manner for inclusion in such products, or if major defects or errors that might significantly impair performance or standards compliance are found in our products after inclusion by an OEM, OEMs will be unlikely to include our semiconductor solutions into their products and our reputation in the market and future prospects would be harmed.

Furthermore, even if an OEM designs one of our semiconductor solutions into its product offering, we cannot be assured that its product will be commercially successful and that we will receive any revenue from that OEM. This risk is heightened because 4G technology is rapidly emerging and most of our customers do not have significant experience designing products utilizing 4G technology. If our customers' products incorporating our semiconductor solutions fail to meet the demands of their customers or otherwise fail to achieve market acceptance, our revenue and business would be harmed.

If we are unable to compete effectively, we may not increase or maintain our revenue or market share, which would harm our business.

We may not be able to compete successfully against current or potential competitors. If we do not compete successfully, our revenue and market share may decline. In the LTE market, we face or expect to face competition from established semiconductor companies such as Broadcom Corporation, Intel Corporation, Qualcomm Incorporated, Samsung Electronics Co. Ltd., Spreadtrum and ST-Ericsson N.V., as well as smaller entrants in the market such as GCT Semiconductor, Altair or Innofidei. In the WiMAX market, we compete with suppliers such as Broadcom Corporation, GCT Semiconductor, Inc. and MediaTek Inc.

Many of our competitors have longer operating histories, significantly greater resources and name recognition, and a larger base of existing customers than us. In addition, recently there has been consolidation within the industry, notably the acquisition of smaller competitors by larger competitors. The significant resources of these larger competitors may allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements or to bring new products to market in a more timely manner than us. In addition, these competitors may have greater credibility with our existing and potential customers. Further, many of these competitors are located in Asia or have a significant presence and operating history in Asia and, as a result, may be in a better position than we are to work with manufacturers and customers located in Asia. Moreover, many of our competitors have been doing business with customers for a longer period of time and have well-established relationships, which may provide them with advantages, including access to information regarding future trends and requirements that may not be available to us. In addition, some of our competitors may provide incentives to customers or offer bundled solutions with complementary products, which could be attractive to some customers, or adopt more aggressive pricing policies, which may make it difficult for us to gain or maintain market share.

Our ability to compete effectively will depend on a number of factors, including:

- our ability to anticipate market and technology trends and successfully develop products that meet market needs;
- our ability to deliver products in large volume on a timely basis at competitive prices;
- our success in identifying and penetrating new markets, applications and customers;
- our ability to accurately understand the price points and performance metrics of competing products in the market;
- our products' performance and cost-effectiveness relative to those of our competitors;

- our ability to develop and maintain relationships with key customers, wireless carriers, OEMs and ODMs;
- our ability to secure sufficient high quality supply for our products;
- our ability to conform to industry standards while developing new and proprietary technologies to offer products and features previously not available in the 4G market; and
- our ability to recruit design and application engineers with expertise in wireless broadband communications technologies and sales and marketing personnel.

If we experience material changes to the competitive structure of our industry due to cooperation or consolidation among our competitors, we may not increase or sustain our revenue or market share, which would harm our business.

Our current or future competitors may establish cooperative relationships among themselves or with third parties. In addition, there has recently been consolidation within our industry, notably the acquisition of smaller competitors by larger competitors with significantly greater resources than ours. These events may result in the emergence of new competitors with greater resources and scale than ours that could acquire significant market share, which could result in a decline of our revenue and market share. Our ability to maintain our revenue and market share will depend on our ability to compete effectively despite material changes in industry structure. If we are unable to do so, we may not increase or sustain our revenue or market share, which would harm our business.

If we are unable to effectively manage our business through periods of economic or market slow-down and any subsequent future growth, we may not be able to execute our business plan and our operating results could suffer.

Our future operating results depend to a large extent on our ability to successfully manage our business through periods of economic or market slow-down and periods of subsequent expansion and growth. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must, among other things, effectively:

- recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering, and applications engineering;
- add additional sales personnel and expand sales offices;
- add additional finance and accounting personnel;
- implement and improve our administrative, financial and operational systems, procedures and controls; and
- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

Furthermore, to remain competitive and manage further expansion and growth, we must carry out extensive research and development, which requires significant capital investment. During periods of economic or market slow-down we must also effectively manage our expenses to preserve our ability to carry out such research and development. While we decreased our operating expenses in 2012 compared to our increased operating expenses in 2011, we expect that our operating expenses in the first half of 2013 will remain fairly flat. If we are successful in introducing new LTE products, we expect we will need to increase our investment in research and development, as well as sales and marketing, general and administrative and other functions to support the growth of our business. We are likely to incur the costs associated with these increased investments earlier than some of the anticipated benefits and the return on these investments, if any, may be lower, may develop more slowly than we expect, or may not materialize at all, which could harm our operating results.

If we are unable to manage our business during both periods of economic or market slow-down and growth effectively, we may not be able to take advantage of market opportunities or develop new products and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures, any of which could harm our operating results.

The average selling prices of our semiconductor solutions have historically decreased over time and will likely do so in the future, which could harm our gross profits and financial results.

Average selling prices of our semiconductor solutions have historically decreased over time, and we expect such declines to continue to occur. Our gross profits and financial results will suffer if we are unable to offset reductions in our average selling prices by reducing our costs, developing new or enhanced semiconductor solutions on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Even if we are successful in reducing our costs or improving sales volumes, such improvements may not be sufficient to offset declines in average selling prices in the future. Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs and our costs may even increase, either

of which would reduce our margins. We have reduced the prices of our semiconductor solutions in line with and at times in advance of competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future.

Any increase in the manufacturing cost of our products would reduce our gross margins and operating profit.

The semiconductor business is characterized by ongoing competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our products, whether by adverse purchase price or manufacturing cost variances or due to other factors, will reduce our gross margins and operating profit. We do not have long-term supply agreements with our manufacturing, test or assembly suppliers and we typically negotiate pricing on a purchase order by purchase order basis. Consequently, we may not be able to obtain price reductions or anticipate or prevent future price increases from our suppliers. Because we have a sole source of wafer supply and limited sources of test and assembly, we may not be able to negotiate favorable pricing terms from our suppliers. These and other related factors could impair our ability to control our costs and could harm our operating results.

The semiconductor and communications industries have historically experienced significant fluctuations with prolonged downturns, which could impact our operating results, financial condition and cash flows.

The semiconductor industry has historically been cyclical, experiencing significant downturns in customer demand. Because a significant portion of our expenses is fixed in the near term or is incurred in advance of anticipated sales, we may not be able to decrease our expenses rapidly enough to offset any unanticipated shortfall in revenue. If this situation occurs, it could harm our operating results, cash flow and financial condition. Furthermore, the semiconductor industry has periodically experienced periods of increased demand and production constraints. For example, in the third quarter of 2010, an unexpected sharp increase in demand for one of our products caused us to incur capacity utilization surcharges from our foundry, TSMC, in order to secure the necessary capacity and production of our semiconductor solutions in quantities and on a timeline sufficient to meet our customers' expectations, resulting in increased costs and lower margins. If this occurs again, we may not be able to obtain sufficient quantities of our semiconductor solutions to meet the increased demand, resulting in lost sales, loss of market share and harm to our customer relationships. We may also have difficulty in obtaining sufficient assembly and test resources from our subcontract manufacturers. Any factor adversely affecting the semiconductor industry in general, or the particular segments of the industry that we target, may harm our ability to generate revenue and could negatively impact our operating results.

The communications industry has experienced pronounced downturns, and these cycles may continue in the future. A future decline in global economic conditions could have adverse, wide-ranging effects on demand for our semiconductor solutions and for the products of our customers, particularly wireless communications equipment manufacturers or other participants in the wireless industry, such as wireless carriers. Inflation, deflation and economic recessions that harm the global economy and capital markets also harm our customers and our end consumers. Specifically, the deployment of new 4G networks requires significant capital expenditures and wireless carriers may choose not to undertake network expansion efforts during an economic downturn or time of other economic uncertainty. Our customers' ability to purchase or pay for our semiconductor solutions and services, obtain financing and upgrade wireless networks could be harmed, and networking equipment providers may slow their research and development activities, cancel or delay new product development, reduce their inventories and take a cautious approach to acquiring our products, which would have a significant negative impact on our business. If such economic situations were to occur, our operating results, cash flow and financial condition could be harmed. In the future, any of these trends may also cause our operating results to fluctuate significantly from year to year, which may increase the volatility of the price of the ADSs.

Though we rely to a significant extent on proprietary intellectual property, we may not be able to obtain, or may chose not to obtain, sufficient intellectual property rights to provide us with meaningful protection or commercial advantage.

We depend significantly on intellectual property rights to protect our products and proprietary technologies against misappropriation by others. We generally rely on the patent, trademark, copyright and trade secret laws in Europe, the United States and certain other countries in which we operate or in which our products are produced or sold, as well as licenses and nondisclosure and confidentiality agreements, to protect our intellectual property rights.

We may have difficulty obtaining patents and other intellectual property rights, and the patents and other intellectual property rights we have and obtain may be insufficient to provide us with meaningful protection or commercial advantage. We currently do not apply for patent protection in all countries in which we operate. Instead we select and focus on key countries for each patent family. In addition, the protection offered by patents and other intellectual property rights may be inadequate or weakened for reasons or circumstances that are out of our control. For instance, we may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we have filed patent applications or in which we operate, and under the laws of such countries, patents and other intellectual property rights may be or become unavailable or limited in scope.

We may not be able to adequately protect or enforce our intellectual property against improper use by our competitors or others and our efforts to do so may be costly to us, which may harm our business, financial condition and results of operations.

Our patents and patent applications, or those of our licensors, could face challenges, such as interference proceedings, opposition proceedings, nullification proceedings and re-examination proceedings. Any such challenge, if successful, could result in the invalidation or narrowing of the scope of any such patents and patent applications. Any such challenges, regardless of their success, would also likely be time-consuming and expensive to defend and resolve, and would divert management time and attention. Further, our unpatented proprietary processes, software, designs and trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. While we generally enter into confidentiality agreements with such persons to protect our intellectual property, we cannot assure you that our confidentiality agreements will not be breached, that they will provide meaningful protection for our proprietary technology and trade secrets or that adequate remedies will be available in the event they are used or disclosed without our authorization. Also, intellectual property rights are difficult to enforce in the People's Republic of China, or PRC, and certain other countries, particularly in Asia, where the application and enforcement of the laws governing such rights may not have reached the same level as compared to other jurisdictions where we operate, such as Europe and the United States. Consequently, because we operate in these countries and all of our manufacturing, test and assembly takes place in Taiwan and Singapore, we may be subject to an increased risk that unauthorized parties may attempt to copy or otherwise use our intellectual property or the intellectual property of our suppliers or other parties with whom we engage or have licenses.

There can be no assurance that we will be able to protect our intellectual property rights, that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable, or that we will have adequate legal recourse in the event that we seek legal or judicial enforcement of our intellectual property rights. Any inability on our part to adequately protect or enforce our intellectual property may harm our business, financial condition and results of operations. We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights to protect these rights or to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel, and we may not prevail in making these claims.

We or our customers may be required to obtain licenses for certain so-called "essential patents" in order to comply with applicable standards, which could require us to pay additional royalties on certain of our products. If we are unable to obtain such licenses, our business, results of operations, financial condition and prospects would be harmed.

We or our customers may be required to obtain licenses for third-party intellectual property. In particular, we may be required to obtain licenses to certain third-party patents, so-called "essential patents", that claim features or functions that are incorporated into applicable industry standards and that we are required to provide in order to comply with the standard. If we need to license any third-party intellectual property, essential patents or other technology, we could be required to pay royalties on certain of our products. In addition, while the industry standards bodies and the antitrust laws in certain countries may require participating companies to license their essential patents on fair, reasonable, and nondiscriminatory terms, there can be no assurances that we will be able to obtain such licenses on commercially reasonable terms or at all. Although we have implemented a dedicated standard essential patents licensing-in reference policy, our inability to obtain required third-party intellectual property licenses on commercially reasonable terms or at all could harm our business, results of operations, financial condition or prospects. If our customers are required to obtain such licenses, there can be no assurances that their businesses will not be adversely affected. In addition, if our competitors have significant numbers of essential patents and/or patent license rights, they could be at an advantage in negotiating with our customers or potential customers, which could influence our ability to win new business or could result in downward pressure on our average selling prices.

Assertions by third parties of infringement by us or our customers of their intellectual property rights could result in significant costs and cause our operating results to suffer.

The markets in which we compete are characterized by rapidly changing products and technologies and there is intense competition to establish intellectual property protection and proprietary rights to these new products and the related technologies. The semiconductor and wireless communications industries, in particular, are characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation for many companies.

We may be unaware of the intellectual property rights of others that may cover some of our technology, products and services. In addition, third parties may claim that we or our customers are infringing or contributing to the infringement of their intellectual property rights.

We have in the past received and, particularly as a public company operating in a highly competitive marketplace, we expect that in the future we will receive communications and offers from various industry participants and others alleging that we infringe or have misappropriated their patents, trade secrets or other intellectual property rights and/or inviting us to license their technology and intellectual property. Any lawsuits resulting from such allegations of infringement or invitations to license, including suits challenging the WiMAX or the LTE standards, could subject us to significant liability for damages and/or challenge our activities. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology that contain the allegedly infringing intellectual property;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we may be found to be infringing;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Our customers could also become the target of litigation relating to the patents and other intellectual property rights of others. This could, in turn, trigger an obligation for us to provide technical support and/or indemnify such customers. These obligations could result in substantial expenses, including the payment by us of costs and damages relating to claims of intellectual property infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, any such litigation could disrupt the businesses of our customers, which in turn could hurt our relationships with our customers and cause the sale of our products to decrease. We cannot assure you that claims for indemnification will not be made or that if made, such claims would not materially harm our business, operating results or financial conditions.

Any potential dispute involving our patents or other intellectual property could also include our industry partners and customers, which could trigger our indemnification obligations to them and result in substantial expense to us.

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation, and certain customers have received notices of written offers from our competitors and others claiming to have patent rights in certain technology and inviting our customers to license this technology. Because we indemnify our licensees and customers for intellectual property claims made against them for products incorporating our technology, any litigation could trigger technical support and indemnification obligations in some of our license agreements, which could result in substantial payments and expenses by us. In addition to the time and expense required for us to supply support or indemnification to our licensees and customers, any such litigation could severely disrupt or shut down the business of our customers, which in turn could hurt our relations with our customers and cause the sale of our proprietary technologies and products to decrease.

Our failure to comply with obligations under open source licenses could require us to release our source code to the public or cease distribution of our products, which could harm our business, financial condition and results of operations.

Some of the software used with our products, as well as that of some of our customers, may be derived from so-called “open source” software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, which impose certain obligations on us in the event we were to make available derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the licenses we customarily use to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work.

The complexity of our semiconductor solutions could result in unforeseen delays or expenses from undetected defects or design errors in hardware or software, which could reduce the market acceptance for our semiconductor solutions, damage our reputation with current or prospective customers and increase our costs.

Highly complex semiconductor solutions such as ours can contain defects and design errors, which, if significant, could impair performance or prevent compliance with industry standards. We have not in the past, but may in the future, experience such significant defects or design errors. In addition, our semiconductor solutions must be certified by individual wireless carriers that such solutions function properly on the carrier's network before our solutions can be designed into a particular product. If any of our semiconductor solutions have reliability, quality or compatibility problems from defects or design errors we may not be able to successfully correct these problems in a timely manner, or at all. Furthermore, we may experience production delays and increased costs correcting such problems. Issues in the carrier certification process, which varies among carriers, may also create delays. Consequently, and because our semiconductor solutions are a critical component of our customers' products, our reputation may be irreparably damaged and customers may be reluctant to buy our semiconductor solutions, which could harm our ability to retain existing customers and attract new customers and harm our financial results. In addition, these defects or design errors or delays in the carrier certification process could interrupt or delay sales to our customers. If any of these problems are not found until after we have commenced commercial production of a new semiconductor solution, we may be required to incur additional development costs and product recalls, repairs or replacement costs. Furthermore, we provide warranties on our products ranging from one to two years, and thus may be obligated to refund sales with respect to products containing defects, errors or bugs. These problems may also result in claims against us by our customers or others, all of which could damage our reputation and increase our costs.

The loss of any of our key personnel could seriously harm our business, and our failure to attract or retain specialized technical, management or sales and marketing employees could impair our ability to grow our business.

We believe our future success will depend in large part upon our ability to attract, retain and motivate highly skilled management, engineering and sales and marketing personnel. The loss of any key employees or the inability to attract, retain or motivate qualified personnel, including engineers and sales and marketing personnel could delay the development and introduction of and harm our ability to sell our semiconductor solutions. We believe that our future success is dependent on the contributions of Georges Karam, our co-founder and chief executive officer, and Bertrand Debray, our co-founder and vice president, engineering. The loss of the services of Dr. Karam, Mr. Debray, other executive officers or certain other key personnel could materially harm our business, financial condition and results of operations. For example, if any of these individuals were to leave unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for any such successor and while any successor is integrated into our business and operations.

Our key technical and engineering personnel represent a significant asset and serve as the source of our technological and product innovations. We plan to recruit additional design and application engineers with expertise in wireless broadband communications technologies. We may not be successful in attracting, retaining and motivating sufficient technical and engineering personnel to support our anticipated growth. In addition, to expand our customer base and increase sales to existing customers, we will need to hire additional qualified sales personnel. The competition for qualified marketing, sales, technical and engineering personnel in our industry is very intense. If we are unable to hire, train and retain qualified marketing, sales, technical and engineering personnel in a timely manner, our ability to grow our business will be impaired. In addition, if we are unable to retain our existing sales personnel, our ability to maintain or grow our current level of revenue will be harmed.

Rapidly changing standards could make our semiconductor solutions obsolete, which would cause our operating results to suffer.

We design our semiconductor solutions to conform to standards set by industry standards bodies such as the Institute of Electrical and Electronics Engineers, Inc. (IEEE), the 3rd Generation Partnership Project (3GPP) and Open Mobile Alliance (OMA). We also depend on industry groups such as the WiMAX Forum™, an industry-led, non-profit corporation formed to help promote and certify the compatibility and interoperability of broadband wireless products, to certify and maintain certification of our semiconductor solutions as well as the Global Certification Forum (GCF) and the PTS Type Certification Review Board (PTCRB). If our customers adopt new or competing industry standards that are not compatible with our semiconductor solutions, if industry groups fail to adopt standards compatible with our semiconductor solutions or if our customers are requiring chip certifications that we did not design our products for, our existing semiconductor solutions would become less desirable to our customers and our sales would suffer. The emergence of markets for our products is affected by a variety of factors beyond our control. In particular, our semiconductor solutions are designed to conform to current specific industry standards. Competing standards may emerge that are preferred by our customers, which could also reduce our sales and require us to make significant expenditures to develop new semiconductor solutions. Governments and foreign regulators may adopt standards that are incompatible with our semiconductor solutions, favor alternative technologies or adopt stringent regulations that would impair or make commercially unviable the deployment of our semiconductor solutions. In addition, existing standards may be challenged as infringing upon the intellectual property rights of other companies or may become obsolete.

We outsource our assembly, testing, warehousing and shipping operations to third parties, and if these parties fail to produce and deliver our products in a timely manner and in accordance with our specifications, our reputation, customer relationships and operating results could suffer.

We rely on third parties for the assembly, testing, warehousing and shipping of our products. We rely on United Test and Assembly Center Ltd., or UTAC, Siliconware Precision Industries Limited, or SPIL, StatschipPac Limited, or SPC, and other third-party assembly and test subcontractors for assembly and testing. We further rely on a single company for logistics and storage. We depend on these parties to supply us with material of a requested quantity in a timely manner that meets our standards for yield, cost and manufacturing quality. We are unable to maintain the same level of oversight and control of these outsourced operations as we would if we were to conduct them internally.

The services provided by these vendors could be subject to disruption for a variety of reasons, including natural disasters, such as earthquakes, labor disputes, power outages, or if our relationship with a vendor is damaged. If we experience problems at a particular location, we would be required to transfer the impacted services to a backup vendor, which could be costly and require a significant amount of time. During such a transition, we would be required to meet customer demand from our then-existing inventory, as well as any partially finished goods that can be modified to the required product specifications, which may not be possible or cost effective. Further, we do not have any long-term agreements with any of these vendors. If one or more of these vendors terminates its relationship with us, allocates capacity to other customers or if we encounter any problems with our supply chain, it could harm our ability to ship our products to our customers on time and in the quantity required, which in turn could cause an unanticipated decline in our sales and possibly damage our customer relationships.

We may experience difficulties in transitioning to new wafer fabrication process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased costs.

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller geometries and to achieve higher levels of design integration. These ongoing efforts require us from time to time to modify the manufacturing processes for our semiconductor solutions and to redesign some solutions, which in turn may result in delays in product deliveries. We periodically evaluate the benefits of migrating to new process technologies to reduce cost and improve performance. We may face difficulties, delays and increased expenses as we transition our products to new processes. We depend on our relationship with TSMC and our test and assembly subcontractors to transition to new processes successfully. We cannot assure you that TSMC or our test and assembly subcontractors will be able to effectively manage the transition or that we will be able to maintain our relationship with TSMC or our test and assembly vendors or develop relationships with new foundries and vendors if necessary. If TSMC, any of our subcontractors or we experience significant delays in transitioning to smaller geometries or fail to efficiently implement transitions, we could experience reduced manufacturing yields, or delays in product deliveries and increased costs, all of which could harm our relationships with our customers, our margins and our operating results. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as end-customer and third-party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely or cost-effective basis.

Changes in current laws or regulations or the imposition of new laws or regulations could impede the sale of our products or otherwise harm our business.

Wireless networks can only operate in the spectrum allowed by regulators and in accordance with rules governing how that spectrum can be used. Regulators in various countries have broad jurisdiction over the allocation of spectrum for wireless networks, and we therefore rely on these regulators to provide sufficient spectrum and usage rules. For example, countries such as China, India, Japan or Korea heavily regulate all aspects of their wireless communication industries, and may restrict spectrum allocation or usage. If further restrictions were to be imposed over the frequency bands where our semiconductor solutions are designed to operate, we may have difficulty selling our products in those regions. In addition, our semiconductor solutions operate in the 2.5 and 3.5 gigahertz, or GHz, bands, which in some countries is also used by government and commercial services such as military and commercial aviation. European and United States regulators have traditionally protected government uses of the 2.5 and 3.5 GHz bands by setting power limits and indoor and outdoor designation and requiring that wireless local area networking devices not interfere with other users of the band such as government and civilian satellite services. Changes in current laws or regulations or the imposition of new laws and regulations in the markets in which we operate regarding the allocation and usage of the 2.5 and 3.5 GHz band may harm the sale of our products and our business, financial condition and results of operations.

Adverse outcomes in tax disputes could subject us to tax assessments and potential penalties.

From time to time, we are subject to tax audits that could result in tax assessments and potential penalties, particularly with respect to claimed research tax credits due to the judgment involved in determining which projects meet the tax code's criteria for innovation and fundamental research. For example, in December 2012, we were notified of proposed tax adjustments, penalties and interest related to a French tax audit totaling €827 thousand (\$1.1 million). We disagree with essentially all of the proposed

adjustments and intend to vigorously defend our reporting position. Based on our assessment of the potential exposure in this dispute, we have recorded a provision for potential tax adjustments or penalties while we contest the proposed tax adjustments. However, our actual costs for this dispute or other disputes in the future may be materially different from the provisions recorded if we are not successful in our appeal of any assessment, which could have a material adverse effect on our business.

New regulations related to “conflict minerals” may force us to incur additional expenses, may result in damage to our business reputation and may adversely impact our ability to conduct our business.

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new requirements for companies that use certain minerals and derivative metals (referred to as “conflict minerals,” regardless of their actual country of origin) in their products. Some of these metals are commonly used in electronic equipment and devices, including our products. Depending on various circumstances, these new requirements will require companies to investigate, disclose and report whether or not such metals originated from the Democratic Republic of Congo or adjoining countries. We have an extremely complex supply chain, with numerous suppliers (many of whom are not obligated by the new law to investigate their own supply chains) for the components and parts used in each of our products. As a result, we may incur significant costs to comply with the diligence and disclosure requirements, including costs related to determining the source of any of the relevant metals used in our products. In addition, because our supply chain is so complex, we may not be able to sufficiently verify the origin of all the relevant metals used in our products through the due diligence procedures that we implement, which may harm our business reputation. We may also face difficulties in satisfying customers if they require that we prove or certify that our products are “conflict free.” Key components and parts that can be shown to be “conflict free” may not be available to us in sufficient quantity, or at all, or may only be available at significantly higher cost to us. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier. Any of these outcomes could adversely impact our business, financial condition or results of operations.

Fluctuations in foreign exchange rates may harm our financial results.

Our functional currency is the U.S. dollar. Substantially all of our sales are denominated in U.S. dollars and the payment terms of all of our significant supply chain vendors are also denominated in U.S. dollars. We incur operating expenses and hold assets and liabilities denominated in currencies other than the U.S. dollar, principally the euro, and to a lesser extent the British pound sterling, the Chinese yuan and the New Israeli shekel. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. dollar to euro exchange rate. As we grow our operations, our exposure to foreign currency risk could become more significant. If there had been a 10% increase or decrease in the exchange rate of the U.S. dollar to the euro, we estimate the impact, in absolute terms, on operating expenses for the year ended December 31, 2012 would have been \$2.2 million.

Commencing in 2009, we entered into foreign currency hedging contracts primarily to reduce the impact of variations in the U.S. dollar to euro exchange rate on our operating expenses denominated in euros. However, hedging at best reduces volatility and helps to lock in a target rate for the following six to twelve months but cannot eliminate the fundamental exposure and may not be effective.

Certain natural disasters, such as coastal flooding, large earthquakes or volcanic eruptions, may negatively impact our business. Any disruption to the operations of our foundry and assembly and test subcontractors could cause significant delays in the production or shipment of our products.

If coastal flooding, a large earthquake, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt TSMC’s manufacturing facilities or the facilities of our test and assembly contractors, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. For example, substantially all of our semiconductor solutions are manufactured and assembled by third-party contractors located in Taiwan and Singapore. The risk of an earthquake or tsunami in Taiwan or Singapore, such as the major earthquakes that occurred in Taiwan in December 2006 and June 2003, and elsewhere in the Pacific Rim region is significant due to the proximity of major earthquake fault lines to the facilities of our foundry vendor and assembly and test subcontractors. Even if these facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains. Although our third-party contractors did not suffer any significant damage as a result of the most recent earthquakes, the occurrence of additional earthquakes or other natural disasters could result in the disruption of our foundry vendor or assembly and test capacity. For instance, the recent earthquake and tsunami in Japan, though it did not directly cause damage to any of our third-party contractors, may impair the ability of such contractors to procure components from vendors in Japan, and alternative suppliers may not be available in a timely manner or at all, and may impair the ability of our customers to procure components other than ours that are necessary to their production process, which in turn could result in a slowing of their production and consequently of purchases of our products. Additionally, the dislocation of air transport services following volcanic eruptions in Iceland in April 2010 caused us delays in distribution of our semiconductor solutions. Any disruption resulting from such events could cause significant delays in the production or shipment of our semiconductor solutions as well as significant increases in our transportation costs until we are able to shift our manufacturing, assembling or testing from an affected contractor to an alternative vendor.

Our global operations are subject to risks for which we may not be adequately insured.

Our global operations are subject to many risks including errors and omissions, infrastructure disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers, supply chain interruptions, third-party liabilities and fires or natural disasters. No assurance can be given that we will not incur losses beyond the limits or outside the scope of coverage of our insurance policies. From time-to-time, various types of insurance may not be available on commercially acceptable terms or, in some cases, at all. We cannot assure you that in the future we will be able to maintain existing insurance coverage or that premiums will not increase substantially. We maintain limited insurance coverage and in some cases no coverage for natural disasters and sudden and accidental environmental damages as these types of insurance are sometimes not available or available only at a prohibitive cost. Accordingly, we may be subject to an uninsured or under-insured loss in such situations.

Risks Related to Our Shares and ADSs and the Trading of our ADSs

Fluctuations in our operating results on a quarterly or annual basis and difficulty predicting our quarterly operating results could cause the market price of the ADSs to decline.

Our revenue and operating results have fluctuated significantly from period to period in the past and will do so in the future. As a result, you should not rely on period-to-period comparisons of our operating results as an indication of our future performance. In future periods, our revenue and results of operations may be below the expectations of analysts and investors, which could cause the market price of the ADSs to decline.

Factors that may cause our operating results to fluctuate include:

- reductions in orders or cancellations by our customers;
- changes in the size, growth or growth prospects of the LTE and WiMAX markets;
- changes in the competitive dynamics of our market, including new entrants or pricing pressures, and our ability to compete in the LTE market;
- timing and success of commercial deployments of and upgrades to 4G wireless networks;
- timely availability, at a reasonable cost, of adequate manufacturing capacity with the sole foundry that manufactures our products;
- our ability to successfully define, design and release new products in a timely manner that meet our customers' needs;
- timing and growth rate of revenues from the LTE market;
- changes in manufacturing costs, including wafer, test and assembly costs, mask costs and manufacturing yields;
- the timing of product announcements by competitors or us; and
- costs associated with litigation, especially related to intellectual property.

Moreover, sales of our semiconductor solutions fluctuate from period to period due to cyclicity in the semiconductor industry and the short product life cycles and wide fluctuations in product supply and demand characteristic of this industry. We expect these cyclical conditions to continue. Due to our limited operating history, we have yet to experience an established pattern of seasonality. However, business activities in Asia generally slow down in the first quarter of each year during the lunar new year period, which could harm our sales and results of operations during the period. Our expense levels are relatively fixed in the short-term and are based, in part, on our future revenue projections. If revenue levels are below our expectations, we may experience declines in margins and profitability or incur a loss from our operations. As a result, our quarterly operating results are difficult to predict, even in the near term, which may result in our revenue and results of operations being below the expectations of analysts and investors and which could cause the market price of the ADSs to decline.

If securities or industry analysts cease to publish research reports about us or our industry, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.

The trading market for the ADSs is influenced by research reports that industry or securities analysts publish about us or our industry. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts ceases coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future and, consequently, your only opportunity to achieve a return on your investment during that time is if the price of the ADSs appreciates.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future. Any recommendation by our board of directors to pay dividends will depend on many factors, including our financial condition, results of operations, legal requirements and other factors. Accordingly, if the price of the ADSs falls in the foreseeable future, you will incur a loss on your investment, without the likelihood that this loss will be offset in part or at all by potential future cash dividends. In addition, even if we were to pay a dividend on our ordinary shares, French law may prohibit paying such dividends to holders of the ADSs or the tax implications of such payments may significantly diminish what you receive.

French law may limit the amount of dividends we are able to distribute and exchange rate fluctuations may reduce the amount of U.S. dollars you receive in respect of any dividends or other distributions we may pay in the future in connection with your ADSs.

Although our consolidated financial statements are denominated in U.S. dollars, under French law, the determination of whether we have been sufficiently profitable to pay dividends is made on the basis of our unconsolidated annual financial statements under the French commercial code in accordance with generally accepted accounting principles in France, which we refer to as French GAAP. See “Item 10.B—Memorandum and Articles of Association” for further details on the limitations on our ability to declare and pay dividends. Therefore, we may be more restricted in our ability to declare dividends than companies not based in France. In addition, exchange rate fluctuations may affect the amount of euros that we are able to distribute, and the amount in U.S. dollars that our shareholders receive upon the payment of cash dividends or other distributions we declare and pay in euros, if any. These factors could harm the value of the ADSs, and, in turn, the U.S. dollar proceeds that holders receive from the sale of the ADSs.

You may not be able to exercise your right to vote the ordinary shares underlying your ADSs.

Holders of ADSs may exercise voting rights with respect to the ordinary shares represented by the ADSs only in accordance with the provisions of the deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our ordinary shares, the depositary will, as soon as practicable thereafter, fix a record date for the determination of ADS holders who shall be entitled to give instructions for the exercise of voting rights. Upon timely receipt of notice from us, if we so request, the depositary shall distribute to the holders as of the record date (i) the notice of the meeting or solicitation of consent or proxy sent by us and (ii) a statement as to the manner in which instructions may be given by the holders.

You may instruct the depositary of your ADSs to vote the ordinary shares underlying your ADSs. Otherwise, you will not be able to exercise your right to vote, unless you withdraw the ordinary shares underlying the ADSs you hold. However, you may not know about the meeting far enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depositary, upon timely notice from us, will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot guarantee you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares or to withdraw your ordinary share so that you can vote them yourself. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote, and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

You may be subject to limitations on the transfer of your ADSs.

Your ADSs, which may be evidenced by ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may refuse to deliver, transfer or register transfers of your ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary think it is advisable to do so because of any requirement of law, government or governmental body, or under any provision of the deposit agreement, or for any other reason.

As a foreign private issuer, we are exempt from a number of rules under the U.S. securities laws and are permitted to file less information with the SEC than a U.S. company; our ordinary shares are not listed, and we do not intend to list our shares, on any market in France, our home country. This may limit the information available to holders of the ADSs.

We are a “foreign private issuer”, as defined in the SEC’s rules and regulations and, consequently, we are not subject to all of the disclosure requirements applicable to public companies organized within the United States. For example, we are exempt from certain rules under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, that regulate disclosure obligations and procedural requirements related to the solicitation of proxies, consents or authorizations applicable to a security registered under the Exchange Act, including the U.S. proxy rules under Section 14 of the Exchange Act. In addition, our officers and directors are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our securities. Moreover, while we have and expect to continue to submit quarterly interim consolidated financial data to the SEC under cover of the SEC’s Form 6-K, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. public companies and are not required to file quarterly reports on Form 10-Q or current reports on Form 8-K under the Exchange Act. Furthermore, our ordinary shares are not listed and we do not currently

intend to list our ordinary shares on any market in France, our home country. As a result, we are not subject to the reporting and other requirements of listed companies in France. For instance, we are not required to publish quarterly or semi-annual financial statements. Accordingly, there is less publicly available information concerning our company than there would be if we were a U.S. public company.

As a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from NYSE corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with NYSE corporate governance listing standards.

As a foreign private issuer listed on the NYSE, we are subject to NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in France, which is our home country, may differ significantly from NYSE corporate governance listing standards. For example, neither the corporate laws of France nor our by-laws require a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. Currently, we intend to comply with the NYSE corporate governance listing standards to the extent possible under French law. However, if we choose to change such practice to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under NYSE corporate governance listing standards applicable to U.S. domestic issuers.

U.S. holders of the ADSs may suffer adverse tax consequences if we are characterized as a Passive Foreign Investment Company.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. To determine if at least 50% of our assets are held for the production of, or produce, passive income, we may use the market capitalization method for certain periods. Under the market capitalization method, the total asset value of a company would be considered to equal the fair market value of its outstanding shares plus outstanding indebtedness on a relevant testing date. Because the market price of the ADSs has fluctuated substantially and is likely to fluctuate in the future, and the market price may affect the determination of whether we will be considered a PFIC, there can be no assurance that we will not be considered a PFIC for any taxable year. While we do not believe we were a PFIC for 2012, there is no assurance that we will not be a PFIC in 2013 or later years. If we are characterized as a PFIC, U.S. holders of the ADSs may suffer adverse tax consequences, including having gains realized on the sale of the ADSs treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on the ADSs by individuals who are U.S. holders, having interest charges apply to distributions by us and the proceeds of ADS sales and additional reporting requirements. We do not expect to provide to U.S. holders the information needed to report income and gain pursuant to a “qualified electing fund” election, which election would alleviate some of the adverse tax consequences of PFIC status, and we make no undertaking to provide such information in the event that we are a PFIC. See “Item 10.E—Taxation—Material United States Federal Income Tax Consequences.”

You may be unable to recover in civil proceedings for U.S. securities laws violations.

We are a corporation organized under the laws of France. The majority of our directors are citizens and residents of countries other than the United States, and the majority of our assets are located outside of the United States. Accordingly, it may be difficult for investors to obtain jurisdiction over us or our directors in courts in the United States and enforce against us or them judgments obtained against us or them. In addition, we cannot assure you that civil liabilities predicated upon the federal securities laws of the United States will be enforceable in France.

The rights of shareholders in companies subject to French corporate law differ in material respects from the rights of shareholders of corporations incorporated in the United States.

We are a French company with limited liability. Our corporate affairs are governed by our by-laws and by the laws governing companies incorporated in France. The rights of shareholders and the responsibilities of members of our board of directors are in many ways different from the rights and obligations of shareholders in companies governed by the laws of U.S. jurisdictions. For example, in the performance of its duties, our board of directors is required by French law to consider the interests of our company, its shareholders, its employees and other stakeholders, rather than solely our shareholders and/or creditors. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a stockholder. See “Item 6.C—Board Practices” and “Item 10.B—Memorandum and Articles of Association.”

Our by-laws and French corporate law contain provisions that may delay or discourage a takeover attempt.

Provisions contained in our by-laws and the corporate laws of France, the country in which we are incorporated, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. In addition, provisions of our

by-laws impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions. These provisions include the following:

- our shares are in registered form only and we must be notified of any transfer of our shares in order for such transfer to be validly registered;
- our by-laws provide for directors to be elected for three year terms, and we intend to elect approximately one third of the directors every year;
- our shareholders may grant our board of directors broad authorizations to increase our share capital;
- our board of directors has the right to appoint directors to fill a vacancy created by the resignation, death or removal of a director, subject to the approval by the shareholders of such appointment at the next shareholders' meeting, which prevents shareholders from having the sole right to fill vacancies on our board of directors;
- our board of directors can only be convened by its chairman except when no board meeting has been held for more than two consecutive months;
- our board of directors meetings can only be regularly held if at least half of the directors attend either physically or by way of secured telecommunications;
- approval of at least a majority of the shares entitled to vote at an ordinary shareholders' general meeting is required to remove directors with or without cause;
- advance notice is required for nominations for election to the board of directors or for proposing matters that can be acted upon at a shareholders' meeting; and
- the sections of the by-laws relating to the number of directors and election and removal of a director from office may only be modified by a resolution adopted by 66 2/3% of our shareholders present or represented at the meeting.

The exercise or conversion of outstanding stock options, founders warrants and warrants into ordinary shares will dilute the percentage ownership of our other shareholders and the sale of such shares may adversely affect the market price of the ADSs.

As of December 31, 2012, there are outstanding stock options, founders warrants and warrants to purchase an aggregate of approximately 4.7 million of our ordinary shares and more options and warrants will likely be granted in the future to our officers, directors, employees and consultants. We may issue additional warrants in connection with acquisitions, borrowing arrangement or other strategic or financial transactions. The exercise of outstanding stock options will dilute the percentage ownership of our other shareholders. The exercise of these options and warrants and the subsequent sale of the underlying ordinary shares could cause a decline in the market price of the ADSs.

If we raise additional capital in the future, your ownership in us could be diluted.

Any issuance of equity we may undertake in the future to raise additional capital could cause the price of the ADSs to decline, or require us to issue shares or ADSs at a price that is lower than that paid by holders of our shares or ADSs in the past, which would result in those newly issued shares or ADSs being dilutive. If we obtain funds through a credit facility or through the issuance of debt or preferred securities, these securities would likely have rights senior to your rights as an ADS holder, which could impair the value of the ADSs.

Item 4. Information on the Company

A. History and Development of the Company

Our History

Sequans Communications S.A. was incorporated as a *société anonyme* under the laws of the French Republic on October 7, 2003, for a period of 99 years. We are registered at the Nanterre Commerce and Companies Register under the number 450 249 677. Our principal executive offices are located at 19 Le Parvis, 92073 Paris-La Défense, France, and our telephone number is +33 1 70 72 16 00. Our agent for service of process in the U.S. is GKL Corporate/Search, Inc., 915 L Street, Suite 1250, Sacramento, California 95814.

Our website is www.sequans.com. The information on, or that can be accessed through, our website is not part of this annual report.

As of the date of this annual report, there has been no indication of any public takeover offers by third parties in respect of our ADSs or ordinary shares or by the Company in respect of other companies' shares.

Principal Capital Expenditures

Our capital expenditures for the years ended December 31, 2010, 2011 and 2012 amounted to \$6.4 million, \$11.0 million and \$5.6 million, respectively. These investments in property and equipment and intangible assets primarily consisted of purchases related to LTE product development and, through 2011, ongoing WiMAX product development. We anticipate our capital expenditures in the year ended December 31, 2013 to be for ongoing LTE product development. We anticipate our capital expenditure in 2013 to be financed from the remaining proceeds of our initial public offering and from our more recent public offering in February 2013. Should we decide to broaden our product range by acquiring or developing complementary technologies, we would need additional capital expenditures in order to support development of multi-mode products.

B. Business Overview

Overview

We are a leading fabless designer, developer and supplier of 4G LTE and WiMAX semiconductor solutions for wireless mobile broadband applications, with a specific focus on the single-mode device market. Our solutions incorporate baseband processor and radio frequency, or RF, transceiver integrated circuits, or ICs, along with our proprietary signal processing techniques, algorithms and software stacks. Our high performance ICs deliver high throughput, low power consumption and high reliability in a small form factor and at a competitive price. In the LTE market, we believe the single-mode, or LTE-only, device market is a potentially large and underserved segment of the overall LTE device market, and that these devices are characterized by attractive attributes not typically found in the traditional multi-mode device market. Specifically, we believe there are significant advantages in size, power consumption, product cost, development costs and certification costs for our customers producing LTE-only devices compared to their more expensive, larger, more power hungry and more complex multi-mode counterparts. As a result, we believe that the LTE-only market will continue to increase, especially as operators fully deploy their LTE networks and as the volume of data traffic continues to grow. We believe our LTE-solutions are among the most highly optimized, efficient and mature solutions in the industry, and that they are differentiated from both the multi-mode solutions providers and from rivals providing single-mode 4G solutions.

We have successfully brought to market five generations of 4G wireless chipsets, including two generations of LTE chipsets, and in February 2013 we announced our third generation LTE chipset. The cost, size and power efficiency of our LTE chip designs, coupled with our deep understanding of system-level architecture, our advanced wireless signal processing intellectual property and our RF expertise, enable us to provide high-performance, low-power and cost-efficient 4G semiconductor solutions, allowing us to target a wide range of wireless broadband devices. Our solutions serve as the core wireless broadband communications platform in these devices, including smartphones; USB dongles; portable routers; embedded wireless modems for laptops, netbooks, tablets, and other consumer multimedia and industrial devices; and CPE, such as residential gateways.

From 2005 through 2012, we shipped approximately 16.1 million semiconductor solutions, which have been deployed by leading wireless carriers around the world. Our WiMAX solutions are incorporated into the highly successful HTC EVO 4G, the first mass-market 4G smartphone, which was launched by Sprint in the United States in June 2010, as well as numerous subsequent HTC EVO smartphones and tablets, launched by Sprint, Virgin Mobile and Boost Mobile in the United States, KDDI in Japan, Korea Telecom in South Korea, and Vee TIME, Global Mobile, Vmax Telecom and Tatung InfoComm in Taiwan.

Our LTE solutions are currently in commercial deployments in Australia and Brazil, have successfully completed the Verizon Wireless chipset certification process in the United States, have received China's Ministry of Industry and Information Technology approval to participate in China Mobile's large-scale LTE trials, and are presently under evaluation or in trials with other leading wireless carriers in India, Japan, Europe, the United States and elsewhere. More than a dozen OEM or ODM customers have chosen to design products using our LTE solutions. Our LTE product line comprises two families: our StreamrichLTE™ family addresses the high-performance, feature-rich device segment, while the StreamliteLTE™ family is designed specifically to address the unique price/performance requirements of the "Internet of Things" market, including connected consumer electronics and machine-to-machine devices.

According to ABI Research, the number of 4G (LTE and WiMAX) devices shipped annually will increase from 119.4 million in 2012 to 892.5 million in 2017, representing a CAGR of approximately 50%. Our semiconductor solutions support the two commonly accepted wireless broadband 4G protocols, LTE and WiMAX. Our products have been deployed by many wireless carriers worldwide, including 7 of the 10 largest WiMAX carriers globally by number of subscribers according to BWA Research UK. Given that LTE and WiMAX share a common technology platform, we have also leveraged our leadership in WiMAX to successfully develop LTE semiconductor solutions that are being deployed globally, as described above. Our solutions are incorporated into devices sold by many leading OEMs and ODMs, including HTC, Huawei, Modacom, NationZ and Gemtek.

Our total revenue increased from \$68.5 million to \$93.7 million from 2010 to 2011 and then decreased to \$22.3 million in 2012; and our annual net loss decreased from \$2.7 million to \$0.4 million from 2010 to 2011 and then increased to \$33.0 million in 2012.

As explained more fully in “Item 5. Operating and Financial Review and Prospects,” the decrease in revenue in 2012 was primarily due to lower sales of WiMAX products, in particular to our largest customer HTC, following changes in the WiMAX market in the United States beginning in the second half of 2011. HTC integrated our WiMAX products into a line of smartphones sold primarily in the United States.

Industry Background

Evolution of Wireless Networks

The use of wireless communications devices has increased dramatically in the past decade, and mobile phones and wireless data services have become an integral part of day-to-day communication. According to ABI Research, global wireless data traffic will reach 26.1 billion gigabytes in 2016, more than a five-fold increase from 5.6 billion gigabytes estimated for 2011.

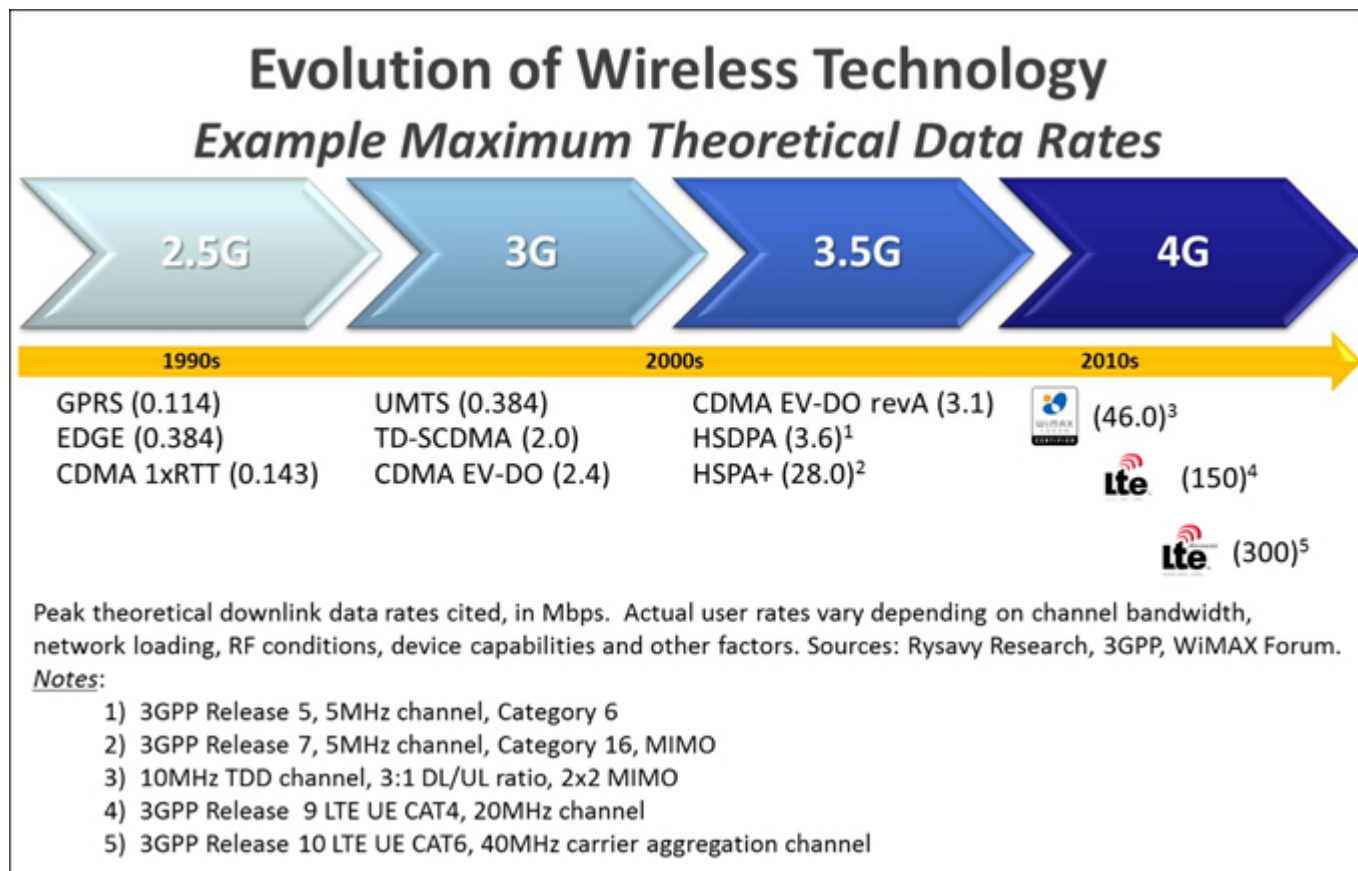
This increase in wireless data traffic is driven by two primary trends. First, the pervasiveness of the Internet with its vast array of rich media content and applications along with users’ desire to be connected anywhere and anytime using a variety of different wireless devices is driving a fundamental change in wireless data usage models and increasing demand for high speed wireless data connectivity. Second, rapid advances in performance and functionality have resulted in mobile phones evolving from solely voice-centric communications devices into data-intensive devices, such as smartphones, that support high-definition video, bandwidth-intensive Internet applications and streaming multimedia content, all of which require additional wireless network throughput. As a result, current wireless carrier networks, originally designed primarily for voice traffic, are straining to reliably handle the dramatic increase in wireless broadband data demand.

Wireless technologies have evolved through successive generations of protocols driven by the need for more efficient networks with greater bandwidth and capacity to handle a rising number of subscribers and increasing usage of data services. Launched in 1991, 2G wireless networks, based on the Global System for Mobile Communications, or GSM, standard, were the first mobile telephone networks to use digital technology to digitize and compress voice traffic for more efficient use of spectrum bandwidth. These networks were designed primarily to support voice traffic, although they were capable of supporting data rates up to 9.6 kilobits per second, or Kbps, using a circuit-switched data connection. By 2003, multiple enhancements to these networks improved theoretical peak downlink data rates to as high as 473.6 Kbps. An alternative to GSM-based 2G networks was the IS-95 standard based on Code Division Multiple Access, or CDMA, technology, which was adopted by several carriers in the U.S. and Asia in the 1990s. By the late 1990s, these networks could support data rates of up to 64 Kbps.

In the late 1990s, 3rd Generation Partnership Project, or 3GPP, began defining 3G networks based on the Universal Mobile Telecommunications System, or UMTS, standard, which was intended to minimize capital expenditure for wireless carriers evolving from GSM-based systems as they added data capability. The first UMTS networks were established in the early 2000s and supported peak downlink data rates of 384 Kbps. After many enhancements to the technology, peak downlink data rates of 28 Mbps and higher were achieved. In parallel to these 3GPP efforts, 3rd Generation Partnership Project 2, or 3GPP2, defined a path from 2G to 3G technology for CDMA-based carriers. An outcome of the 3GPP2 effort was the creation of specifications for CDMA2000, which supported 1xEV-DO (EVolution Data Only) implementations capable of up to 3.1 Mbps downlink speeds.

Despite the advances in data rates provided by these improvements on both the 3GPP and 3GPP2 paths, these networks remain constrained by legacy technologies that were designed primarily for voice traffic, which are characterized by limited throughput and inefficient utilization of spectrum. Unable to effectively address the fast growing demand for wireless broadband data services in a cost effective manner using legacy 2G and 3G networks, many wireless carriers are moving – or planning to move—to what are commonly referred to as ‘4G’ networks using LTE, which provides peak downlink speeds of 150 Mbps, and to a more limited extent WiMAX, which provides peak downlink capacity of 46 Mbps, to enable higher data throughput. In addition, the next version of LTE, called LTE-Advanced, which provides additional improvements in features and performance, is expected to be deployed by some operators starting in 2013.

The figure below provides a simplified perspective on the evolution of wireless technologies:



Wireless carriers are seeking to quickly deploy and transition existing wireless data services to more efficient 4G networks, which require less capital expenditure for a given amount of data throughput. At the same time, potential average revenue per user, or ARPU, can be increased by providing value-added mobile broadband services and solutions that are better enabled by the speed and performance of 4G networks. As such, ABI Research projects that operators will experience a 37% increase in data revenue from 2011 to 2016. According to the February 2013 Cisco® Visual Networking Index, by 2017 two-thirds of the world's mobile data traffic will be video, which is particularly problematic for legacy networks to support economically. These factors are key drivers of the move by mobile network operators to LTE technology.

Additionally, carriers in developing regions are increasingly embracing 4G wireless technology as a cost-effective and easier-to-deploy alternative to wireline networks for delivering broadband capability to subscribers. According to an October 2010 report by the International Telecommunications Union, developing regions of the world are forecasted to have only 4.4% wired broadband penetration by the end of 2010, compared to 24.6% for developed regions. 4G wireless technology is being deployed in many of these developing regions to increase access to broadband services.

4G Wireless Networks

4G architecture represents a fundamental technological change in the design of wireless communication networks. 2G and 3G networks were originally designed to support voice communications and utilize older circuit switching technology based on wireline telephone system design concepts. Circuit switching technology is inflexible as it requires a continuous dedicated connection between the source and destination of the communication, and is inefficient as network capacity is wasted on connections that are established but not in continuous use. 4G, which employs concepts such as packet switching and internet protocol, or IP, improves the scalability and performance of data networks. Packet switching technology makes more efficient use of network capacity for data communication by transmitting data in packets over multiple shared connections as compared to a dedicated connection. OFDMA and MIMO have emerged as key technologies that increase efficient use of spectrum, signal reliability, throughput and range in 4G networks compared to 2G and 3G networks.

- *OFDMA* is a digital modulation and access technique that achieves significantly higher throughput within a given frequency spectrum than the TDMA and CDMA techniques used in 2G and 3G wireless networks. OFDMA splits the

wireless signal into multiple lower frequency sub-signals spread throughout available spectrum during transmission, effectively reducing the demands on the network for each sub-signal and enabling increased overall speed and performance.

- *MIMO* is a smart antenna technology that enables higher data throughput and signal range without requiring additional bandwidth or transmit power. MIMO employs multiple antennae to more efficiently transmit and receive wireless data.

The throughput and range extension capabilities of OFDMA and MIMO technologies also enable infrastructure installations to cover a larger service area and provide increased network capacity, thereby reducing capital expenditures for wireless carriers.

The commonly accepted 4G protocols, LTE and WiMAX, are IP-based, share the same OFDMA and MIMO technologies and have very similar radio designs, coding schemes and signal processing algorithms. WiMAX was defined as a standard and deployed ahead of LTE as carriers sought to monetize available frequency spectrum using a Time Division Duplexing, or TDD, RF technology. TDD transmits and receives signals on the same frequency using a time-sharing scheme, whereas Frequency Division Duplexing, or FDD, uses different frequencies to transmit and receive signals simultaneously. While WiMAX is deployed almost exclusively in one of a limited number of TDD frequency bands, LTE is compatible with both TDD and FDD spectrum and can be deployed in many different frequency bands.

Wireless carriers that have deployed WiMAX include new market entrants seeking competitive differentiation from incumbents in addition to carriers in emerging markets who utilized WiMAX networks as an economical alternative to wired broadband networks. The availability of WiMAX technology prior to the development of LTE led to adoption and deployment of WiMAX networks first. Carriers who choose to deploy LTE networks will typically be incumbents who are seeking to improve data transmission capabilities or lower data transmission costs by supplementing their existing 2G or 3G networks with 4G networks, and in certain cases transitioning from WiMAX networks to LTE networks.

In developed countries, WiMAX services address the increasing demand for mobile broadband access to the Internet and other data services that create significant challenges for existing 3G networks. Carriers who deploy WiMAX networks often expect to gain an immediate advantage over competitors using 2G and 3G networks by delivering high data throughput at competitive prices using their existing or newly allocated frequency spectrum. In developing countries or regions where wireline infrastructure is limited and often insufficient to support broadband access, the market opportunity for WiMAX lies in providing broadband connectivity to the home or enterprise. According to the WiMAX Forum™, an industry-led, non-profit corporation formed to help promote and certify the compatibility and interoperability of broadband wireless products, as of May 2011 there had been 583 WiMAX networks deployed in over 150 countries around the world since 2006. ABI Research estimates over 24 million WiMAX subscribers worldwide as of December 2012. However, WiMAX growth is expected to be adversely impacted by the success of LTE.

LTE is widely expected to become the dominant technology for 4G wireless broadband access, particularly among large mobile operators who have historically deployed 3GPP or 3GPP2 technology. The Global Mobile Suppliers Association counted 145 commercial networks in 66 countries at the end of 2012, and was forecasting this to grow to 234 networks in 83 countries by the end of 2013, making it the fastest developing mobile communications system technology ever. Leading this trend, Verizon Wireless in the U.S. had 21.6 million LTE subscribers at the end of 2012, Japan's NTT DoCoMo had crossed 10 million users by February 2013, Korea's SK Telecom and KT counted 7.5 million and 4 million subscribers, respectively, at the end of 2012. According to ABI Research, LTE subscribers will grow from 58 million at the end of 2012 to 782 million by 2017, and shipments of LTE devices are expected to grow from 110 million in 2012 to 884 million in 2017, representing a CAGR of over 51%.

The rapid pace of deployment of LTE networks worldwide implies that in some regions, operators are preparing to achieve LTE coverage at parity or better compared to their 2G or 3G coverage footprint. Verizon Wireless for instance has said that it will have completed its LTE network build out by mid-2013, achieving population coverage parity with their 3G network. Meanwhile, South Korean and Japanese LTE operators achieved 100% population coverage in 2012. In this environment, many devices will not require 2G or 3G support. Initially, this is especially true outside the handset market, in devices such as tablets, laptops, mobile hotspots, USB modems, consumer electronics devices, and M2M applications. In these data devices the usage models are data-centric rather than voice-centric, and there are significant advantages in size, power consumption, product cost, development costs and certification costs for LTE-only implementations compared to their more expensive, larger, more power hungry and more complex multi-mode equivalents. In some regions, LTE-only handsets will emerge as well, particularly for domestic use. These LTE-only device-level advantages, coupled with the network-level economic benefits to carriers, imply that a significant market exists for LTE-only devices. Various industry analysts expect approximately 3 billion total LTE devices to be shipped worldwide between 2013 and 2017. Strategy Analytics forecasts that the LTE-only portion of the total LTE device market is expected to increase from approximately 8% of LTE units shipped in 2013 to well above 20% in 2017.

Challenges Faced By 4G Wireless Semiconductor Providers

Suppliers of 4G semiconductor solutions face significant challenges:

- **Execution Challenges.** The rapid evolution of wireless protocols, such as LTE to LTE Advanced, requires sustained product development excellence and ongoing collaboration with carriers to meet market technology needs. Subscriber demand and carriers' push to increase revenues by providing new and higher performance devices have driven OEM and ODM product lifecycles to become shorter and require semiconductor solution providers to adhere to quick time-to-market schedules while providing fast and efficient transition from design-in to volume production. In addition, wireless carriers require semiconductor solutions to undergo extensive certification qualification and interoperability testing prior to mass production.
- **Technology Challenges.** In order to increase throughput with minimal cost, wireless carriers require more efficient use of spectrum through the implementation of complex signal processing algorithms, such as OFDMA and MIMO, that require a significant amount of system-level and software expertise in addition to IC design knowledge. In addition, OEM and ODM customers' desire for continuous improvements in power efficiency, reduced form factor and lower cost require rapid design cycles employing increasingly advanced silicon processes, improved RF transceiver performance and integration of additional features. Furthermore, until LTE networks are fully deployed by the carrier, the need to provide an optimal user experience in areas of poor network coverage or areas where coverage changes from 2G or 3G to 4G requires multi-mode system designs that are capable of seamlessly transitioning between the technologies.

Our Competitive Strengths

We believe the following competitive strengths enable us to address the challenges faced by 4G wireless semiconductor providers:

- **A strong track record of execution in 4G.** We were an early provider of WiMAX products and have been shipping our wireless broadband semiconductor solutions since 2005. We believe we have a strong position in the WiMAX market and are well positioned for the LTE market, with over a dozen customers working on one or multiple products. Since we commenced operations in 2004, we have accomplished the following milestones:
 - released six generations of 4G semiconductor solutions that have been deployed in a variety of devices including smartphones, USB dongles, embedded wireless modems and CPE systems;
 - delivered advanced broadband semiconductor solutions such as a single chip solution for WiMAX that incorporates baseband and RF transceiver functionality, utilizes cost-effective and power-efficient 65nm complementary metal-oxide-semiconductor, or CMOS, technology and delivers high network throughput, low latency, strong signal reach, low power consumption and high reliability in a small form factor and at a low cost;
 - designed our WiMAX solution into multiple devices, including the highly successful HTC EVO 4G, the first mass-market 4G smartphone, followed by eight more HTC devices;
 - introduced our first LTE product in May 2010, a full 20MHz bandwidth TDD LTE solution, which was used by China Mobile in the first TDD LTE network demonstration and was launched in several commercial networks, including in Australia and Brazil;
 - at the end of 2011, introduced our StreamrichLTE™ family of second-generation LTE chipset solutions, designed in advanced low-power 40nm CMOS technology, supporting both FDD and TDD networks, 3GPP Release 9 features, and providing one of the industry's first solutions to support Category 4 throughput of up to 150Mbps in the downlink;
 - in the fourth quarter of 2012, successfully completed a comprehensive qualification process of our second-generation LTE chipsets conducted by China Mobile and China's Ministry of Industry and Information Technology (MIIT) and announced that our chips were selected to power a significant portion of the LTE devices to be used in the next phase of China Mobile's large-scale LTE trial;
 - certified our second generation LTE chipset solution on Verizon Wireless' network in the fourth quarter of 2012;
 - introduced our StreamliteLTE™ family of products in the fourth quarter of 2012, optimized for the price/performance requirements of the "Internet of Things" market, including connected consumer electronics and machine-to-machine devices;
 - successfully demonstrated performance gains enabled by our proprietary LTE interference cancellation technology, Sequans AIR™, in a trial with Japanese LTE operator Softbank in December 2012; and
 - introduced our third-generation LTE chipset solution in the first quarter of 2013, supporting LTE Advanced and 3GPP Release 10 features, including support for carrier aggregation up to a total of 40MHz bandwidth, an industry-first capability.

- **Understanding of wireless system-level architecture and expertise in signal processing.** We have an end-to-end understanding of wireless system-level architectures and networks based on our team's experience in a broad range of wireless technologies including 2G, 3G, Wi-Fi, WiMAX and LTE. This enables us to serve as a trusted advisor to wireless carriers, OEMs and infrastructure vendors to optimize the performance of their 4G devices and networks. For example, our solutions offer improved standby-mode battery life in 4G devices as a result of our in-depth understanding of the interactions between the device and the network and implementation of advanced power-saving techniques in our solutions. We also utilize our system-level knowledge to optimize handover performance between 3G and 4G networks in the same smartphone allowing for seamless transitions between networks and providing an enhanced user experience for mobile users. In addition, we provide our customers with Wi-Fi-WiMAX coexistence systems designs that ensure that Wi-Fi transmissions in adjacent frequencies are properly filtered to maintain WiMAX performance.
- **High performance solutions for 4G applications.** Our solutions offer high performance for use in a wide array of 4G-enabled devices. The key performance characteristics of our solutions include:
 - high throughput with peak downlink data transfer rates of 150 Mbps in our LTE solutions;
 - high power efficiency in both active and idle modes using our patented idle mode optimization algorithms that improve standby time and help maximize device battery life;
 - patented dual-transmit technology that improves coverage and provides higher data throughput from the device to the network compared to traditional single transmitter approaches;
 - support for an advanced technology called hybrid automatic repeat request, or hybrid ARQ, which significantly enhances RF link robustness and throughput improving mobility and range;
 - inclusion of LTE broadcast support in our LTE solutions using a feature called evolved multimedia broadcast multicast service, or eMBMS, which enables carriers to deliver new multimedia services in an economical and spectrally efficient manner;
 - optimized support for IP communications services in our LTE solutions, including voice over LTE, or VoLTE, and Rich Communications Suite, or RCS, both of which provide carriers with opportunities to deliver new services in an economical and spectrally efficient manner; and
 - support for LTE-Advanced features, including carrier aggregation, a capability of creating a single virtual wide channel from two different narrower channels, resulting in higher throughput.
- **Fully integrated 4G solutions.** We provide the industry's most highly integrated 4G system-on-chip, or SoC, and system-in-package, or SiP, semiconductor solutions integrating the baseband, the RF and other functionality into a single die or package. In addition, we have successfully migrated from 130nm to 65nm CMOS technology to further reduce device form factor while offering improved device performance and added cost savings; migration to 40nm CMOS technology has taken place with our second-generation LTE SoC which became available in 2012. Furthermore, our comprehensive software solutions help our customers get to market quickly with a field proven solution. Our integrated solutions offer key advantages for both ourselves and our end customers:
 - Lower overall system cost for our end customers, coupled with higher functionality and smaller form factor. Our ability to integrate digital and RF functions into a single device also allows us to maintain higher product margins as we believe device manufacturers are willing to pay a premium for our integrated 4G solutions, while also enabling us to reduce our manufacturing costs for wafer fabrication, assembly and testing.
 - Simplified product design for device manufacturers, as our solutions incorporate all key components required for a 4G device in a single die or package. We believe these advantages enable our products to be incorporated into leading edge devices that offer a high quality user experience, as well as accelerate our end customers' time-to-market.
 - Proprietary embedded protocol software that has been exhaustively tested with major basestation vendors' equipment to ensure reliable performance in the field. We also offer host software that facilitates rapid development of high performance device drivers, connection managers and other key application-layer software functionality.

Our Strategy

Our goal is to be a leading provider of next-generation wireless semiconductors by providing best-in-class solutions that enable mass-market adoption of 4G technologies worldwide. Key elements of our strategy include:

- Identifying, segmenting and optimally serving LTE-only market segments. As the LTE market grows and matures, and as operators aggressively build out their LTE networks and refarm their 2G and 3G spectrum to support demand for data capacity on LTE, we expect to see significant growth in the demand for single-mode LTE, or LTE-only, devices, initially

primarily outside the handset market. LTE-only devices are typically smaller, thinner, more power-efficient, can take less time to develop and certify, and cost less to produce and sell than their multi-mode counterparts. Data-centric devices including tablets, laptop and ultrabook PCs, portable routers, USB dongles, consumer electronics devices such as digital cameras and portable gaming devices, machine-to-machine devices and fixed broadband access gateways or CPE are expected to embrace the advantages of LTE-only implementations. We anticipate this trend to manifest itself first with wireless carriers having the most aggressive LTE network coverage plans in the U.S., Korea, Japan and elsewhere. Some of these device markets, including the connected consumer electronics and machine-to-machine devices, are especially cost-sensitive, and as a result, in 2012 we launched our StreamliteLTE™ family of products to provide the appropriate features and price/performance points to competitively serve these needs. Meanwhile, our full-featured, high-performance StreamrichLTE™ family of products serves the computing, tablet, mobile hotspot and CPE device segments.

- **Leveraging our multiple generations of 4G chip design experience to become a leader in advanced LTE technology and cost efficiency.** We have nearly ten years and six generations of 4G chip design experience, resulting in highly optimized and cost-efficient chip implementations and deep technical expertise, allowing us to be among the first in the industry to deliver new capabilities to market, as well as to enable extremely cost-competitive solutions. For example, we developed a full 20MHz bandwidth TDD LTE solution which was used in the first TDD LTE network demonstration by China Mobile in 2010. In 2011 we announced our second-generation LTE solutions, the SQN3110, SQN3120 and SQN3140, which we believe provide differentiated performance, power efficiency and system cost advantages to manufacturers serving all potential LTE markets, including TDD LTE solutions for large wireless carriers such as China Mobile, Softbank, Reliance Jio Infocomm Ltd. and Clearwire; and FDD LTE products to enable 3G wireless carriers such as Verizon Wireless, Sprint and others to migrate to LTE. With this second-generation chipset, we were among the first LTE chip vendors to demonstrate the full 150Mbps downlink throughput capability defined in the 3GPP specification for LTE Category 4 devices. In December 2012 we disclosed the performance gains achieved in a trial with Softbank using our proprietary interference cancellation technology, Sequans AIR™. In February 2013, we announced our third generation LTE chip, with support for LTE Advanced features, including carrier aggregation support for up to 40MHz aggregated bandwidth, the only such capability in the industry. In addition, our SQN5120 dual-4G baseband along with our 4sight 4G network migration initiative provides an LTE chipset with built-in WiMAX support and other solutions to enable WiMAX operators to deploy devices for an efficient transition to LTE. Finally, the cost and power efficiency achieved from our multiple generations of 4G modem design has enabled us to deliver our StreamliteLTE family of products at attractive price points, enabling LTE connectivity to be embedded in a wide range of cost-sensitive consumer and machine-to-machine applications, potentially growing the addressable market for LTE.
- **Maximizing return-on-investment in WiMAX.** We developed a leadership position in WiMAX, particularly in the smartphone market, by investing early in the silicon integration and system design techniques required to be competitive in this market. With WiMAX deployments now slowing and new device development projects declining, we can minimize further investment in new WiMAX chips while remaining in a competitive position to address those opportunities that remain, maintaining or even growing market share. We intend to maintain our market position in WiMAX by focusing on continued penetration into 4G WiMAX devices that are deployed by large wireless carriers and the expansion of our sales in CPE broadband wireless applications for emerging markets. In addition, as the first in the industry to provide a dual-4G WiMAX+LTE chip, we are uniquely positioned to generate new business by providing a solution that helps WiMAX carriers transition smoothly and economically to LTE. Our technology and market share leadership position enables us to pursue additional business without significant further investment in new product development.

Our Solutions

We have developed a portfolio of 4G semiconductor solutions to address a variety of applications and market segments. We offer baseband solutions used to encode and decode data based on 4G protocols that serve as the core wireless processing platform for a 4G device; RF transceivers used to transmit and receive wireless transmissions; and highly integrated SoC solutions that combine these and other functions into a single die or package. Some of our SoC solutions integrate the baseband and RF transceiver functions, in some cases with an applications processor and memory. This advanced integration reduces the size, cost, design complexity and power consumption of the 4G solution.

All of our baseband and SoC products are provided with comprehensive software, including relevant source code and tools, to enable manufacturers to easily integrate our solutions into their devices in a wide variety of environments, including Apple MAC OSX, Microsoft Windows and embedded operating systems such as Android. In addition, we provide our customers with design support, in the form of reference designs that specify recommended methods for interconnecting our chips to surrounding devices, such as host processors, memory and RF front-end components as well as tools to integrate with products from major automatic test equipment vendors. Further, we provide our customers with a warranty, for a period of one to two years, that our solutions are free from defects in materials and workmanship and will operate in material conformance with the provided specifications, entitling the customer to have the defective product repaired or replaced at our expense.

Many of today's LTE-enabled devices, including smartphones, tablets, laptops and mobile hotspots, tend to require the highest performance and richest set of features in their LTE solution, driven by consumer demand for these attributes and by a highly competitive device market. For these performance segments, we typically propose our StreamrichLTE family of products, as these solutions deliver the required higher performance and comprehensive feature set. However, in the nascent market for connected devices in segments like consumer electronics and machine-to-machine modules, attributes like size, power consumption and cost are often much more important than raw performance. For these products, we typically propose our StreamliteLTE family of products, which provide performance levels suitable for these kinds of devices in a smaller, more power-efficient and more cost-effective implementation.

Our primary products during the last three financial years are summarized in the table below.

Product Name and Family	Description	Target Applications					Availability	Key Features
		Handsets	Tablets/ Embedded Laptops	USB Dongles	Embedded CE, M2M	CPE		
SQN1210	WiMAX BB + RF	•	•	•	•		Now	65nm technology, integrated multi-band RF transceiver, embedded SDRAM
SQN1220	WiMAX BB + RF			•			Now	As in SQN1210, plus integrated processor with VoIP support
SQN1130	WiMAX BB		•	•			EOL	
SQN2130	WiMAX BB						EOL	Supports >100 users for micro- and macro basestations
SQN3110 streamRICH™	LTE Release 9 BB	•	•	•	•		Now	40nm technology, 150Mbps Category 4 peak throughput, USB and SDIO interfaces, embedded SDRAM.
SQN3120 streamRICH™	LTE Release 9 BB			•	•	•	Now	As in SQN3110 plus integrated processor and gigabit Ethernet MAC + interface.
SQN5120 streamRICH™	LTE Release 9 + WiMAX BB			•		•	Now	As in SQN3120, plus integrated WiMAX baseband, seamless WiMAX-LTE handover support
SQN3140 streamRICH™	LTE RF	•	•	•	•	•	Now	Supports 2.3—2.7 GHz and 3.3—3.8 GHz TDD LTE bands, up to 20 MHz bandwidth
SQN3101 streamLITE™	LTE Release 9 BB				•		Now	40nm technology, 50Mbps peak throughput, SDIO and USB interfaces, integrated processor + SDRAM, optimized price/performance and features for CE and M2M markets

Abbreviations used in this table: BB = baseband processor, CPE = customer premise equipment, EOL = product declared end-of-life (as of December 31, 2012), FDD = frequency division duplexing, nm = nanometer, RF = radio frequency transceiver, SDRAM = Synchronous Dynamic Random Access Memory, SoC = system-on-chip, TDD = time division duplexing, VoIP = Voice over Internet Protocol.

In February 2013, we announced our first LTE-Advanced chip in our StreamrichLTE family of products, the SQN3220, which is expected to sample during the second quarter of 2013. The SQN3220 will support 3GPP Release 10 specifications and the key feature is extremely flexible carrier aggregation, allowing combination of any two carriers of any size up to 20 MHz each,

contiguous or non-contiguous, inter-band or intra-band, for an overall total of 40 MHz of bandwidth. The SQN3220 also will support other Release 10 enhancements such as new MIMO schemes, enhanced inter-cell interference coordination (eICIC) schemes for heterogeneous networks (HetNet), and improvements to eMBMS (evolved multimedia broadcast multicast service) or LTE Broadcast. The SQN 3220 supports both FDD and TDD duplexing methods and integrates a customer-programmable processor. The SQN3220 baseband chip is built in 40 nm CMOS.

Competition

The wireless semiconductor business is very competitive. We believe that our competitive strengths will enable us to compete favorably in the LTE and WiMAX markets. The following are the primary elements on which companies in our industry compete:

- functionality, form factor and cost;
- product performance, as measured by network throughput, signal reach, latency and power consumption;
- track record of providing high-volume deployments in the industry; and
- systems knowledge.

In the LTE market, we expect to face competition from established semiconductor companies such as Broadcom Corporation, Intel Corporation, Marvell Technology Group Ltd., NVIDIA Corporation, Qualcomm Incorporated, Renesas Mobile Corporation, Samsung Electronics Co. Ltd., Spreadtrum, and ST-Ericsson N.V., as well as smaller entrants in the market such as Altair Semiconductor, GCT Semiconductor, or Innofidei. In the WiMAX market, we compete with suppliers such as Broadcom Corporation, GCT Semiconductor, Inc. and MediaTek Inc.

Many of our competitors have longer operating histories, significantly greater resources and name recognition, and a larger base of existing customers than us. In addition, some of them may provide incentives to customers or offer bundled solutions with complementary products, which could be attractive to some customers, or adopt more aggressive pricing policies to offset what we believe are the performance and cost advantages of our solutions.

Business Development, Sales and Marketing

Our business development efforts are focused on developing relationships with wireless carriers to identify the potential product opportunities at each carrier. Our sales efforts are then focused on determining which OEMs and ODMs are most likely to win in the various carrier product opportunities, and securing design wins for mobile broadband devices to be manufactured by the OEMs and ODMs. We work closely with key players across the 4G wireless broadband industry to understand their requirements and enable them to certify and deploy 4G solutions in high volume.

Our business development team is organized regionally and by wireless carrier. In addition to identifying new business opportunities based on the wireless carriers product launch plan, the business development team also works to understand the wireless carriers' future technological requirements, so that we can incorporate appropriate features in our product roadmap. As of December 31, 2012, we had a business development team of both dedicated employees and outside contractors.

Our sales force is organized regionally to provide account management and customer support functions as close to customer physical locations as practical. As of December 31, 2012, we had a direct sales force serving our OEM and ODM customers in the Asia-Pacific region, including Taiwan, China, Korea and Japan, India, Europe, the Middle East and North and South America. In China, Japan, India and Korea we supplement our direct sales team with local distributors and sales representatives who handle certain customer communications, logistics and customer support functions. We do not have any agreements in place with such distributors.

Our sales force works closely with a team of technical support personnel which, since April 2012, is part of the engineering department. This team assists customers in solving technical challenges during the design, manufacturing implementation and certification phases of a customer's product life cycle. The information obtained from customer support is then communicated back to the direct product development teams to be considered in future software releases or hardware development. This high-touch approach allows us to facilitate the successful certification and acceptance by the wireless carriers of our customers' products, which speeds time-to-market for our customers and reinforces our role as a trusted advisor to our customers.

Our sales cycles typically take 12 months or more to complete and our solutions are generally incorporated into our customers' products at the design stage. Prior to an end customer's selection and purchase of our solutions, our sales force and technical support engineers provide our end customers with technical assistance in the use of our solutions in their products. Once our solution is designed into a customer's product offering, it becomes more difficult for a competitor to sell its semiconductor solutions to that end customer for that particular product offering given the significant cost, time, effort and risk involved in changing suppliers. In addition, once we win a particular design with an end customer, we believe our ability to penetrate other product families at that end customer increases significantly.

Our marketing strategy is focused on enabling broad adoption of 4G solutions and communicating our technology advantages to the marketplace. This includes building awareness of and preference for our technology at wireless carriers who generate demand for 4G-enabled devices. By working to understand carrier services strategies, device roadmaps and technical requirements, we believe we are better positioned to drive our roadmap to meet these needs, to influence their choice of technology suppliers, and to identify manufacturers in the wireless industry who are best prepared to serve the needs of the wireless carrier. For example, by engaging early with China Mobile, we were able to understand their requirements and achieve aggressive timelines for delivering our LTE solution for their demonstration network. In addition, our collaboration with Sprint allowed us to understand their user experience goals, which led to the implementation of an optimized 3G-4G handover capability and reduced idle-mode power consumption for handsets incorporating our solutions.

Our marketing team is also responsible for product management, strategic planning, product roadmap creation, OEM, ODM and wireless carrier business development and corporate communications. All of these functions are aimed at strengthening the competitiveness of our solutions in response to evolving industry needs and competitive activities, and at articulating the value proposition of our technology throughout the 4G broadband wireless industry. Our business development, sales and marketing organizations work closely together to ensure that evolving industry requirements are reflected in our product plans, and that customers have early access to our roadmaps and can communicate the value of our technology to the wireless carriers. This end-to-end value chain management approach is designed to grow and preserve our market share in the segments we serve.

As of December 31, 2012 we had 15 employees and 2 outside contractors in our business development, sales and marketing team.

Customers

We maintain relationships with 4G wireless carriers and with OEMs and ODMs who supply devices to those carriers and their end users. We do not typically sell directly to wireless carriers. Our sales are conducted on a purchase order basis with OEMs, ODMs, contract manufacturers or system integrators, or to a lesser extent with distributors who provide certain customer communications, logistics and customer support functions.

Our top ten customers accounted for 91%, 95% and 80% of our total revenue in 2010, 2011 and 2012, respectively. HTC accounted for 66%, 78% and 32% of our total revenue in 2010, 2011 and 2012, respectively. Huawei, through sales via dedicated distributors, accounted for less than 10% of our total revenue in 2010 and 2011 and 16% of our revenue in 2012. The following is a list of our top ten customers, in alphabetical order, based on total revenue during 2012:

- Airspan Network
- Alvarion Ltd.
- Ampak Technology Inc.
- Arrow Asia Pac Ltd.*
- Green Packet Berhad
- HTC
- Sozvezdie
- KZ Broadband Technologies
- Nationz Technologies
- Smith & Associates Far East Ltd.*

*Distributors used exclusively for sales to Huawei

Manufacturing

We operate a fabless business model and use third-party foundries and assembly and test contractors to manufacture, assemble and test our semiconductor solutions. Our sole foundry vendor is TSMC. In our latest products, we use 65nm and 40nm standard RF, mixed-signal and digital CMOS production processes. The use of these commercially available standard processes is designed to enable us to produce our products more cost-effectively and, by migrating to lower process geometries, we expect to achieve advantages in cost, size and power consumption.

We use UTAC and SPIL for most of our assembly and testing, and will use SPC for our LTE products. We rely on extensive simulation, practical application and standardized test bed studies to validate and verify our products.

We closely monitor the production cycle from wafer to finished goods by reviewing electrical parameters and manufacturing process and test yield data. We also run routine reliability monitoring programs to ensure long term product reliability. This enables us to operate certain test processes on demand to reduce the time-to-market for our products and to help ensure their quality and reliability. We are ISO 9001 certified, and all of our major suppliers and subcontractors are required to have quality management systems certified to ISO 9000 and ISO 14000 levels, as well as appropriate environmental control programs.

We do not have any agreements with our foundry or with our testing and packaging vendors, other than a framework agreement with UTAC, and we place our orders with our foundry and other vendors on a purchase order basis. See "Risk Factors—Risks Related to Our Business and Industry".

Intellectual Property

We rely on a combination of intellectual property rights, or IPR, including patents, trade secrets, copyrights and trademarks, and contractual protections, to protect our core technology and intellectual property. At December 31, 2012, we had nine issued and allowed United States patents, seven European patents, and 27 pending United States and European patents. The first of our issued and allowed patents is not expected to expire until 2025.

In addition to our own intellectual property, we have also entered into a number of licensing arrangements pursuant to which we license third-party technologies and intellectual property. In particular, we have entered into such arrangements for certain technologies embedded in our semiconductor, hardware and software designs. These are typically non-exclusive contracts provided under royalty-accruing or paid-up licenses. These licenses are generally perpetual or automatically renewed for so long as we continue to pay any royalty that may be due and in the absence of any uncured material breach of the agreement. Certain licenses for technology used for development of a particular product are for a set term, generally at least two years, with a renewal option, and can be easily replaced with other currently available technology in subsequent product developments. In the event that such licenses are not renewed, they nevertheless continue with regard to products distributed in the field. Except for our licenses to the so called “essential patents” described below, we do not believe our business is dependent to any significant degree on any individual third-party license.

In the past, we have entered into licensing arrangements with respect to so called “essential patents” that claim features or functions that are incorporated into applicable industry standards and that we are required to provide in order to comply with the standard. We may be required to enter into such licensing arrangements in the future in order to comply with applicable industry standards.

Facilities

Our principal executive offices are located in Paris, France, consisting of approximately 22,390 square feet under a lease that expires in May 2014. This facility accommodates our principal research and development, product marketing, and finance and administrative activities.

We have a 4,236 square-foot facility in Winnersh Triangle, England, which accommodates a research and development center under a lease expiring in October 2015. We have a 1,973 square-foot facility in Petach Tikva, Israel, which houses a small research and development team, and sales and technical support personnel, under a lease that expires in January 2015. We have a 1,957 square-foot facility in Xindian City, Taipei, Taiwan for sales and technical support personnel under a lease that expires in November 2013. We have a 1,447 square-foot facility in Shenzhen, China, which accommodates sales and technical support personnel, under a lease that expires in June 2014. We have a 1,600 square foot office in Singapore under a lease expiring in February 2014. We rent additional office space in Shanghai, China; Seoul, South Korea and Burnsville, Minnesota, U.S. under short-term lease agreements.

We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities will be available on suitable, commercially reasonable terms to accommodate any future needs.

C. Organizational Structure

The Company is the ultimate parent of the group comprised of the Sequans Communications S.A. and its subsidiaries at December 31, 2012:

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>% equity interest</u>
Sequans Communications Ltd.	United Kingdom	2005	100
Sequans Communications Inc.	United States	2008	100
Sequans Communications Ltd. Pte.	Singapore	2008	100
Sequans Communications (Israel) Ltd.	Israel	2010	100

D. *Property, Plants and Equipment*

For a discussion of property, plants and equipment, see “Item 4.B—Business Overview—Facilities.”

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Summary

We are a leading fabless designer, developer and supplier of 4G LTE and WiMAX semiconductor solutions for wireless broadband applications. Our solutions incorporate baseband processor and RF transceiver ICs along with our proprietary signal processing techniques, algorithms and software stacks. Our high performance ICs deliver high throughput, low power consumption and high reliability in a small form factor and at a low cost.

We shipped more than 1.6 million units during 2012, compared to nearly 8.1 million units during 2011 and more than 4.6 million units during 2010. Our total revenue was \$22.3 million in 2012, compared to \$93.7 million in 2011 and \$68.5 million in 2010.

We currently have more than 50 end customers worldwide, consisting primarily of OEMs and ODMs for USB dongles, embedded devices, CPE, mobile routers and other data devices. We derive a significant portion of our revenue from a small number of end customers and we anticipate that we will continue to do so for the foreseeable future. In 2012, HTC accounted for 32% of our total revenue, compared to 78% of our total revenue in 2011 and 66% of our total revenue in 2010. The high levels of revenue from HTC in 2010 and 2011 was driven by the success of the HTC EVO 4G smartphone, which was launched in June 2010, and subsequent phones and tablets in the EVO family launched in 2011. Huawei accounted for 16% of our revenue in 2012 and less than 10% of our total revenue in 2010 and 2011. We do not have long-term purchase agreements with any of our end customers and substantially all of our sales are made on a purchase order basis. We expect that the percentage of revenue derived from each end customer may vary significantly due to the order patterns of our end customers, the timing of new product releases by our end customers, and consumer demand for the products of our end customers.

Our Consolidated Financial Statements for 2010, 2011 and 2012, have been prepared in accordance with IFRS as issued by the IASB.

A. *Operating Results*

Revenue

Our total revenue consists of product revenue and other revenue.

Product Revenue

We derive substantially all of our revenue from the sale of semiconductor solutions for 4G wireless broadband applications and we currently expect to continue to do so for the foreseeable future. Our solutions are sold both directly to our end customers and, to a lesser extent, indirectly through distributors.

Our sales cycles typically take 12 months or more to complete and our solutions are generally incorporated into our end customers' products at the design stage. Prior to an end customer's selection and purchase of our solutions, our sales force and applications engineers provide our end customers with technical assistance in the use of our solutions in their products. Once our solution is designed into an end customer's product offering, it becomes more difficult for a competitor to sell its semiconductor solutions to that end customer for that particular product offering given the significant cost, time, effort and risk involved in changing suppliers. In addition, once we win a particular design with an end customer, we believe our ability to penetrate other product families at that end customer increases significantly.

Our product revenue began declining in the second half of 2011 compared to the first half of 2011 due to an overall decline in the WiMAX market driven by a change in strategy from WiMAX to LTE by Sprint, the largest driver of demand for WiMAX semiconductor solutions. We presently believe this reduction in the size of the WiMAX market to be permanent. Sales of our LTE products are not expected to contribute materially to revenues until the second half of 2013 or later due to the timing of our products and the deployment timing of the operators where we are focused.

Our product revenue is also affected by changes in the unit volume and average selling prices, or ASPs, of our semiconductor solutions. Our products are typically characterized by a life cycle that begins with higher ASPs and lower volumes as our new products use more advanced designs or technology and are usually incorporated into new devices that consumers adopt over a period of time. This is followed by broader market adoption with higher volumes and ASPs that are lower than initial levels, due to the

maturity of the technology, greater availability of competing products or less demand as our end customers' products reach the end of their life cycle. The proportion of our product revenue that is generated from the sale of various products, also referred to as product mix, affects our overall ASP, product revenue and profitability. Given the varying ASPs of our solutions, any material change in our product mix may affect our gross margins and operating results from period to period. We expect to continue to broaden our product portfolio by introducing new solutions.

A small portion of our product revenue is derived from sales of reference designs or electronic boards on which our end customers develop and test their own designs.

Other Revenue

Other revenue consists of the sale of licenses to use our technology solutions and revenue from associated annual software maintenance and support services, as well as technical support services. We license the right to use our solutions, including embedded software that enables our end customers to customize our solutions for use in their products. The license is perpetual and covers unlimited product designs by the end customer. We expect that we will continue to sign new license agreements as we begin working with new customers, but we do not expect that such licenses will generate significant revenues. We therefore expect other revenue to remain flat or decline in absolute terms in future periods, however in the short term it is likely to remain a significant percentage of our total revenue.

The following table sets forth our total revenue by region for the periods indicated. We categorize our total revenue geographically based on the location to which we invoice.

	<u>Year ended December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(in thousands)		
Asia	\$61,182	\$85,902	\$17,841
Europe, Middle East, Africa	4,914	6,823	3,479
Americas	2,448	989	934
Total revenue	<u>\$68,544</u>	<u>\$93,714</u>	<u>\$22,254</u>

Cost of Revenue

Our cost of revenue includes cost of product revenue and cost of other revenue.

Cost of Product Revenue

A significant portion of our cost of product revenue consists of the cost of wafers manufactured by third-party foundries and costs associated with assembly and test services. Cost of product revenue is impacted by manufacturing variances such as cost and yield for wafer, assembly and test operations and package cost. To a lesser extent, cost of product revenue includes expenses relating to depreciation of productions mask sets, the cost of shipping and logistics, royalties, personnel costs, including share-based compensation expense, valuation provisions for excess inventory and warranty costs.

Early in the life cycle of our products, we typically experience lower yields and higher associated costs, which are offset by higher ASPs. Over the life cycle of a particular product, our experience has been that the cost of product revenue has typically declined as volumes increase and test operations mature, while ASPs generally decline.

We use third-party foundry, assembly and test subcontractors, which are primarily located in Asia, to manufacture, package and test our semiconductor solutions. We purchase processed wafers from our fabrication supplier, currently TSMC. We also rely on third-party assembly and test subcontractors to assemble, package and test our products, and on third-party logistics specialists for logistics and storage. We do not have long-term agreements with our suppliers. Our obligations with our vendors for manufacturing, assembly and testing are generally negotiated on a purchase order basis.

Cost of Other Revenue

As most of the costs related to other revenue, particularly our licenses, are incurred as part of our normal research and development efforts, we allocate to cost of other revenue only the specific incremental costs related to generating maintenance and technical support services revenue.

Gross Profit

Our gross profit is affected by a variety of factors, including our product mix, the ASPs of our products, the volumes sold, the purchase price of fabricated wafers, assembly and test service costs and royalties, provision for inventory valuation charges, and

changes in wafer, assembly and test yields. We expect our gross profit will fluctuate over time depending upon competitive pricing pressures, the timing of the introduction of new products, product mix, volume pricing, variances in manufacturing costs and the level of royalty payments to third parties possessing intellectual property necessary for our products.

Operating Expenses

Research and Development

We engage in substantial research and development efforts to develop new products and integrate additional capabilities into our core products. Research and development expense consists primarily of personnel costs, including share-based compensation, for our engineers engaged in design and development of our products and technologies. These expenses also include the depreciation cost of intellectual property licensed from others for use in our products, product development costs, which include external engineering services, development software and hardware tools, cost of fabrication of mask sets for prototype products, equipment depreciation and facilities expenses.

We expect research and development expense to remain fairly stable in the short term as we continue to control costs, and then to increase in absolute terms as we enhance and expand our features and offerings for our product portfolio and we continue to develop new products for LTE, which will require additional resources and investments. We expect research and development expense with respect to our WiMAX products to decrease to a low level, as required to maintain current products, and we expect research and development expense with respect to LTE to increase as we focus on bringing our LTE products to market.

Under IFRS, research and development expense is required to be capitalized if certain criteria are met and then amortized over the life of the product. As we operate in a highly innovative, dynamic and competitive sector, the costs incurred from the point that the criteria for capitalization are met to the point when the product is made generally available on the market are not material. Through 2012, all research and development expense has been expensed as incurred.

Research and Development Incentives

In France, through the end of 2010, we were classified as a *Jeune Entreprise Innovante*, or JEI, which allowed us to pay reduced payroll taxes on the salaries of our engineers based in France for the first eight fiscal years after our incorporation. Beginning in 2011, we are no longer eligible for this benefit and consequently research and development costs increased.

In France and the United Kingdom, we also receive certain tax incentives based on the qualifying research and development expense incurred in those jurisdictions. When the incentive is available only as a reduction of taxes owed, such incentive is accounted for as a reduction of tax expense; otherwise, it is accounted for as a government grant with the benefit recorded as a reduction of research and development expense. We expect to be able to continue to qualify for such tax incentives in these jurisdictions in future periods. We expect the tax incentives, which are based on a percentage of qualifying research and development expense, to remain fairly stable in the short term. For 2012, we recorded a net amount of approximately \$4.2 million in tax incentives. This amount reflects a reduction for the estimated impact of a French tax audit of 2008 and 2009, which we are contesting. Finally, we receive incentives in the form of grants from agencies of the French government and the European Union, based on qualifying research and development expense incurred pursuant to collaborative programs carried out with other companies and universities. These incentives are recorded as a reduction of research and development expense and are recognized when there is a reasonable assurance that the grant will be received and all relevant conditions will be complied with. We expect that the amounts we receive from such incentives will be flat or decline over time in absolute terms. For 2012, we recorded approximately \$0.7 million in grants.

Sales and Marketing

Sales and marketing expense consists primarily of personnel costs, including sales commissions, and share-based compensation for our business development, sales and marketing personnel, commissions paid to independent sales agents, the costs of advertising and participation in trade shows, depreciation and facilities expenses. We expect the size of our business development, sales and marketing organization to remain flat in 2013 and therefore expect sales and marketing expense to remain fairly stable.

General and Administrative

General and administrative expense consists primarily of personnel costs and share-based compensation for our finance, human resources, information technology, purchasing, quality and administrative personnel; professional services costs related to recruiting, accounting, tax and legal services; investor relations costs; insurance; depreciation and facilities expenses. We expect the size of our general and administrative staff to remain flat in 2013 and therefore expect general and administrative expense to remain fairly flat in absolute terms.

Interest Income (Expense), Net

Interest income consists of interest earned on cash and cash equivalent balances. We have historically invested our cash primarily in commercial bank accounts, short term deposits and money market funds. Interest income was offset primarily by interest expense on our convertible notes issued in 2008, and on amounts drawn on the line of credit secured by our accounts receivable. A portion of convertible notes were converted to equity in December 2010. The remaining convertible notes were repaid in November 2011. See "Item 5.B—Liquidity and Capital Resources" for a more detailed description of our convertible notes.

Foreign Exchange Gain (Loss), Net

Foreign exchange gain (loss) represents exchange gains and losses on our exposures to non-U.S. dollar denominated transactions, primarily associated with the changes in exchange rates between the U.S. dollar and the euro, and re-measurement of foreign currency balances at reporting date. As a result of our international operations, we are subject to risks associated with foreign currency fluctuations. Almost all of our revenues are in U.S. dollars and a portion of our expenses are also in U.S. dollars. However, a significant portion of our personnel costs is in euros. We use hedging instruments in order to reduce volatility in operating expenses related to exchange rate fluctuations. We classify foreign exchange gains and losses related to hedges of euro-based operating expenses as operating expenses.

Other Financial Income (Expense), Net

Other financial income (expense), net represents changes in fair value connected with financial assets and liabilities at fair value through profit and loss.

Income Tax Expense (Benefit)

We are subject to income taxes in France, the United States and numerous other jurisdictions. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes will be due. These tax liabilities are recognized when we believe that certain positions may not be fully sustained upon review by tax authorities, notwithstanding our belief that our tax return positions are supportable. Our effective tax rates differ from the statutory rate primarily due to any valuation allowance, the tax impact of local taxes, international operations, research and development tax credits, tax audit settlements, non-deductible compensation, and transfer pricing adjustments. In respect of our subsidiaries outside of France, we operate on a “cost plus” basis.

In France, we have significant net deferred tax assets resulting from net operating loss carry forwards, tax credit carry forwards and deductible temporary differences that reduce our taxable income. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction. Over time, as we generate taxable income, we expect our tax rate to increase significantly.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our Consolidated Financial Statements contained elsewhere in this annual report, which are prepared in accordance with IFRS as described in Note 2 to our Consolidated Financial Statements.

Some of the accounting methods and policies used in preparing our Consolidated Financial Statements under IFRS are based on complex and subjective assessments by our management or on estimates based on past experience and assumptions deemed realistic and reasonable based on the circumstances concerned. The actual value of our assets, liabilities and shareholders' equity and of our earnings could differ from the value derived from these estimates if conditions changed and these changes had an impact on the assumptions adopted. We believe that the most significant management judgments and assumptions in the preparation of our financial statements are described below.

Revenue Recognition

Our policy for revenue recognition, in instances where multiple deliverables are sold contemporaneously to the same counterparty, is in accordance with IAS 18.13. When we enter into contracts for the sale of products, licenses and maintenance and support services, we evaluate all deliverables in the arrangement to determine whether they represent separate units of accounting, each with its own separate earnings process, and their relative fair value. Such determination requires judgment and is based on an analysis of the facts and circumstances surrounding the transactions.

Our policy for revenue recognition is further explained in Note 2.3 to our Consolidated Financial Statements contained elsewhere in this annual report.

Inventories

Inventories consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, packaging and testing. We write down the carrying value of our inventories to the lower of cost (determined using the moving average method) or net realizable value (estimated market value less estimated costs of completion and the estimated costs necessary to make the sale). We write down the carrying value of our inventory for estimated amounts related to lower of cost or market value,

obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. Once established, inventory reserves are not reversed until the related inventory has been sold or scrapped. Actual demand may differ from forecasted demand and these differences may have a material effect on recorded inventory values and cost of revenue.

When we consider future demand for a product, there are a number of factors that we take into consideration, including purchase orders and forecasts from customers, which in normal market conditions give us visibility for the next three months and some view on the following three months, our own internal projections based on customer inputs and new business opportunities, and estimates of market potential based on reports from industry analysts. The time horizon considered for future demand varies depending on the nature of the product, meaning we consider if the product is newly-introduced or approaching end-of-life, if the product is in finished good form or in component form, and if the product is incorporated in a large or small number of different end-user products from few or many customers.

We evaluate the realizability of our inventory at each balance sheet date. In doing so, we consider, among other things, demand indicated by our customers, overall market potential based on input from operators and analysts, and the remaining estimated commercial life of our products. In late March 2012, we began receiving confirmation from the operators who purchase product from HTC that there would be new WiMAX product launches in 2012 in the United States and Taiwan. In addition, a Japanese operator confirmed its launch of a new HTC WiMAX phone in April 2012. We also continued to receive orders and ship WiMAX products to other customers. Accordingly, we concluded that our inventory at December 31, 2011 would be realized at the book value or more prior to the inventory becoming obsolete or unsalable.

During the second quarter of 2012, we began to receive new orders and forecast information from HTC indicating demand for goods to be delivered in the second, third and fourth quarters of 2012. As of September 30, 2012, we had shipped 99% of the WiMAX product that had been in the form of finished goods at December 31, 2011 and we had launched production of additional finished goods in Q3 and Q4 2012 to meet additional demand in Q4 and expected in 2013. During the fourth quarter of 2012, HTC indicated that they did not expect to place further WiMAX orders and the decision on a major new WiMAX design win was delayed until April 2013. Consequently, we decided that it was now unlikely that we would order more silicon wafers for WiMAX products and the number of wafers on hand would determine the maximum number of finished goods we could sell; therefore, we recorded a provision at the end of 2012 to write down the value of certain components in excess of that needed to produce this maximum number of finished goods.

In 2012, we also decided to enter the end-of-life process for SQN2130, a WiMAX base station product, and for SQN3010, our first TDD-only LTE product. Provisions were recorded to reduce the value of the inventory related to these two products to zero. We also reviewed the value of inventory of finished goods and components related to products which have not been declared end-of-life. Taking into consideration the latest estimations of expected demand, particularly for the WiMAX products, we determined that it was not probable that all of the stock of memory components on hand would be used to produce finished goods and a provision was recorded for the portion of inventory considered to be in excess of future needs. In total, the inventory recorded in 2012 was \$0.8 million. In 2011, we decided to bring the SQN1130, SQN1010 and SQN2010 to end of life. As expected future shipments of these products as expected to be in excess of quantities in inventory, no adjustment of the inventory value was deemed necessary as of December 31, 2012. In 2010, we decided to bring the SQN1140 and SQN1145 to end-of-life and aggregate total of \$0.4 million in inventories were written down as a cost of product revenue. As we generally announce the end-of-life of any product a year in advance, we expect to minimize inventories and we do not expect inventory reserves to be material.

Share-Based Compensation

We have various share-based compensation plans for employees and non-employees. The expense recorded in our statement of operations for equity awards under these plans is affected by changes in valuation assumptions. For example, the fair value of stock options is estimated by using the binomial model on the date of grant based on certain assumptions, including, among others, expected volatility, the expected option term and the expected dividend payout rate. As a private and now public company, the assumption as to volatility has been determined by reference to the historical volatility of similar publicly traded semiconductor companies. Prior to our initial public offering, the fair value of our shares underlying our share option grants was determined by our board of directors with input from management at each grant date upon review of a variety of factors, including the valuation used in our latest financing rounds. Beginning in September 2010, we regularly conducted contemporaneous third-party valuations to assist us in the determination of the fair value of our shares. Our board of directors ensured that the relevant objective and subjective factors deemed important by our board of directors were accounted for in each valuation. Our board of directors also ensured that the assumptions and inputs used in connection with such valuations reflected our board of director's best estimate of our business condition, prospects and operating performance at each valuation date. Since our initial public offering in April 2011, we have used the closing market price of our ADSs on the grant date as the fair value of our shares.

We recognize compensation expense only for the portion of share options that are expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from our estimates.

For 2010, 2011 and 2012, we recorded employee share-based compensation expense of \$1.1 million, \$4.2 million and \$3.2 million, respectively. Share-based compensation expense related to non-employees was not material for 2010, 2011 and 2012.

Functional Currency

We use the U.S. dollar as the functional currency of Sequans Communications S.A. due to the high percentage of our revenues, cost of revenue, capital expenditures and operating costs, other than those related to headcount and overhead, which are denominated in U.S. dollars. Our IPO proceeds were also denominated in U.S. dollars. However, all financing proceeds we have received since our inception prior to our initial public offering were denominated in euros.

Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As of each reporting date, the assets and liabilities of each subsidiary are translated into the U.S. dollar, our functional and reporting currency, at the rate of exchange at the balance sheet date and each subsidiary's statement of operations is translated at the average exchange rate for the year. Exchange differences arising on the translation are taken directly to a separate component of equity, cumulative translation adjustments.

Fair Value of Financial Instruments

Fair value corresponds to the quoted price for listed financial assets and liabilities. Where no active market exists, we establish fair value by using a valuation technique determined to be the most appropriate in the circumstances, for example:

- available-for-sale assets: comparable transactions, multiples for comparable transactions, discounted present value of future cash flows;
- loans and receivables, financial assets at fair value through profit and loss: net book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- trade payables: book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- convertible notes: some of our convertible notes had optional redemption periods/dates occurring before their contractual maturity, as described in Notes 12 and 14 to our Consolidated Financial Statements contained elsewhere in this annual report. Holders of our Category E convertible notes had the right to request conversion at any time from their issue. As from the expiration of an 18-month period from issue of the Category E convertible notes, we had the right to request the conversion of all the convertible notes then held; and
- derivatives: either option pricing models or discounted present value of future cash flows. Specifically and as described in Note 14.1 to the Consolidated Financial Statements, the option component of the Category E convertible notes was recorded as a derivative at fair value in accordance with the provisions of AG 28 of IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of our company at different dates and market yields applicable to our straight debt (without the conversion option). We elected to develop, use and maintain a valuation model for evaluating the option component, using a "with or without" analysis. To determine the fair value of the Category E convertible notes (including the conversion option) at each reported date, we considered (i) the conditions of the new issuances of Category E convertible notes which all included new investors and (ii) the effect of changes in market capitalization of comparable public companies. In order to determine the fair value of straight notes without that conversion option, we used a discounted cash flow analysis applying a discount interest rate derived from market yield indices at each reporting date. These assumptions used in calculating the value of the option component represent our best estimates based on management's judgment and subjective future expectations.

Results of Operations

The following tables set forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our Consolidated Financial Statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

Comparison of Years Ended December 31, 2011 and 2012

	<u>Year ended December 31,</u>		<u>Change</u>
	<u>2011</u>	<u>2012</u>	<u>%</u>
	(in thousands)		
Revenue:			
Product revenue	\$ 91,742	\$ 19,600	(79)%
Other revenue	<u>1,972</u>	<u>2,654</u>	35
Total revenue	<u>93,714</u>	<u>22,254</u>	(76)
Cost of revenue:			
Cost of product revenue	46,167	11,781	(74)
Cost of other revenue	<u>247</u>	<u>176</u>	(29)
Total cost of revenue	<u>46,414</u>	<u>11,957</u>	(74)
Gross profit	47,300	10,297	(78)
Operating expenses:			
Research and development	24,935	28,408	14
Sales and marketing	12,963	6,562	(49)
General and administrative	<u>8,327</u>	<u>8,096</u>	(3)
Total operating expenses	<u>46,225</u>	<u>43,066</u>	(7)
Operating income (loss)	1,075	(32,769)	(3,151)
Financial income (expense):			
Interest income (expense), net	(389)	137	
Foreign exchange gain (loss)	<u>(744)</u>	<u>(158)</u>	
Profit (Loss) before income taxes	(58)	(32,790)	
Income tax expense (benefit)	<u>371</u>	<u>234</u>	
Profit (Loss)	<u>\$ (429)</u>	<u>\$ (33,024)</u>	

The following table sets forth a summary of our statement of operations as a percentage of total revenue:

	<u>Year ended</u>	
	<u>2011</u>	<u>2012</u>
	(% of total revenue)	
Revenue:		
Product revenue	98	88
Other revenue	<u>2</u>	<u>12</u>
Total revenue	<u>100</u>	<u>100</u>
Cost of revenue:		
Cost of product revenue	49	53
Cost of other revenue	<u>1</u>	<u>1</u>
Total cost of revenue	<u>50</u>	<u>54</u>
Gross profit	50	46
Operating expenses:		
Research and development	27	128
Sales and marketing	14	29
General and administrative	<u>8</u>	<u>36</u>
Total operating expenses	<u>49</u>	<u>194</u>
Operating income (loss)	1	(147)
Financial income (expense):		
Interest income (expense), net	—	1
Foreign exchange gain (loss)	<u>(1)</u>	<u>(1)</u>
Profit (Loss) before income taxes	—	(147)
Income tax expense (benefit)	<u>—</u>	<u>1</u>
Profit (Loss)	<u>—</u>	<u>(148)</u>

Revenue

Product Revenue

Product revenue decreased 79% from \$91.7 million in 2011 to \$19.6 million in 2012. This decrease was primarily due to lower sales of WiMAX products following changes in the WiMAX market in the United States beginning in the second half of 2011. Our largest customer, HTC, integrated our WiMAX products into a line of smartphones sold primarily in the United States. HTC represented 32% of our revenue in 2012 compared to 78% of our revenue in 2011. In 2012, we shipped 1.6 million units of products compared to 8.1 million units in 2011.

Other Revenue

Other revenue increased 35% from \$2.0 million in 2011 to \$2.7 million in 2012, reflecting primarily the execution of a greater number of license agreements for the use of our technology solutions in 2012.

Cost of Revenue

Cost of product revenue decreased 74% from \$46.2 million in 2011 to \$11.8 million in 2012 due to lower product and manufacturing costs associated with the decreased number of units sold. Cost of other revenue remained relatively flat at \$0.2 million in 2012, as compared to 2011.

Gross Profit

Gross profit decreased 78% from \$47.3 million in 2011 to \$10.3 million in 2012, and gross margin decreased from 50.5% in 2011 to 46.3% in 2012. The reduction in gross profit and gross margin primarily reflects the significant decline in revenue. Product gross margin decreased from 49.7% in 2011 to 39.9% in 2012 due to continued low absorption of fixed production costs by a low product revenue base. In addition, provisions related to WiMAX inventory totaling \$854,000 were recorded during 2012, primarily in the fourth quarter. These provisions related to the two products that had been declared end-of-life during 2012 and excess or obsolete components related to active products.

Research and Development

Research and development expense increased 14% from \$24.9 million 2011 to \$28.4 million in 2012. This reflects increases in costs from internal reorganizations that moved certain teams from sales and marketing to research and development in the first quarter of 2012, offset by headcount reductions that took place in May 2012 as part of an overall headcount reduction in the Company. From January 1, 2012, the product project management team, which previously was combined with product marketing and which works closely with engineering, was deemed to be more logically a part of research and development, while the product marketing team was combined with strategic marketing. Therefore, the costs related to eight employees in the project management team were recorded in research and development expense beginning in January 2012. In addition, the technical support engineers who previously reported to the sales department were moved to the engineering department in April 2012, as their work is closely tied to ongoing product development (particularly in software). Overall, there were 167 employees and independent contractors in research and development at December 31, 2012 compared to 171 employees and independent contractors at December 31, 2011.

These expenses are net of any research and development incentives earned during the periods, which are accounted for as a reduction of research and development expense. Research and development incentives decreased by 16% from \$5.9 million in 2011 to \$5.0 million in 2012. In December 2012, we were notified of proposed tax adjustments, penalties and interest related to the French tax audit which related almost entirely to the research tax credits claimed for 2008 and 2009. Although we disagree with the adjustments, we recorded a provision, reducing the research and development incentives by \$0.3 million. Without this provision, research and development incentives would have decreased by 12%.

Sales and Marketing

Sales and marketing expense decreased 49% from \$13.0 million in 2011 to \$6.6 million in 2012. The decrease reflects primarily the impact of a reduction in headcount as product development and technical support engineers were reassigned to research and development. Overall, there were 17 employees in sales and marketing at December 31, 2012 compared to 45 employees at December 31, 2011.

General and Administrative

General and administrative expense decreased 3% from \$8.3 million in 2011 to \$8.1 million in 2012 due to a decrease of \$0.4 million in stock based compensation expenses, offset by a provision of \$0.4 million for bad debt for amounts due from one customer, net of related credit insurance. Overall, there were 19 employees in general and administrative at December 31, 2012 compared to 24 employees at December 31, 2011.

Interest Income (Expense), Net

Net interest income increased 135% from a net interest expense of \$0.4 million in 2011 to a net interest income of \$0.1 million in 2012. Higher net interest income in 2012 reflects lower interest expense in 2012 due to the termination of our accounts receivable financing arrangement in the third quarter of 2011, the reimbursement of bank convertible notes in October 2011, offset slightly by interest expense related to a new lease financing arrangement put in place in the third quarter of 2012. See “Item 5.B—Liquidity and Capital Resources” for a more detailed description of our debt facilities.

Foreign Exchange Gain (Loss), Net

We had a net foreign exchange loss of \$0.2 million in 2012 compared to a net foreign exchange loss of \$0.7 million in 2011 primarily due to movements in the U.S. dollar versus the euro.

Income Tax Expense (Benefit)

In 2012, we recorded tax expense of \$207,000 arising from taxable income incurred as certain subsidiaries and a deferred tax expense amounting to \$27,000. In 2011, we recorded tax expense of \$314,000 arising from taxable income incurred as certain subsidiaries and a deferred tax expense amounting to \$57,000. Deferred tax assets have not been recognized in 2012 or 2011 with respect to our losses as we have not generated taxable profits since beginning operations in 2004.

Comparison of Years Ended December 31, 2010 and 2011

	Year ended December 31,		Change
	2010 adjusted (*) (in thousands)	2011	%
Revenue:			
Product revenue	\$ 64,933	\$91,742	41%
Other revenue	3,611	1,972	(45)
Total revenue	68,544	93,714	37
Cost of revenue:			
Cost of product revenue	33,272	46,167	39
Cost of other revenue	340	247	(27)
Total cost of revenue	33,612	46,414	38
Gross profit	34,932	47,300	35
Operating expenses:			
Research and development	17,917	24,935	39
Sales and marketing	13,541	12,963	(4)
General and administrative	3,953	8,327	111
Total operating expenses	35,411	46,225	31
Operating income (loss)	(479)	1,075	(325)
Financial income (expense):			
Interest income (expense), net	(879)	(389)	
Foreign exchange gain (loss)	925	(744)	
Other	(2,109)	—	
Profit (Loss) before income taxes	(2,542)	(58)	
Income tax expense (benefit)	150	371	
Profit (Loss)	\$ (2,692)	\$ (429)	

(*) As adjusted to reflect the classification of foreign exchange gains and losses related to hedges of euro-based operating expenses from financial result to operating expenses. The effect on the year ended December 31, 2010 was to reduce operating expenses and foreign exchange gain by \$0.2 million.

The following table sets forth a summary of our statement of operations as a percentage of total revenue:

	Year ended December 31,	
	2010	2011
	(% of total revenue)	
Revenue:		
Product revenue	95	98
Other revenue	5	2
Total revenue	<u>100</u>	<u>100</u>
Cost of revenue:		
Cost of product revenue	49	49
Cost of other revenue	—	1
Total cost of revenue	<u>49</u>	<u>50</u>
Gross profit	51	50
Operating expenses:		
Research and development	26	27
Sales and marketing	20	14
General and administrative	6	8
Total operating expenses	<u>52</u>	<u>49</u>
Operating income (loss)	(1)	1
Financial income (expense):		
Interest income (expense), net	(1)	—
Foreign exchange gain (loss)	1	(1)
Other	(3)	—
Profit (Loss) before income taxes	(4)	—
Income tax expense (benefit)	—	—
Profit (Loss)	<u>(4)</u>	<u>—</u>

Revenue

Product Revenue

Product revenue increased 41% from \$64.9 million in 2010 to \$91.7 million in 2011. This growth was primarily due to a 77% increase in the number of units sold, driven by the initial deployment of the EVO 4G smartphones and tablets by HTC, which accounted for 78% of our total revenue in 2011, partially offset by lower ASPs due to volume discounts to large customers and a maturing WiMAX product line. We expect our WiMAX product revenue to decline as a result of a general decline in the WiMAX market in the United States.

Other Revenue

Other revenue decreased 45% from \$3.6 million in 2010 to \$2.0 million in 2011, reflecting a decrease in license revenue from \$1.2 million to \$0.4 million.

Cost of Revenue

Cost of product revenue increased 39% from \$33.3 million in 2010 to \$46.2 million in 2011 due to higher product and manufacturing costs associated with the increased number of units sold, partially offset by materials and packaging cost reductions during 2011. Cost of other revenue decreased from \$0.3 million in 2010 to \$0.2 million in 2011.

Gross Profit

Gross profit increased 35% from \$34.9 million in 2010 to \$47.3 million in 2011, while gross margin remained flat at nearly 51% for the same periods. Product gross margin increased from 49% in 2010 to 50% in 2011, primarily due to better absorbed the fixed portion of our manufacturing-related costs, and lower cost of materials and packaging.

Research and Development

Research and development expense increased 39% from \$18.0 million in 2010 to \$24.9 million in 2011. The increase in research and development expense was primarily due to headcount increases in engineering to develop LTE solutions. This increase includes the impact of the end of our JEI status which allowed us to pay reduced payroll tax in France until the end of year 2010. This impact represents an estimated \$1.8 million increase in research and development expenses in 2011. These expenses are net of any research and development incentives earned during the periods, which are accounted for as a reduction of research and development expense. Research and development incentives increased by 70% from \$3.5 million in 2010 to \$5.9 million in 2011. This increase was partially due to the French tax authorities confirming that we could include certain subsidiary research expenses in our calculation. Without these research and development incentives, research and development expenses would have increased 44% from \$21.5 million in 2010 to \$30.9 million in 2011.

Sales and Marketing

Sales and marketing expense decreased 4% from \$13.5 million in 2010 to \$13.0 million in 2011. Expenses in 2010 included commissions to our Taiwan-based sales agency, particularly on sales to HTC, which was utilized only through the end of 2010.

General and Administrative

General and administrative expense increased 111% from \$4.0 million in 2010 to \$8.3 million in 2011 due to an increase of \$1.8 million in stock based compensation expenses, and increases in audit and legal fees of \$0.4 million, insurance expenses of \$0.1 million and other advisory fees attributable to listed company compliance and reporting requirements. In addition headcount increased slightly from the end of 2010 to the end of 2011.

Interest Income (Expense), Net

Net interest expense decreased 56% from \$0.9 million in 2010 to \$0.4 million in 2011. Lower net interest expense in 2011 reflects the conversion to equity of Category E convertible notes December 2010. Net interest expense in both years included interest on bank convertible notes reimbursed in October 2011 and the receivables-backed line of credit initiated in May 2010 and terminated in July 2011. See "Item 5.B—Liquidity and Capital Resources" for a more detailed description of our debt facilities and convertible notes.

Foreign Exchange Gain (Loss), Net

We had a net foreign exchange loss of \$0.7 million in 2011 compared to a net foreign exchange gain of \$0.9 million in 2010. In 2011, we decided it was more appropriate to classify foreign exchange gains and losses related to hedges of euro-based operating expenses from financial result to operating expenses. The effect on the year ended December 31, 2011 was to increase the foreign exchange loss by \$0.4 million. Financial statements for the year ended December 31, 2010 have been adjusted accordingly, reducing the foreign exchange gain by \$0.2 million. The net foreign exchange loss in 2011 is primarily due to an increase in the value of our euro-based net monetary assets at year end and the appreciation of the U.S. dollar compared to the euro in the 2011 period.

Other Financial Income (Expense)

There were no other financial expenses in 2011 compared to other financial expense of \$2.1 million in 2010 which represented the fair value of the option component of the Category E convertible notes, calculated prior to their conversion (see Note 14.1 to the Consolidated Financial Statements).

Income Tax Expense (Benefit)

In 2011, we recorded tax expense of \$0.3 million arising from taxable income incurred as certain subsidiaries and a deferred tax expense amounting to \$57,000. Deferred tax assets have not been recognized in 2011 or 2010 with respect to our losses as we have not generated taxable profits since beginning operations in 2004. Income tax expense was negligible in 2010.

Selected Quarterly Results of Operations

The following table presents our unaudited quarterly results of operations for 2011 and 2012. This unaudited quarterly information has been prepared on the same basis as our audited Consolidated Financial Statements and includes all adjustments

necessary for the fair presentation of the information for the quarters presented. You should read this table together with our Consolidated Financial Statements and the related notes thereto included in this annual report. Our quarterly results of operations will vary in the future. The results of operations for any quarter are not necessarily indicative of results for the entire year and are not necessarily indicative of any future results.

	Three months ended							
	March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012
	(in thousands) (unaudited)							
Revenue:								
Product revenue	\$24,845	\$30,006	\$25,896	\$10,996	\$ 3,314	\$ 5,990	\$ 7,452	\$ 2,844
Other revenue	545	601	334	491	793	1,045	530	286
Total revenue	<u>25,390</u>	<u>30,607</u>	<u>26,230</u>	<u>11,487</u>	<u>4,107</u>	<u>7,035</u>	<u>7,982</u>	<u>3,130</u>
Cost of revenue⁽¹⁾:								
Cost of product revenue	12,300	16,287	12,129	5,451	1,707	3,177	4,104	2,793
Cost of other revenue	85	44	54	64	44	44	44	44
Total cost of revenue	<u>12,385</u>	<u>16,331</u>	<u>12,183</u>	<u>5,515</u>	<u>1,751</u>	<u>3,221</u>	<u>4,148</u>	<u>2,837</u>
Gross profit	13,005	14,276	14,047	5,972	2,356	3,814	3,834	293
Operating expenses⁽¹⁾:								
Research and development	5,978	6,767	6,514	5,676	7,025	7,657	6,455	7,271
Sales and marketing	3,129	3,488	3,252	3,094	2,230	2,009	1,470	853
General and administrative	1,582	2,126	2,430	2,190	2,112	2,108	1,871	2,005
Total operating expenses	<u>10,689</u>	<u>12,381</u>	<u>12,196</u>	<u>10,960</u>	<u>11,367</u>	<u>11,774</u>	<u>9,796</u>	<u>10,129</u>
Operating income (loss)	2,316	1,895	1,851	(4,988)	(9,011)	(7,960)	(5,962)	(9,836)
Financial income (expense):								
Interest income (expense), net	(184)	(151)	(26)	(26)	31	46	22	38
Foreign exchange gain (loss)	(206)	103	(172)	(469)	(8)	(354)	249	(45)
Other	—	(1,651)	1,651	—	—	—	—	—
Profit (Loss) before income taxes	1,926	196	3,304	(5,483)	(8,988)	(8,268)	(5,691)	(9,843)
Income tax expense (benefit)	30	138	71	132	55	36	73	70
Profit (Loss)	<u>\$ 1,896</u>	<u>\$ 58</u>	<u>\$ 3,233</u>	<u>\$ (5,615)</u>	<u>\$ (9,043)</u>	<u>\$ (8,304)</u>	<u>\$ (5,764)</u>	<u>\$ (9,913)</u>

(1) Includes share-based compensation as follows:

	Three months ended							
	March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012
	(in thousands) (unaudited)							
Cost of revenue	\$ 12	\$ 60	\$ 66	\$ 70	\$ 65	\$ 42	\$ 33	\$ 15
Operating expenses	451	1,074	1,186	1,254	1,241	875	710	207
Share-based compensation	<u>\$ 463</u>	<u>\$1,134</u>	<u>\$1,252</u>	<u>\$1,324</u>	<u>\$ 1,306</u>	<u>\$ 917</u>	<u>\$ 743</u>	<u>\$ 222</u>

The following table sets forth a summary of our quarterly statement of operations as a percentage of total revenue:

	Three months ended							
	March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012
	(% of revenue) (unaudited)							
Revenue:								
Product revenue	98	98	99	96	81	85	93	91
Other revenue	2	2	1	4	19	15	7	9
Total revenue	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Cost of revenue:								
Cost of product revenue	48	53	46	47	42	45	51	90
Cost of other revenue	1	—	—	1	1	1	1	1
Total cost of revenue	<u>49</u>	<u>53</u>	<u>46</u>	<u>48</u>	<u>43</u>	<u>46</u>	<u>52</u>	<u>91</u>
Gross profit	51	47	54	52	57	54	48	9
Operating expenses:								
Research and development	24	24	25	49	171	109	81	232
Sales and marketing	12	18	12	27	54	29	18	27
General and administrative	6	6	9	19	51	29	23	64
Total operating expenses	<u>42</u>	<u>40</u>	<u>46</u>	<u>95</u>	<u>276</u>	<u>167</u>	<u>122</u>	<u>323</u>
Operating income (loss)	9	6	7	(43)	(219)	(113)	(74)	(314)
Financial income (expense):								
Interest income (expense), net	(1)	—	—	(1)	—	1	—	1
Foreign exchange gain (loss)	(1)	—	—	(4)	—	(5)	3	(1)
Other	—	(5)	5	—	—	—	—	—
Profit (Loss) before income taxes	7	1	12	(48)	(219)	(117)	(71)	(314)
Income tax expense (benefit)	—	(1)	—	1	1	1	1	3
Profit (Loss)	<u>7</u>	<u>—</u>	<u>12</u>	<u>(49)</u>	<u>(220)</u>	<u>(118)</u>	<u>(72)</u>	<u>(317)</u>

Our product revenue increased sequentially in each of the first two quarters of 2011. The decrease in the third and fourth quarters of 2011 and throughout 2012 reflected the decline in sales to our largest customer, as a result of a general decline in the WiMAX market in the United States. In 2012, product sales fluctuated over the quarters due to the combined effect of our LTE products shipping in small quantities for trials or early phases of deployment by various carriers and our WiMAX products being sold primarily for mature products and only as the supply chain became empty. Other revenue fluctuated over the quarters, primarily due to the timing of the execution of software licenses.

Cost of product revenue declined in the third and fourth quarters of 2011 and throughout 2012 as product revenue decreased. Cost of other revenue remained flat as the cost of providing maintenance services was provided generally by the same number of personnel during each of these periods and does not vary significantly with the level of maintenance revenues.

In the second quarter of 2011, our product gross margin was 47% compared to 51% for the first quarter, 54% in the third quarter and 52% the fourth quarters of 2011. The lower level was due to the decrease of average selling price following a volume-related price reduction accorded our largest customer beginning in the second quarter of 2011. In the third and fourth quarters of 2011, we continued to reduce our production costs, and our average selling price increased slightly as a result of a change in product mix. Gross margin was significantly above 50% in the first two quarters of 2012 due to the high contribution of license revenue in the mix. Gross margin declined to 48% in the third quarter of 2012 as the revenue mix shifted more toward product revenue, and license revenues declined. In the fourth quarter of 2012, gross margin declined to 9% reflecting a combination of low other revenue, lower product revenues unable to fully absorb fixed costs and a provision for excess WiMAX inventory of \$854,000.

Research and development expense increased sequentially in each of the first three quarters of 2011 due to new hiring and an increase of external services related to the development of our LTE solutions, with the exception of the fourth quarter of 2011. The decline in the fourth quarter of 2011 resulted primarily from an increase in the amount of our research tax credit, which is recorded as a reduction of research and development expense. This increase in the research tax credit was due to the French tax authorities

confirming that we could include research services performed by our subsidiary based in United Kingdom in our calculation. Research and development expense increased significantly in the first half of 2012, reflecting an internal reorganization resulting in certain project managers and technical support engineers being included in research and development. The decrease in the third quarter reflects the impact of a headcount reduction implemented in the second quarter, as well as some seasonality. The increase in the fourth quarter results from some significant operator certification costs as well as the impact of recorded a provision related to the tax audit findings with respect to prior years' research tax credits.

Sales and marketing expense experiences fluctuations from quarter to quarter due to the timing of marketing campaigns and trade shows. In 2012, sales and marketing expense declined significantly beginning in the first quarter due to the internal reorganization resulting in the transfer of the technical support engineers and certain project managers into the research and development department.

General and administrative expense increased from the second quarter of 2011 primarily due to an increase of stock based compensation expenses, and an increase in costs related to being a listed company. Following headcount reductions in the second quarter of 2012, general and administrative expense declined in the third quarter. The increase in the fourth quarter reflects the provision for bad debts recorded related to one customer for \$448,000.

Financial income (expense) has varied each quarter presented primarily due to changes in the fair value of the option component of the bank convertible notes in 2011, reflected in other financial income (expense), prior to their conversion, and due to foreign exchange gains and losses. Foreign exchange gains and losses resulted primarily from the change in the U.S. dollar to euro exchange rate and remeasurement of euro-based assets and liabilities at settlement or balance sheet date.

Interest expense declined from the second half of 2011 as we reimbursed of bank convertible notes and terminated the line of credit facility.

Due to our limited operating history, we have yet to experience an established pattern of seasonality. However, business activities in Asia generally slow down in the first quarter of each year during the Chinese New Year period, which could harm our sales and results of operations during the period.

B. Liquidity and Capital Resources

Sources of Liquidity

Our cash and cash equivalents were \$28.8 million at December 31, 2012. We believe that our available cash and cash equivalents will be sufficient to fund our operations for the next 12 months.

Since inception, we have financed our operations primarily through proceeds from the issues of our shares and convertible notes, which totaled €54.7 million (\$73.1 million) from 2004 to the end of 2010; and from the \$59.1 million in net proceeds from our initial public offering on the New York Stock Exchange in April 2011.

Convertible notes originally issued to equity investors in 2008, in connection with an equity financing, in the aggregate principal amount of €4.3 million (\$6.5 million) were converted into Category E preference shares in July 2010. Additional convertible notes issued to equity investors in 2009, also in connection with an additional equity financing, in the aggregate principal amount of €4.0 million (\$6.0 million) were converted into Category E preference shares on December 30, 2010. The Category E preference shares were automatically converted into ordinary shares upon the closing of our initial public offering.

From January 2008 through June 2010, we had a convertible notes subscription facility with Natixis of up to €10.0 million (\$14.7 million). Of this amount, €2.5 million (\$3.5 million) was drawn down in October 2008 in the form of convertible notes. In June 2010, the terms of the agreement were amended to extend repayment of the drawn balance to June 2011 and to eliminate the unused portion of the line of credit facility. Pursuant to the initial public offering, the term was extended to the end of the lock-up period. In October 2011, Natixis requested repayment of the notes and such notes were repaid in full. These notes bore interest at an annual rate equal to 3-month Euribor plus 525 basis points.

In May 2010, we entered into a factoring agreement with Natixis Factor, an affiliate of Natixis, under which we transferred to Natixis Factor all invoices issued in U.S. dollars to qualifying customers, and the customers were instructed to settle the invoices directly with Natixis Factor. The line of credit available to us at any given time was equal to 90% of the face value of our insured accounts receivable, represented by the invoices submitted to Natixis Factor. We maintained credit insurance on all customers for which our credit insurer is willing to insure. We paid a commission on the face value of the accounts receivable submitted and interest on any draw-down of the resulting line of credit. At December 31, 2010, less than \$0.1 million had been drawn on the line of credit and was recorded as a current borrowing and \$2.3 million remained undrawn on the line of credit. In July 2011 we terminated this line of credit and no amounts were outstanding under the line after July 2011.

We received three interest-free loans from Oséo, the French Agency for Innovation, to finance specific research and development projects in France. The financing arrangements called for the loan to be repaid according to a set timeline, but repayments would be reduced in the event of technical or commercial failure or partial technical or commercial success of the financed programs. The following is a summary of the interest-free loans:

- In 2004, we were awarded an interest-free loan of €0.7 million (\$1.0 million) to finance the development of the first generation of products using the 802.16d WiMAX standard. The loan was received in installments in 2004 and 2005 as various milestones were met. Due to the commercial success of the product, the loan was repaid in full in three installments in 2006, 2007 and 2008.
- In 2006, we were awarded an interest-free loan of €1.3 million (\$1.8 million) to finance the development of products using the 802.16e WiMAX standard. The loan was received in 2006 and, as the criteria for commercial success of the products was satisfied, it was repayable in four installments in 2008, 2009, 2010 and 2011. We repaid the installment in 2008 and a portion of the installment in 2009. Oséo agreed to defer the remaining portion of the 2009 installment until 2010, which we paid in 2010 with the 2010 installment. As planned, we repaid in March 2011 the last installment of €0.4 million (\$0.5 million).
- In January 2010, we were awarded an interest-free loan of €1.4 million (\$2.0 million) to finance the development of LTE technology. We received €0.5 million (\$0.8 million) in January 2010 and the remainder was to be received in 2011. In June 2011, instead of asking for the remaining funding under the loan, we decided to repay the loan received in 2010 (repayments were initially scheduled from 2012 to 2016).

At December 31, 2011, all interest-free loans had been repaid.

In June 2012, we entered into a finance lease agreement with a French financial institution whereby we have the possibility to finance acquisitions of qualifying equipment with a total purchase price of up to €1.5 million (\$2.0 million) through finance leases that are reimbursed over a 36-month period at an effective rate of interest of 4.6%. The finance lease obligation is secured by restricted cash balances on deposit with the financial institution equal to one-third of the original principal financed. The facility expired February 28, 2013 and has not been renewed. At December 31, 2012, our capital lease obligations, including the current portion, amounted to \$0.4 million.

Apart from amounts outstanding under the finance lease agreement, we had no outstanding debt at December 31, 2012.

On February 21, 2013, we completed a public offering of 10,000,000 shares in the form of American Depositary Shares. Net proceeds to us from the public offering were approximately \$13.5 million, after deducting the underwriting discount and estimated offering expenses payable by us.

Cash Flows

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

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Net cash from (used in) operating activities	\$ 1,481	\$ 2,763	\$(22,848)
Net cash used in investing activities	(7,377)	(10,333)	(5,752)
Net cash from financing activities	7,844	55,057	122
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,948</u>	<u>\$ 47,487</u>	<u>\$(28,478)</u>

Cash Flows from Operating Activities

Net cash used in operating activities during 2012 was \$22.8 million, reflecting a net loss (before income tax) of \$32.8 million, a decrease in trade receivables and other receivables of \$3.9 million, a decrease in inventories of \$4.2 million, an increase in research tax credit receivable of \$4.0 million and a decrease of trade payables and other liabilities of \$3.3 million. These uses of cash were partially offset by non-cash charges, including depreciation and amortization of \$4.4 million, and share-based compensation expenses of \$3.2 million during the period.

Net cash from operating activities during 2011 was \$2.8 million, reflecting a net loss (before income tax) of \$58,000, increases in inventories of \$2.9 million and in research tax credit receivable of \$2.4 million and a decrease of trade payables and other liabilities of \$6.3 million. These uses of cash were offset by non-cash charges, including depreciation and amortization of \$5.9 million and share-based compensation expenses of \$4.2 million, and a decrease in trade receivables and other receivables of \$5.1 million during the period.

Net cash from operating activities during 2010 was \$1.5 million, reflecting a net loss (before income tax) of \$2.5 million and increases in trade receivables and other receivables of \$9.3 million and in inventories of \$7.2 million. These uses of cash were partially offset by non-cash charges, including depreciation and amortization of \$3.9 million, share-based compensation expenses of \$1.1 million, an increase in the fair value of the Category E convertible notes option component of \$2.1 million, and increases in trade payables and other liabilities of \$14.1 million during the period.

Cash Used in Investing Activities

Cash used in investing activities during 2012, 2011 and 2010, consisted primarily of purchases of property and equipment and intangible assets of \$5.6 million, \$11.0 million, and \$6.4 million, respectively. The increase in capital expenditures in 2011 reflects purchases related to LTE product development in addition to ongoing WiMAX product development. In 2010, the factoring agreement we entered into with Natixis Factor also required establishing a financial deposit of \$0.6 million which was reimbursement in 2011 pursuant the termination of the agreement.

Cash Flows from Financing Activities

Net cash provided financing activities was \$0.1 million in 2012, reflecting interest received from our cash equivalents invested in money market funds.

Net cash provided by financing activities was \$55.1 million in 2011, reflecting \$59.9 million in net proceeds from our initial public offering on the New York Stock Exchange in April 2011 and \$0.6 million in proceeds from exercise of stock options, founders' warrants and other warrants. These sources of cash were partially offset by the repayment of the bank convertible notes of \$3.5 million and by the repayment of interest-free loans in the amount of \$1.3 million.

During 2010, net cash provided by financing activities was \$7.8 million, reflecting \$9.0 million in proceeds from the issue of shares and warrants (net of transaction costs), and an interest-free loan to finance research projects in the amount of \$0.8 million. These sources of cash were partially offset by the repayment of an interest-free loan in the amount of \$0.9 million.

Operating and Investing Requirements

We expect our operating expenses and investments in tangible and intangible assets to remain flat or decrease slightly in 2013.

Based on our current plans, and including pending and/or recent transactions, we believe that our available capital resources will be adequate to satisfy our cash requirements at least for 12 months from the date of this annual report. If our plans change, or if we do not achieve profits or if our profitability is significantly lower than anticipated, we may need additional financing.

If our available cash balances are insufficient to satisfy our liquidity requirements, we may seek to sell equity or convertible debt securities or enter into a credit facility, which may contain restrictive covenants. The sale of equity and convertible debt securities may result in dilution to our shareholders and those securities may have rights senior to those of the ADSs. If we raise additional funds through the issue of convertible debt securities, these securities could contain covenants that would restrict our operations.

Our estimates of the period of time through which our financial resources will be adequate to support our operations and the costs to support research and development and our sales and marketing activities are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in "Item 3.D—Risk Factors". We have based our estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Our short and long-term capital requirements will depend on many factors, including the following:

- our ability to generate cash from operations or to minimize the cash used in operations;
- our ability to control our costs;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, or participating in litigation-related activities; and
- the acquisition of businesses, products and technologies.

C. Research and Development, Patents and Licenses, etc.

We engage in substantial research and development efforts to develop new products and integrate additional capabilities into our core products. Our research and development team of 167 employees and consultants, at December 31, 2012, includes experienced semiconductor designers, software developers and test engineers. Key areas of expertise include wireless systems architecture, SoC architecture, digital and RF IC design, digital signal processing, embedded real-time and application software design, protocol stack development, hardware and software integration, quality assurance test development and scripting and field testing. Our team has significant experience in the principal wireless domains, including LTE, WiMAX, 2G, 3G and Wi-Fi. More than 72% of our engineers have more than 10 years of experience in their specific domain and over 98% of our engineers hold masters degrees.

The ability to successfully integrate and mass-produce digital and/or RF functionality in advanced process technology with acceptable yields is a significant industry challenge. Due to the robustness of our silicon design and verification methodologies, we have demonstrated competency in repeatedly achieving production-capable products with the first version of our chip designs, reducing time to market and avoiding costs associated with additional design revisions. For instance, each of our 65nm WiMAX SoC products, which consisted of integrated baseband and RF transceiver functions, was production-ready from the initial version of the design and achieved high levels of performance and manufacturing yield. We believe this experience positioned us well as we migrated to 40nm process geometry for our LTE baseband products, the first two generations of which have proven to be production worthy in their initial design versions as well. Looking ahead to future generations, we expect this competency will serve us well as we develop ever more complex designs in more advanced process technologies.

We design our products with careful attention to quality, flexibility, cost- and power-efficiency requirements. Our 4G modem architecture, which has been refined through multiple generations of integrated circuit designs, is designed to optimize hardware and software partitioning to provide more flexibility and better cost without compromising performance. As a result, we achieve equivalent or higher throughput and lower power consumption in a smaller die size than other single-mode LTE chip competitors.

Since February 2009, we have been certified as ISO 9001 compliant, an international standard set by the International Organization for Standardization, or ISO, that sets forth requirements for an organization's quality management system. We believe this certification gives our customers confidence in our quality control procedures. We also participate in a number of organizations and standards bodies, including the IEEE 802.16 Working Group on Broadband Wireless Access Standards, an organization that develops standards and recommended practices to support the development and deployment of broadband wireless metropolitan area networks, the 3rd Generation Partnership Project (3GPP), Open Mobile Alliance (OMA), the WiMAX Forum, the PTS Type Certification Review Board (PTCRB) the Global Certification Forum, European Telecommunications Standards Institute (ETSI) and CTIA—The Wireless Association. In addition, we participate in multiple European Union and French collaborative projects for advanced studies focusing on future evolutions of the 4G technology.

Our research and development expense was \$17.9 million, \$24.9 million and \$28.4 million, for 2010, 2011 and 2012, respectively.

D. *Trend Information*

For the year ended December 31, 2011, the most significant change in trends that effected our business, results of operations and financial condition was the unexpected decline experienced in the WiMAX market driven by a change in strategy by Sprint, the largest driver of demand for WiMAX semiconductor solutions, who in the third quarter of 2011 introduced the 3G iPhone and announced their intention to begin deploying LTE in 2012. This change in the WiMAX market harmed our results of operations for the second half of 2011 and for the year ended December 31, 2012. Other than the possibility of continued declines in the WiMAX market prior to our generating significant revenue from LTE products, which we expect will not occur prior to the second half of 2013 at the earliest, or as disclosed elsewhere in this annual report, including in "Item 5. A. Operating Results", we are not aware of any trends, uncertainties, demands, commitments or events that are reasonable likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. *Off-Balance Sheet Arrangements*

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

F. *Contractual Obligations*

The following table summarizes our outstanding contractual obligations at December 31, 2012 and the effect those obligations are expected to have on our liquidity and cash flows in future periods:

	Payments due by period				
	Total	Less than 1 year	1-3 years (in thousands)	3-5 years	More than 5 years
Finance lease obligation	\$ 365	\$ 129	\$ 236	\$ —	\$ —
Operating leases	2,397	1,604	793	\$ —	\$ —
Inventory component and equipment purchase commitments	2,056	2,056	—	—	—
Total	<u>\$4,818</u>	<u>\$ 3,789</u>	<u>\$ 1,029</u>	<u>\$ —</u>	<u>\$ —</u>

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Executive Officers and Directors

The following table sets forth information about our executive officers and directors as the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
<i>Executive Officers</i>		
Dr. Georges Karam	51	Chairman and Chief Executive Officer
Deborah Choate	49	Chief Financial Officer
Bertrand Debray	48	Vice President, Engineering
Rudy Leser	47	Vice President, Business Development
T. Craig Miller	47	Vice President, Worldwide Marketing
Eddy Tang	54	Vice President, Manufacturing Operations
Hugues Waldburger	49	Vice President, Product Line Management
<i>Directors</i>		
Gilles Delfassy	57	Director
James Patterson	45	Director
Hubert de Pesquidoux	47	Director
Dominique Pitteloud	51	Director
Alok Sharma	48	Director
Zvi Slonimsky	63	Director

Executive Officers

Dr. Georges Karam has served as our chairman and chief executive officer since the company was founded in 2003. Before founding Sequans, Dr. Karam was vice president of cable access at Juniper Networks, running the cable engineering and marketing departments and managing the cable sales launch in the Europe, Middle East and Africa region. He joined Juniper Networks when the company acquired Pacific Broadband Communications (PBC), where he was vice president of engineering and general manager for Europe. Dr. Karam has served in a variety of senior management positions at Alcatel, SAGEM and Philips. He is a senior member of IEEE, has authored numerous technical and scientific papers and holds several patents in digital communications. Dr. Karam holds a PhD from Ecole Nationale Supérieure des Télécommunications, Paris.

Deborah Choate has served as our chief financial officer since July 2007. Prior to joining Sequans she was chief financial officer at Esmertec AG from September 2005 to June 2007 and at Wavecom SA, from August 1998 to August 2004, and vice president of finance at Platinum Equity from October 2004 to September 2005. Earlier in her career, she was an audit partner with Ernst & Young. Ms. Choate has 28 years of experience in management, finance and accounting, including over 14 years working with technology companies, in particular communications hardware, software and services. Ms. Choate holds a BS from the University of California at Berkeley.

Bertrand Debray has served as our vice president, engineering since the company was founded in 2003. Before joining Sequans, Mr. Debray was director of hardware and ASIC development in the cable product division at Juniper Networks. He joined Juniper Networks after the company acquired Pacific Broadband Communications, where he played the same role and was significantly involved in developing the cable product and team. Mr. Debray has held technical and management positions at Alcatel. He has 16 years' experience in large project development covering all access technologies, including wireless, satellite and cable. Mr. Debray holds a MSE from Ecole Nationale Supérieure des Télécommunications, Paris.

Rudy Leser has served as our vice president, business development since September 2011. Mr. Leser is responsible for establishing and managing our relationships with mobile operators and other key players in the global wireless ecosystem. He has more than 20 years' experience managing business development for tier 1 and 2 telecom carriers and telecom equipment manufacturers. Prior to joining Sequans, Mr. Leser was an independent telecommunications consultant from January 2011 to August 2011. From 2000 through December 2010, Mr. Leser served as the corporate vice president of strategic initiatives of Alvarion, a global leader in 4G networking solutions. Prior to joining Alvarion, Rudy was on the management team at Floware, where he helped to facilitate the merger of BreezeCom and Floware, which became Alvarion in 2001. Mr. Leser holds a BS in aerospace engineering and an MS in aerospace and applied maths engineering from Technion Israel.

T. Craig Miller has served as our vice president, worldwide marketing since September 2011, and previously served as our vice president, marketing and business development beginning in June 2009. Mr. Miller is responsible for coordinating our global product and corporate marketing strategies. He is a technology industry veteran with experience in product management, marketing, strategic planning and business development over the course of his twenty-plus year career. Prior to joining Sequans, Mr. Miller was vice president of product management and marketing at NextWave Wireless from September 2006 to March 2009, where he was responsible for strategic marketing, product planning, product management, applications engineering and marketing communications for a portfolio of WiMAX and LTE chipsets. Prior to NextWave, from July 1988 to May 2006 he held numerous positions in product marketing, strategy, business development and product engineering at Intel Corporation and was director of marketing for the Wireless Networking Group. Mr. Miller holds a BS in electrical engineering from the University of Cincinnati and an MBA from Arizona State University.

Eddy Tang has served as our vice president, manufacturing operations since 2005. Before joining Sequans, from 2003 to 2005, Mr. Tang was with STATSChipPAC Ltd., a provider of outsource assembly and test services, where he was a senior manager in the company's corporate strategy organization. He was responsible for assessing the future needs of the outsourcing industry and making strategic recommendations to upper management. From 1999 to 2004, Mr. Tang held various management positions at Singapore Technologies Assembly and Test Services (STATS Ltd.), including director of marketing in outsource assembly and test services. He started his career in 1982 as a sales engineer at Jebson Company, Siemens Division in Hong Kong. In 1984, he joined Fairchild Semiconductor's manufacturing operations in Singapore. He brings with him more than 25 years of experience in the semiconductor industry. Mr. Tang holds a Master of Science in Electrical Engineering from National University of Singapore and an MBA from University of South Australia.

Hugues Waldburger has served as our vice president, product and program management since June 2011. From June 2008 to June 2011, he served as vice president, product line management. From December 2003 to June 2008, Mr. Waldburger was with Wavecom SA, where he held various positions, including director of performance and validation, director of program management, and member of the steering committee. Prior to joining Wavecom he led the product integration program for cable networks at Pacific Broadband Communications from June 2000 to November 2003, which was acquired by Juniper Networks in 2001. Earlier, Mr. Waldburger held technical management positions for embedded systems with the electronics group, Thales. Mr. Waldburger has more than 25 years of experience in embedded systems and technology. Mr. Waldburger holds a MSE from Ecole Nationale Supérieure des Télécommunications, Paris.

Directors

Gilles Delfassy has served as a director since June 2012. He is also non-executive director at Imagination Technologies and Chairman of the Board of Movea. Mr. Delfassy started his career with Texas Instruments, and created and led that company's wireless business. He was Senior Vice-President and Executive Officer of Texas Instruments when he retired in 2007. Between 2007 and 2009, Mr. Delfassy served as an advisor for several venture capital firms in the US and Europe, and joined the boards of directors of several public and private companies. In particular he was a director at ANADIGICS and interim CEO in 2008 and 2009. From September 2009 to December 2011 he was President and CEO of ST-Ericsson. Mr. Delfassy received an Engineer Diploma (Master of Science in Electrical Engineering) from Ecole Nationale Supérieure d'Electronique et d'Automatique de Toulouse in 1977, and then graduated in Business Administration from Institut d'Administration des Entreprises de Paris in 1978. He also completed specialized courses for Board members at Stanford University and University of Chicago in 2007.

James Patterson has served as a director since January 2011. Mr. Patterson is currently CEO of the Patterson Advisory Group (PAG), a consultancy that specializes in start-ups for the telecom and technology industries. Mr. Patterson also serves on technology and advisory boards for Cbeyond, Inc. and RCR Wireless. Prior to the formation of PAG, Mr. Patterson was the Executive Vice President—Business Development for Infotel Broadband Services, Ltd., a subsidiary of Reliance Industries, Ltd. Prior to Infotel, Mr. Patterson served as the chief executive officer and co-founder of Mobile Symmetry, a mobile and database applications company, from September 2009 to September 2011. Prior to that Mr. Patterson held various leadership roles during his 15 year tenure with Sprint, including President of Wholesale Services from 2008 to 2009, Vice President of Cable Solutions from 2005 to 2008, Vice President of Carrier Markets and of Network Access Management from 2001 to 2005, and Vice President of Sprint eSolutions Finance from 2000 to 2001. Prior to Sprint, Mr. Patterson was a consultant to the financial services industry at Andersen Consulting (now Accenture). Mr. Patterson holds a bachelor's in economics from Davidson College and an MBA from the University of Virginia. He has also studied British literature and economic history at Cambridge University and completed additional post-graduate work at Georgetown University.

Hubert de Pesquidoux has served as a director since March 2011. Mr. de Pesquidoux is an Executive Partner at Siris Capital and, since November 2009, Mr. de Pesquidoux has served as Chief Executive Officer of HDP Consulting, a consulting company. From 1991 until December 2009, Mr. de Pesquidoux held various positions at the telecommunications company Alcatel-Lucent SA (and its predecessor, Alcatel S.A. and its affiliates), where he most recently served as Chief Financial Officer from November 2007 until December 2008 and as President of the Enterprise business from November 2006 until December 2008. Mr. de Pesquidoux's recent positions also include President of Alcatel North America from June 2003 until November 2006. Mr. de Pesquidoux also served

as the Chairman of the Board of Tekelec and currently serves, or has served, as a director or member of the advisory board of a number of public and private companies. Mr. de Pesquidoux holds a Master in Law from University of Nancy II, a Master in Economics and Finance from Institut d'Etudes Politiques de Paris, a DESS in International Affairs from University of Paris Dauphine and was a laureate in the "Concours Général de Droit".

Dominique Pitteloud has served as a director since January 2005. Mr. Pitteloud has been a partner with Endeavour Vision since 2007 and was a principal at Vision Capital from 2001 to 2007. Mr. Pitteloud is also an advisor to ASSIA, a provider of DSL management solutions. Mr. Pitteloud also serves as a director of number of private companies. Prior to becoming a venture capitalist, Mr. Pitteloud was vice president of marketing at 8x8, a Silicon Valley semiconductor and telecommunication company, which he joined in 1999 as part of the acquisition of Odisei, a VoIP start-up from Sophia Antipolis, France. At Odisei, Mr. Pitteloud led the development of the company's business and financing activities. Prior to Odisei, Mr. Pitteloud held various engineering and management positions at Logitech, including Vice President of the scanner and video camera business units. Mr. Pitteloud received a BS in telecommunications from the Swiss engineering school of Yverdon and an MBA from Santa Clara University.

Alok Sharma has served as a director since January 2011. From September 2010 to December 2012, Dr. Sharma was the chief executive officer of Accelera Inc., a company focused on building network optimization software for mobile broadband networks. From February 2009 to August 2010, Dr. Sharma was the Senior Vice President, Corporate Development and Alliances, at Aviat Networks (earlier known as Harris-Stratex), where he was responsible for leading corporate strategy, mergers and acquisitions, as well as the development of key strategic relationships for the company. Beginning in June 2004, Dr. Sharma was the founder and chief executive officer of Telsima Corporation, a provider of WiMAX broadband wireless solutions, until it was acquired by Aviat Networks in February 2009. Prior to Telsima, Dr. Sharma was the vice president and general manager of the Worldwide Cable Business at Juniper Networks from December 2001 to May 2003. Before Juniper Networks, Dr. Sharma was the founder and chief executive officer of Pacific Broadband Communications, which was acquired by Juniper Networks in December 2001. Prior to that, Dr. Sharma held senior management and technical positions at Hewlett Packard, Fujitsu/Amdahl, Integrated Device Technology and Siara Systems, a metro routing company acquired by Redback/Ericsson. Dr. Sharma holds a bachelor of engineering from the Indian Institute of Technology, Roorkee, India and a PhD in electrical engineering from the University of Wisconsin-Madison.

Zvi Slonimsky has served as a director since November 2006. Since 2005, Mr. Slonimsky has been an active chairman of several Israeli high tech companies, including Awear, Extricom Maradin and Surf. He served as CEO of Alvarion Ltd. from 2001 to October 2005, following Alvarion's establishment via merger of BreezeCOM and Floware in August 2001. Prior to the merger, Mr. Slonimsky was CEO of BreezeCom. Before that, he served as president and CEO of MTS Ltd. and was general manager of DSP Group, Israel. Earlier in his career, he held senior positions at several Israeli telecom companies, including C.Mer and Tadiran. Mr. Slonimsky holds a BSEE and a MSEE from the Technion Israel Institute for Technology and an MBA degree from Tel-Aviv University.

B. Compensation

Compensation of Executive Officers and Directors

The aggregate compensation paid and benefits in kind granted by us to our current executive officers and directors, including share-based compensation, for the year ended December 31, 2012, was approximately \$4.5 million. For the year ended December 31, 2012, we estimate that approximately \$14,000 of the amounts set aside or accrued to provide pension, retirement or similar benefits to our employees was attributable to our executive officers.

Our non-employee directors are entitled to the following annual compensation:

Attendance fees	\$ 20,000
Attendance fees for board committee chairperson	
Audit committee	\$ 12,000
Compensation committee	\$ 9,000
Nominating and corporate governance committee	\$ 5,000
Attendance fees for board committee members	
Audit committee	\$ 6,000
Compensation committee	\$ 4,500
Nominating and corporate governance committee	\$ 2,500

In addition, our non-employee directors are also entitled to the following equity awards:

Initial equity award for new directors ⁽¹⁾⁽³⁾	Warrants to purchase 25,000 shares
Annual award for continuing board members ⁽²⁾⁽³⁾	Warrants to purchase 6,000 shares

- (1) *The initial equity award for new directors will have an exercise price equal to the fair market value of the ADSs on the date of grant and will be subject to vesting over a period of three years in equal installments commencing on the date of grant, subject to the non-employee director's continued service to us through the vesting date.*
- (2) *The annual equity award for continuing board members will have an exercise price equal to the fair market value of the ADSs on the date of grant and will fully vest on the earlier of (a) the one year anniversary of the date of grant of the award and (b) the date immediately preceding the date of the annual meeting of our shareholders for the year following the year of grant for the award, subject to the non-employee director's continued service to us through the vesting date. A non-employee director will receive an annual warrant award only if he or she has served on the board of directors for at least the preceding twelve months.*
- (3) *All such awards will become fully vested upon a change of control.*

Employment Agreements with Executive Officers

We have entered into a managing director agreement with Georges Karam, our chairman and chief executive officer. See "Item 7.B—Related Party Transactions—Agreements with Executive Officers and Directors—Employment Agreement". We have entered into standard employment agreements with each of our other executive officers. There are no arrangements or understanding between us and any of our other executive officers providing for benefits upon termination of their employment, other than as required by applicable law.

Equity Plans

Beginning in 2004, we have issued to our employees and consultants stock options, founders warrants and warrants to purchase our ordinary shares, and beginning in October 2011, we have issued restricted share awards. Due to French corporate law and tax considerations, we have issued such equity awards under four types of equity plans, collectively referred to in this discussion as our equity plans. Our equity plans provide for the issue of stock options to employees pursuant to our Stock Option Plans, warrants to our business partners, including consultants and advisors, who have long-term relationships with us and advise us on a regular basis, pursuant to our BSA Subscription Plans, and restricted share awards pursuant to our Restricted Share Award Plans, and prior to our initial public offering in the United States in April 2011, founders warrants to employees in France until the time of our initial public offering, pursuant to our BCE Subscription Plans. Founders warrants are a specific type of option available to qualifying young companies in France and have a more favorable tax treatment for both the employee and the employer compared to stock options, but otherwise function in the same manner as stock options, in particular in terms of vesting. Following completion of our initial public offering in the United States in April 2011, we no longer issue founders warrants.

Under French law, each of these equity plans must be approved at the shareholders' general meeting. The shareholders may delegate to our board of directors the authority to grant the securities within a period that cannot exceed 18 months for founders warrants and warrants, and 38 months for stock options. The shareholders have nevertheless historically delegated the authority to our board to grant these securities within a period that cannot exceed 12 months. Once approved by the shareholders' general meeting, these equity plans cannot be extended either in duration or in size. We have therefore implemented new equity plans when necessary each year.

Since 2004 through March 22, 2013, our shareholders have approved and authorized the issuance of an aggregate of 7,454,500 shares under our equity plans. At March 22, 2013, there were outstanding stock options, founders warrants and warrants to purchase a total of 4,539,198 of our shares issued under our equity plans at a weighted average exercise price of \$4.58, of which 2,012,500 were held by our directors and executive officers at a weighted average exercise price of \$6.00 per share. Of these outstanding stock options, founders warrants and warrants, at March 22, 2013, options to purchase 2,646,149 ordinary shares were vested and exercisable. At March 22, 2013, there were 78,950 restricted share awards outstanding, none of which was vested, and none of which was held by our directors and executive officers.

The stock options, founders warrants and warrants granted under each of our equity plans were granted on substantially the same terms. In general, vesting of the stock options and founders warrants may occur over four years, with 25% vesting after an initial 12 months and the remaining 75% vesting monthly over the remaining 36 months, or may be immediate when linked to employee performance. In general, vesting of other warrants may be either on a monthly basis over a two-year or four-year period, or may be immediate, depending on the nature of the service contract with the consultant or adviser. The stock options, founders warrants and warrants generally expire ten years after the date of grant if not exercised earlier. In general, when a stock option or founders warrant holder's employment service with us, or a warrant holder's service with us, terminates for any reason, his or her stock options or founders warrants or warrants, as the case may be, will no longer continue to vest following termination. The holder may exercise any vested stock options or founders warrants or warrants for a period of 30 days; however, for founders warrants and stock options, in the event of incapacity, such period is extended to 90 days. In the event of death, the holder's heirs or beneficiaries shall have a period of six months to exercise such founders warrants, stock options or warrants. For stock options and founders warrants, in the event that a third party acquires a 100% interest in us, an employee holder who is subsequently dismissed for cause has the right to exercise all of his or her options or warrants within 30 days, notwithstanding the current vesting schedule. In the event of a change of control, as defined in the warrant equity plans subject to vesting, warrants that are not yet exercisable will become exercisable for 30 days following the effective date of the change of control.

The exercise price of the founders warrants, stock options or warrants is determined by the board of directors and is specified in each founders warrant, stock option or warrant award agreement. Historically, the exercise price of the stock options, founders warrants and warrants was equal to the estimated fair value of the shares on the date of grant, based on our valuation, as negotiated with new investors, at the time of the last round of financing prior to the grant. Beginning in January 2011, for new issuances of stock options, founders warrants and warrants, the exercise price is the fair market value of the shares on the date of grant as determined by our board of directors, based upon objective criteria including if the board so decides, independent valuation analyses and the trading price of ADSs.

The restricted share awards vest 100% after two years, if the employee is still with the company. The beneficiary is then required to hold the shares a further two years before being allowed to sell the shares, regardless of whether or not employment with the company continues.

In the event of certain changes in our share capital structure, such as a consolidation or share split or dividend, appropriate adjustments will be made to the numbers of shares and exercise prices under outstanding stock options founders warrants and warrants.

The following table provides information regarding the options to purchase our ordinary shares held by each of our directors and officers who beneficially own greater than one percent of our ordinary shares or have options to purchase more than one percent of our ordinary shares as of March 22, 2013:

<u>Name (Title)</u>	<u>Number of Option(s)</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
<u>Dr. Georges Karam, Chairman and Chief Executive Officer</u>	500,000	€6.26 (\$8.14)	Mar. 8, 2021
	50,000	\$2.04	Dec. 13, 2022
<u>Bertrand Debray, Vice President, Engineering</u>	150,000	€6.26 (\$8.14)	Mar. 8, 2021
	24,000	\$2.04	Dec. 13, 2022

C. Board Practices

In accordance with French law governing a *société anonyme*, our business is overseen by our board of directors and by our chairman. The board of directors has appointed Dr. Karam as our chairman, who also serves as our chief executive officer. Subject to the prior authorization of the board of directors for certain decisions as required under French law, the chief executive officer has full authority to manage our affairs.

Our board of directors is responsible for, among other things, presenting our accounts to our shareholders for their approval and convening shareholder meetings. The board of directors also reviews and monitors our economic, financial and technical strategies. The directors are elected by the shareholders at an ordinary general meeting. Under French law, a director may be an individual or a corporation and the board of directors must be composed at all times of a minimum of three members.

Within the limits set out by the corporate purposes (*objet social*) of our company and the powers expressly granted by law to the shareholders' general meeting, the board of directors may deliberate upon our operations and make any decisions in accordance with our business. However, a director must abstain from voting on matters in which the director has an interest. The board of directors can only deliberate if at least half of the directors attend the meeting in the manners provided for in our by-laws. Decisions of the board of directors are taken by the majority of the directors present or represented. Under French law, our directors and chief executive officer may not, under any circumstances, borrow money from us or obtain an extension of credit or obtain a surety from us.

Our board of directors currently consists of seven directors. Under our by-laws, our board of directors may be comprised of up to nine members. Our board of directors is not currently seeking to fill the two vacant positions. Our board of directors has determined that each of Messrs. Patterson, de Pesquidoux, Pitteloud, Sharma and Slonimsky qualify as independent under the applicable rules and regulations of the SEC and the NYSE, whereas Mr. Delfassy is not considered as independent due to a consulting agreement for business development services entered into before Mr. Delfassy became a board member, which continues to be in effect as of the date of this annual report.

Under our by-laws, the sections of the by-laws relating to the number of directors, election and removal of a director from office may be modified only by a resolution adopted by 66^{2/3}% of our shareholders present or represented. A director's term expires at the end of the ordinary shareholders' general meeting convened to vote upon the accounts of the then-preceding fiscal year and is held in the year during which the term of such director comes to an end unless such director's term expires earlier in the event of a resignation or removal. The following table sets forth the names of the directors of our company, the dates of their initial appointment as directors and the expiration dates of their current term.

<u>Name</u>	<u>Current position</u>	<u>Year of appointment</u>	<u>Term expiration year</u>
Georges Karam	Chairman	2003	2015
Gilles Delfassy	Director	2012	2015
James Patterson	Director	2011	2013
Hubert de Pesquidoux	Director	2011	2013
Dominique Pitteloud	Director	2005	2013
Alok Sharma	Director	2011	2013
Zvi Slonimsky	Director	2006	2015

At our last shareholders' general meeting held in June 2012, our by-laws were amended to provide that each director is elected for a three-year term by a vote of the majority of the shareholders present or represented. We intend to elect approximately one-third of our directors each year.

Under French law, a director who is an individual cannot serve on more than five boards of directors or supervisory boards in corporations (*société anonyme*) registered in France; directorships in companies controlled by us, as defined in article L.233-16 of the French Commercial Code, are not taken into account.

Directors may resign at any time and their position as members of the board of directors may be revoked at any time by a majority vote of the shareholders present or represented at a shareholders' general meeting, excluding abstentions. The number of directors who are over 70 years old may not exceed one third of the total number of directors and the chairman of our board must not be over 65 years old. A director does not need to be a French national and there is no limitation on the number of terms that a director may serve. In case of removal without cause, directors may be entitled to damages.

Vacancies on our board of directors, including vacancies resulting from there being fewer than the maximum number of directors permitted by our by-laws, provided there are at least three directors remaining, may be filled by a vote of a simple majority of the directors then in office. The appointment must then be ratified by the next shareholders' general meeting. Directors chosen or appointed to fill a vacancy shall be elected by the board for the remaining duration of the current term of the replaced director. In the event the board would be composed of less than three directors as a result of a vacancy, meetings of the board of directors shall no longer be permitted to be held except to immediately convene a shareholders' general meeting to elect one or several new directors so there are at least three directors serving on the board of directors, in accordance with French law.

Under French law, employees may be elected to serve as a director. However, such employee-director must perform actual functions separate from his/her role as director in order to retain the benefit of his/her employment agreement. The number of directors who are our employees cannot exceed one third of the directors then in office. No director can enter into an employment agreement with us after his/her election to the board of directors.

French law requires that companies having at least 50 employees for a period of 12 consecutive months have a *Comité d'Entreprise*, or Workers' Council, composed of representatives elected from among the personnel. Our Workers' Council was formed in 2007. Two of these representatives are entitled to attend all meetings of the board of directors and the shareholders, but they do not have any voting rights.

Directors are required to comply with applicable law and with our by-laws. Our directors may be jointly and severally liable for actions that they take that are contrary to our interests. Directors are jointly and severally liable for collective decisions. However, each director may avoid liability by proving that he or she acted diligently and with caution, in particular by not approving the decision at issue or even by resigning in the event of certain critical situations. In certain critical situations, in order to avoid liability for decisions made by the board, a director must resign from his or her office. Directors may be individually liable for actions fully attributable to them in connection with a specific mission assigned to them by the board of directors. As a director, the chairman of the board is liable under the same conditions. The chief executive officer may be liable with respect to third parties if he commits a fault that is severable from his duties and which is only attributable to him.

Directors' Service Contracts

We have entered into letter agreements with each of James Patterson and Alok Sharma. We also entered into a consulting agreement with Gilles Delfassy before he became one of our directors. See "Item 7.B—Related Party Transactions—Agreements with Executive Officers and Directors—Director and Compensation Agreements". There are no arrangements or understandings between us and any of our non-employee directors providing for benefits upon termination of their employment or service as directors of our company, other than as required by applicable law.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee.

Audit Committee

Our audit committee consists of Hubert de Pesquidoux, James Patterson and Dominique Pitteloud, with Mr. de Pesquidoux serving as chairperson. Our audit committee oversees our corporate accounting and financial reporting process and internal controls over financial reporting. Our audit committee evaluates the independent registered public accounting firm's qualifications, independence and performance; recommends to the shareholders with respect to the identity and compensation of the independent registered public accounting firm; approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services; reviews our Consolidated Financial Statements; reviews our critical accounting policies and estimates and internal controls over financial reporting; discusses with management and the independent registered public accounting firm the results of the annual audit and the reviews of our quarterly Consolidated Financial Statements; and reviews the scope and results of internal audits and evaluates the performance of the internal auditor. Our board of directors has determined that each of our audit committee members meets the requirements for independence and financial literacy under the applicable rules and regulations of the SEC and the NYSE. Our board of directors has determined that Mr. de Pesquidoux is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication under the applicable rules and regulations of the NYSE. The audit committee operates under a written charter that satisfies the applicable rules of the SEC and the NYSE.

Compensation Committee

Our compensation committee consists of Zvi Slonimsky, Hubert de Pesquidoux and Dominique Pitteloud, with Mr. Slonimsky serving as chairperson. Our compensation committee reviews and recommends policies relating to the compensation and benefits of our officers and employees, which includes reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer and other senior officers, evaluating the performance of these officers in light of those goals and objectives and setting compensation of these officers based on such evaluations. The compensation committee also recommends to the board of directors the issue of stock options and other awards. Our board of directors has determined that each member our compensation committee meets the requirements for independence under the applicable rules and regulations of the SEC and the NYSE. The compensation committee operates under a written charter.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of James Patterson, Alok Sharma and Zvi Slonimsky, with Mr. Patterson serving as chairperson. The nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and composition of our board. In making such recommendations, the nominating and corporate governance committee considers the skills and experience of the directors or nominees in the context of the needs of our board of directors as well as the directors' or nominees' diversity of skills and experience in areas that are relevant to our business and activities. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations concerning governance matters. Our board of directors has determined that each member of our nominating and corporate governance committee meets the requirements for independence under the applicable rules and regulations of the NYSE. The nominating and corporate governance committee operates under a written charter.

D. Employees

At December 31, 2012, we had 183 full-time employees, of whom 115 were located in France, 19 were in the United Kingdom, 13 were in China, 9 were in the United States, 8 were in Singapore, 7 were in Israel, 5 were in Taiwan, 2 were in India, 3 were in South Korea, 1 was in Ukraine and 1 was in Hong Kong. These employees include 145 in research and development, 15 in sales and marketing and 19 in general and administration and 4 in operations. Management considers labor relations to be good. We also have independent contractors and consultants. At December 31, 2012, we had 20 dedicated engineers from Global Logic in Ukraine for software development and testing, and also had 4 independent contractors in both research and development and sales and marketing in France.

At each date shown, we had the following employees, broken out by department and geography:

	At December 31,		
	2010	2011	2012
Department:			
Research and development	108	139	144
Sales and marketing	48	46	15
General and administration	20	21	19
Operations	6	6	4
Total	<u>182</u>	<u>212</u>	<u>182</u>
Geography:			
Europe, Middle East, Africa	143	163	141
Asia	29	38	32
Americas	10	11	9
Total	<u>182</u>	<u>212</u>	<u>182</u>

E. Share Ownership

For information regarding the share ownership of our directors and executive officers, please refer to “Item 6.B.—Compensation—Equity Plans” and “Item 7.A—Major Shareholders.”

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our shares as of March 22, 2013:

- each person, or group of affiliated persons, known by us to own beneficially more than 5% of our outstanding ADSs or ordinary shares;
- each of our executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities, and include shares subject to options that are exercisable within 60 days after the date of this annual report. Such shares are also deemed outstanding for purposes of computing the percentage ownership of the person holding the option, but not the percentage ownership of any other person.

For the purpose of calculating the percentage of shares beneficially owned by any shareholder, this table lists applicable percentage ownership based on 44,683,839 ordinary shares outstanding as of March 22, 2013.

Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares. To our knowledge, none of our selling shareholders is a broker-dealer or is affiliated with a broker-dealer.

Unless otherwise indicated in the footnotes to the table, the address of each individual listed in the table is c/o Sequans Communications S.A., 19 Le Parvis, 92073 Paris-La Défense, France.

	Ordinary Shares Beneficially Owned	
	Number	Percent
5% Shareholders		
Add Partners and affiliates ⁽¹⁾	4,371,996	9.8%
I-Source Gestion and affiliates ⁽²⁾	3,314,226	7.4
Kennet Partners and affiliates ⁽³⁾	3,219,766	7.2
Dr. Georges Karam ⁽⁴⁾	3,367,845	7.5
Harvey Partners, LLC ⁽⁵⁾	2,850,000	6.4
Executive Officers and Directors		
Dr. Georges Karam ⁽⁴⁾	3,367,845	7.5%
Deborah Choate ⁽⁶⁾	207,344	*
Bertrand Debray ⁽⁷⁾	945,314	2.1
Rudy Leser ⁽⁸⁾	47,500	*
T. Craig Miller ⁽⁹⁾	105,000	*
Eddy Tang ⁽¹⁰⁾	115,762	*
Hugues Waldburger ⁽¹¹⁾	119,031	*
Gilles Delfassy	0	*
James Patterson ⁽¹²⁾	47,677	*
Hubert de Pesquidoux ⁽¹³⁾	16,677	*
Dominique Pitteloud ⁽¹⁴⁾	16,677	*
Alok Sharma ⁽¹⁵⁾	16,677	*
Zvi Slonimsky ⁽¹⁶⁾	233,465	*
All executive officers and directors as a group (13 persons) ⁽¹⁷⁾	5,238,969	11.4%

* Represents beneficial ownership of less than 1%.

- (1) Based on information provided to the Company. Includes 4,304,838 shares held by ADD One LP, or ADD; and 67,158 shares held by ADD One GmbH K.G. & Co, or KG. Pursuant to the constitutional documents of ADD and KG, ADD Management Limited, or AML, has sole voting and investment power over the shares held by ADD and KG. AML is the managing general partner of ADD One General Partner LP which in turn is the managing general partner of ADD and Liquidator of KG. The board of directors of AML consists of Kevin Brennan, Barry McClay and James Martin, who share such voting and investment power. Each of Kevin Brennan, Barry McClay and James Martin disclaim beneficial ownership except to the extent of his or her pecuniary interest therein. The address of AML is 1 Royal Plaza, Royal Avenue, St. Peter Port, Guernsey, GY1 2HL.
- (2) Based on a Schedule 13G filed with the SEC on February 14, 2012 and information provided to the Company. Includes 2,798,172 shares owned by FCPR T-Source; 357,578 shares owned by FCPI CA Innovation 6; 92,015 shares owned by FCPI CA Innovation 9; and 66,461 shares owned by FCPI CA Investissement 1. I-Source Gestion, as the management company of FCPR T-Source, and the delegate of Amundi PEF, the management company of the FCPI CA Innovation 6, CA Innovation 9 and CA Investissement 1, is the Reporting Person. Under French Law, the funds (FCPR, FCPI) do not have legal capacity or their own personnel; they are represented in all respects by the management company, which acts in the interest of the unit holders of each fund. I-Source Gestion SA is a French société de gestion (management company) regulated as such by the French Autorité des Marchés Financiers. Organized as a Société Anonyme, it is governed by a Directoire, comprised of Didier Moret, the Président du Directoire, Nicolas Landrin, Directeur Général, and Jean-Philippe Zoghbi, Directeur Général. They make voting and investment decisions for I-Source Gestion SA. Therefore, I-Source Gestion, Didier Moret, Nicolas Landrin and Jean-Philippe Zoghbi have shared voting and shared dispositive power over all shares owned of record by the Funds. However, Didier Moret, Nicolas Landrin and Jean-Philippe Zoghbi disclaim beneficial ownership of those shares except to the extent of their pecuniary interest therein, if any. The address of I-Source Gestion is 23, avenue d'Iéna 75116 Paris, France.
- (3) Based on a Schedule 13G filed with the SEC on February 9, 2012 and information provided to the Company. Includes 3,205,401 shares held by Kennet II LP, or KII; and 14,365 shares held by King Street Partners LP, or KSP. Pursuant to a management agreement, Kennet Capital Management (Jersey) Limited, or KCMJL, has sole voting and investment power over the shares held by KII and KSP. The board of directors of KCMJL consists of Michael Harrop, David King and Jane Stammers, who share such voting and investment power. Each of Michael Harrop, David King and Jane Stammers disclaim beneficial ownership except to the extent of his or her pecuniary interest therein. The address of KCMJL is 47 Esplanade, St. Helier, Jersey JE1 0BD Channel Islands.
- (4) Includes 260,417 shares subject to options that are exercisable within 60 days of March 22, 2013.
- (5) Based on a Schedule 13G filed with the SEC on February 25, 2013. Includes 598,500 ADSs held by Harvey SMidCap Fund, LP,

a Delaware limited partnership (“SMidCap Fund”), 1,263,975 ADSs held by Harvey SMidCap Offshore Fund, Ltd., a Cayman Islands exempted company (“SMidCap Offshore Fund”), and 987,525 ADSs held by Harvey QP, LP, a Delaware limited partnership (“Harvey QP”). Harvey Partners, LLC (“Harvey Partners”) is the investment manager of SMidCap Fund, SMidCap Offshore Fund and Harvey QP, and as such, possesses the sole power to vote and the sole power to direct the disposition of all securities of the Company held by SMidCap Fund, SMidCap Offshore Fund and Harvey QP. James A. Schwartz and Jeffrey C. Moskowitz, the Managing Members of Harvey Partners, share voting and investment power with respect to all securities beneficially owned by Harvey Partners.

(6) Includes 202,344 shares subject to options that are exercisable within 60 days of March 22, 2013.

- (7) *Includes 60,000 shares held by Mr. Debray as custodian for his son Simon Debray and 60,000 shares held by Mr. Debray's son Matthieu. Includes 78,125 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (8) *Includes 47,500 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (9) *Includes 105,000 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (10) *Includes 67,292 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (11) *Includes 102,031 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (12) *Includes 16,667 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (13) *Includes 16,667 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (14) *Includes 16,667 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (15) *Includes 16,667 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (16) *Includes 233,465 shares subject to options that are exercisable within 60 days of March 22, 2013.*
- (17) *Includes 1,162,842 shares subject to options that are exercisable within 60 days of March 22, 2013.*

None of our principal shareholders have voting rights different than our other shareholders.

At March 22, 2013, there were 44,387,798 of our ADSs outstanding, representing 44,387,798 of our ordinary shares or 99.3% of our outstanding ordinary shares. At such date there were 51 holders of record registered with the Bank of New York Mellon, depository of our ADSs.

B. *Related Party Transactions*

Since January 1, 2012, we have engaged in the following transactions with our directors and executive officers, holders of more than 5% of our voting securities and affiliates of our directors, executive officers and 5% shareholders. We believe that all of the transactions described below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

Under French law, agreements entered into directly or indirectly between us and either one of our officers or one of our shareholders owning more than 10% of our shares, or any company controlling one of our shareholders owning more than 10% of our shares, are subject to the prior approval of the board of directors and must be ratified by our ordinary shareholders' general meetings on the basis of a specific report issued by our statutory auditors on such agreements. Our managing director agreement with Georges Karam, our letter agreements with each James Patterson and Alok Sharma, and our consultancy services agreements with each of Zvi Slonimsky and Gilles Delfassy described below have been submitted to the prior approval of the board of directors and have been or will be submitted to our shareholders at each annual shareholders' general meeting.

Transaction with Our Principal Shareholders

Registration Rights

Pursuant to the terms of our amended and restated shareholder agreement that was entered into in July 2006, as amended and restated on January 31, 2008, in connection with our preference share financing, the shareholders party to that agreement may exercise certain registration rights with respect to the ordinary shares issuable upon conversion of our preference shares. During the five year period ending April 14, 2016, shareholders representing 50% of the ordinary shares subject to the shareholder agreement have the right to two "demand" registrations of an underwritten public offering by such holders of ordinary shares at our expense. Such shareholders, as well as certain founding shareholders, including Messrs. Karam and Debray, are entitled to unlimited "piggyback" and Form S-3, or the equivalent, registration rights at our expense. These registration rights terminate on the earlier of April 14, 2016 and, with respect to each shareholder, when all of such shareholders' shares can be sold in any three-month period pursuant to Rule 144 of the Securities Act.

Issue of Preference Shares and Convertible Notes

From January 2009 to July 2010, we issued an aggregate of €22.5 million (\$30.0 million) of Category E preference shares and Category E convertible notes pursuant to investment agreements between us and the investors, which included 3,520,504 Category E preference shares at a price of €4.048 (\$5.37) per share and €8.3 million (\$11.1 million) aggregate principal amount of Category E convertible notes convertible into our Category E preference shares at a conversion price of €4.048 (\$5.37). The Category E convertible notes had a maturity term of 10 years starting from their respective date of issue and bore 2% annual interest until their conversion.

Then holders of 5% or more of our voting securities, as well as certain holders then affiliated with members of our board of directors purchased Category E preference shares and Category E convertible notes (shown on an as converted basis) as follows: Add Partners and affiliates, 459,486 shares; FCID, 1,182,807 shares; I-Source Gestion and affiliates, 352,273; Kennet Partners and affiliates, 158,102 shares; Motorola Solutions, Inc., 247,035 shares; and Vision Capital and affiliates, 113,142 shares.

The entire €8.3 million (\$11.1 million) aggregate principal amount of the Category E convertible notes was converted into 2,062,500 Category E preference shares, and all outstanding preference shares automatically converted into ordinary shares immediately prior to our initial public offering in April 2011.

Agreements with Executive Officers and Directors

Employment Agreement

We have entered into a managing director agreement with Georges Karam, our chairman and chief executive officer, which contains provisions regarding salary, severance payment and benefits. If Dr. Karam is terminated for any reason, he is entitled to a lump sum severance payment equal to one year of base salary. In accordance with French law, our chief executive officer (“directeur général” or “managing director”) cannot be an employee in connection with the performance of his duties in such capacity. The managing director agreement entered into with Dr. Karam does not constitute, and does not contain the compulsory provisions under French law to be construed as, an employment agreement. Therefore, Dr. Karam does not benefit from the status of employee nor from any benefit that French laws and regulations grant to employees. The managing director agreement only sets forth the terms and conditions, including compensation, under which Dr. Karam performs his duties as chief executive officer.

Director Compensation and Agreements

The non-employee members of our board of directors receive compensation based on our director compensation policy. A description of the cash compensation and equity awards that non-employee members of our board of directors will be entitled to receive is described under “Item 6. B—Compensation—Compensation of Executive Officers and Directors”.

Effective June 1, 2012, prior to Gilles Delfassy joining the board of directors, we entered into an agreement whereby Mr. Delfassy provides to the Company consultancy services in the area of business development and strategy in the broadband wireless access industry. This agreement expires on June 1, 2013. During the year ended December 31, 2012, Mr. Delfassy earned fees totaling \$79,000 under this contract.

Stock Options, Founders Warrants and Warrants

Since our inception, we have granted stock options, founders warrants and warrants to purchase our shares to certain of our executive officers and board members. For more information about our option and warrant plans see “Item 6. B—Compensation—Equity Plans”.

C. *Interests of Experts and Counsel*

Not applicable.

Item 8. Financial Information

A. *Consolidated Statements and Other Financial Information*

Consolidated Financial Statements

We have appended our consolidated financial statements at the end of this annual report, starting at page F-1, as part of this annual report.

Legal Proceedings

On September 9, 2011 a class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company, certain of its officers and directors, and UBS Limited and Jefferies & Company Inc, the lead underwriters in our initial public offering. This action, Donald Dean Johnson v. Sequans Communications S.A., et al, alleges violations of the U.S. federal securities laws in connection with our initial public offering. A substantially similar complaint was filed on October 25, 2011, also in the United States District Court for the Southern District of New York. On December 13, 2011 the Court consolidated the two actions, and appointed lead plaintiffs and co-lead plaintiffs' counsel. On January 31, 2012, lead plaintiffs filed a Consolidated Amended Complaint for Violations of Federal Securities Laws, which seeks unspecified damages. On May 14, 2012, the Company filed a Motion to Dismiss the consolidated complaint. Following oral argument, on January 17, 2013, the Court granted the Company's motion and gave lead plaintiffs 20 days leave to move to amend their complaint. On February 7, 2013, plaintiffs brought a motion for leave to file an amended complaint, and on March 15, 2013, the Company filed an opposition. The Court has not yet scheduled a hearing on plaintiffs' motion. We intend to vigorously defend ourselves against the consolidated action.

Dividend Policy

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future and intend to retain all available funds and any future earnings for use in the operation and expansion of our business.

Subject to the requirements of French law and our by-laws, dividends may only be distributed from our statutory retained earnings. See "Item 10. B—Memorandum and Articles of Association" for further details on the limitations on our ability to declare and pay dividends. Dividend distributions, if any, will be made in euros and converted into U.S. dollars with respect to the ADSs, as provided in the deposit agreement.

B. *Significant Changes*

No significant changes have occurred since December 31, 2012, except as otherwise disclosed in this annual report.

Item 9. The Offer and Listing

A. *Listing Details*

Our ADSs have been listed on the New York Stock Exchange under the symbol "SQNS" since April 15, 2011. Prior to that date, there was no public trading market for ADSs or our ordinary shares. Our initial public offering was priced at \$10.00 per ADS on April 14, 2011. The following table sets forth for the periods indicated the high and low sales prices per ordinary share as reported on the New York Stock Exchange:

	High	Low
Year ended December 31, 2011:		
Second Quarter (beginning April 15)	\$ 19.50	\$ 7.81
Third Quarter	\$ 17.80	\$ 4.23
Fourth Quarter	\$ 6.38	\$ 2.12
Year ending December 31, 2012:		
First Quarter	\$ 3.82	\$ 2.50
Second Quarter	\$ 2.76	\$ 2.00
Third Quarter	\$ 2.30	\$ 1.54
Fourth Quarter	\$ 2.75	\$ 1.30
Year ending December 31, 2013:		
First Quarter (through March 22, 2013)	\$ 2.85	\$ 1.46

Last Six Months		
September	\$ 1.87	\$ 1.55
October	\$ 1.85	\$ 1.32
November	\$ 1.85	\$ 1.30
December	\$ 2.75	\$ 1.68
January	\$ 2.85	\$ 2.10
February	\$ 2.31	\$ 1.50

On March 22, 2013, the last reported sale price of our ADSs on the New York Stock Exchange was \$1.60 per share.

B. *Plan of Distribution*

Not applicable.

C. *Markets*

Our ADS have been listed on the New York Stock Exchange under the symbol “SQNS” since April 15, 2011.

D. *Selling Shareholders*

Not applicable.

E. *Dilution*

Not applicable.

F. *Expenses of the Issue*

Not applicable.

Item 10. Additional Information

A. *Share Capital*

Not applicable.

B. *Memorandum and Articles of Association*

The information set forth in our Registration Statement on Form F-3 (File No. 333-182854), filed with the SEC on July 26, 2012, under the heading “Description of Share Capital” is incorporated herein by reference.

C. *Material Contracts*

We entered into an underwriting agreement among UBS Securities LLC and Jefferies & Company, Inc. as representatives of the underwriters, and the selling securityholders on April 14, 2011, with respect to the ADSs sold in our initial public offering. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

We entered into an underwriting agreement with Needham & Company, LLC on February 15, 2013, with respect to the ADSs sold in our February 2013 public offering. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

D. *Exchange Controls*

Under current French foreign exchange control regulations there are no limitations on the amount of cash payments that we may remit to residents of foreign countries. Laws and regulations concerning foreign exchange controls do, however, require that all payments or transfers of funds made by a French resident to a non-resident be handled by an accredited intermediary. All registered banks and substantially all credit institutions in France are accredited intermediaries.

E. Taxation

Material United States Federal Income Tax Consequences

The following is a description of the material United States federal income tax consequences of the acquisition, ownership and disposition of the ADSs. This description addresses only the United States federal income tax consequences to holders that are purchasers of the ADSs and hold such ADSs as capital assets (generally property held for investment). This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- certain former citizens or former long-term residents of the United States;
- persons that received the ADSs as compensation for the performance of services;
- persons that will hold the ADSs as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- holders that will hold the ADSs through a partnership or other pass-through entity;
- U.S. Holders, as defined below, whose “functional currency” is not the United States dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more, of the voting power or value, of our shares.

Moreover, this description does not address the United States federal estate and gift or alternative minimum tax, or foreign, state or local tax, consequences of the acquisition, ownership and disposition of the ADSs.

This description is based on the United States Internal Revenue Code of 1986, as amended, or the “Code”, existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the ADSs that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of the ADSs that is neither a U.S. Holder nor a partnership, or other entity or arrangement treated as a partnership, for United States federal income tax purposes.

If a partnership or any other entity or arrangement treated as a partnership for United States federal income tax purposes holds the ADSs, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partnership. Such a partner or partnership is encouraged to consult its tax advisor as to its tax consequences.

You are encouraged to consult your tax advisor with respect to United States federal, state, local and foreign tax consequences of acquiring, owning and disposing of the ADSs.

For United States federal income tax purposes, you will be treated as the owner of our ordinary shares represented by your ADSs. Exchanges of ordinary shares for ADSs, and ADSs for ordinary shares, will not be subject to United States federal income tax.

Distributions with Respect to ADSs

Subject to the discussion below under “Passive Foreign Investment Company Considerations”, if you are a U.S. Holder, for United States federal income tax purposes, the gross amount of any distribution made to you with respect to your ADSs (other than certain distributions, if any, of the ADSs distributed pro rata to all our shareholders), before reduction for any French taxes withheld therefrom, will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. Subject to the discussion below under “Passive Foreign Investment Company Considerations”, non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ADSs applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. However, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under “Passive Foreign Investment Company Considerations”, to the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in your ADSs and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles and, therefore, if you are a U.S. Holder you should expect that the entire amount of any distribution generally will be reported as dividend income to you.

Dividends, if any, paid to U.S. Holders in euros or currency other than the U.S. dollar (“Other Foreign Currency”) will be includible in income in a U.S. dollar amount based on the prevailing spot market exchange rate in effect on the date of actual or constructive receipt whether or not converted into U.S. dollars at that time. Assuming dividends received in euros (or Other Foreign Currency) are converted into U.S. dollars on the day they are received, the U.S. Holder will not be required to recognize foreign currency gain or loss in respect of the dividend income. If, however, the payment is not converted at that time, a U.S. Holder will have a tax basis in euros (or Other Foreign Currency) equal to the U.S. dollar amount of the dividend included in income, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss that a U.S. Holder recognizes on a subsequent conversion of euros (or Other Foreign Currency) into U.S. dollars (or on other disposition) will be U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the tax consequences to them if the dividends are paid in euros (or Other Foreign Currency).

Subject to certain conditions and limitations, French tax withheld on dividends may be deducted from your taxable income or credited against your United States federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends, if any, that we distribute will constitute “passive category income”, or, in the case of certain U.S. Holders, “general category income”. A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements or if you engage in certain risk reduction transactions. If you are a U.S. Holder, dividends, if any, paid to you with respect to your ADSs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. The rules relating to the determination of the foreign tax credit are complex, and you are encouraged to consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements”, if you are a Non-U.S. Holder, you will not be subject to United States federal income, or withholding, tax on dividends received by you on your ADSs, unless such income is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base).

Sale, Exchange or Other Disposition of ADSs

Subject to the discussion below under “Passive Foreign Investment Company Considerations”, if you are a U.S. Holder, you will recognize capital gain or loss on the sale, exchange or other disposition of your ADSs equal to the difference between the amount realized on such sale, exchange or other disposition and your adjusted tax basis in your ADSs. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ADSs is eligible for the preferential rate of taxation applicable to long-term capital gains if your holding period for such ADSs exceeds one year (i.e., such gain is long-term capital gain). Gain or loss, if any, recognized by a U.S. Holder will be treated as U.S. source gain or loss, as the case may be, for foreign tax credit limitation purposes. The deductibility of capital losses for United States federal income tax purposes is subject to limitations.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements”, if you are a Non-U.S. Holder, you will not be subject to United States federal income, or withholding, tax on any gain realized on the sale or exchange of such ADSs unless:

- such gain is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base); or
- you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A non-U.S. corporation will be classified as a “passive foreign investment company”, or a PFIC, for United States federal income tax purposes in any taxable year in which, after applying certain look-through rules, either

- at least 75% of its gross income is “passive income”; or
- at least 50% of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose includes dividends, interest, royalties, rents, gains from commodities and securities transactions and the excess of gains over losses from the disposition of assets which produce passive income, including amounts derived by reason of the temporary investment of funds raised in offerings of the ADSs. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income.

Based on the character of our gross income and the average value of our passive assets relative to the gross value of our assets for the taxable year ended December 31, 2012, we do not believe we were a PFIC for 2012. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for 2013 or any other future year until after the close of that year. While we intend to manage our business so as to avoid PFIC status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status. In addition, because the market price of the ADSs has fluctuated and is likely to fluctuate in the future and because that market price may affect the determination of whether we will be a PFIC, there can be no assurance that we will not be a PFIC for any taxable year.

If we are a PFIC for a given year, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime will apply to both (a) any “excess distribution” by us to you for the year (defined as your ratable portion of distributions in the year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or, if shorter, your holding period for the ADSs) and (b) any gain realized on the sale or other disposition (including a pledge) of the ADSs. Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, the tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and dividend distributions made to you will not qualify for the lower rates of taxation applicable to long-term capital gains discussed above under “Distributions with Respect to ADSs.”

Certain elections are available to U.S. Holders of shares that may serve to alleviate some of the adverse tax consequences of PFIC status described above. One such election is a qualified electing fund, or a QEF, election, under which you would be required to include in income on a current basis your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gains as capital gain. However, we do not expect to provide to U.S. Holders the information needed to report income and gain pursuant to a QEF election, and we make no undertaking to provide such information in the event that we are a PFIC.

Under an alternative tax regime, you may also avoid certain adverse tax consequences relating to PFIC status discussed above by making a mark-to-market election with respect to your ADSs annually, provided that the ADSs are “marketable.” The ADSs will be marketable if they are regularly traded on certain U.S. stock exchanges, including the NYSE, or on certain non-U.S. stock exchanges. For these purposes, the shares will be considered regularly traded during any calendar year during which they are traded, other than in negligible quantities, on at least 15 days during each calendar quarter. U.S. Holders should be aware, however, that if we are determined to be a PFIC, the interest charge regime described above could be applied to indirect distributions or gains deemed to be attributable to U.S. Holders in respect of any of our subsidiaries that also may be determined to be a PFIC, and the mark-to-market election would not be effective for such subsidiaries.

If you choose to make a mark-to-market election, you would recognize as ordinary income or loss each year in which we are a PFIC an amount equal to the difference as of the close of the taxable year between the fair market value of your ADSs and your adjusted tax basis in your ADSs. Losses would be allowed only to the extent of net mark-to-market gain previously included by you under the election for prior taxable years. If the mark-to-market election were made, then the PFIC rules described above relating to excess distributions and realized gains would not apply for periods covered by the election. If you do not make a mark-to-market election for the first taxable year in which we are a PFIC during your holding period of the ADSs, you would be subject to interest charges with respect to the inclusion of ordinary income attributable to each taxable year in which we were a PFIC during your holding period before the effective date of such election.

If we are a PFIC, a holder of ADSs that is a U.S. Holder must file United States Internal Revenue Service Form 8621 for each tax year in which the U.S. Holder makes a disposition of ADSs, receives direct or indirect distributions on its ADSs, or makes one of the elections mentioned above with respect to its ADSs. Legislation enacted on March 18, 2010 creates an additional annual filing requirement for tax years beginning on or after the date of enactment for U.S. persons who are shareholders of a PFIC. The legislation does not describe what information will be required to be included in the additional annual filing, but rather grants the Secretary of the U.S. Treasury authority to decide what information must be included in such annual filing.

If we are a PFIC for a given taxable year, then you are encouraged to consult your tax advisor concerning the availability and consequences of making any of the elections mentioned above, as well as concerning your annual filing requirements.

Medicare Tax

For taxable years beginning after December 31, 2012, a United States person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on net investment income in excess of certain amounts. In the case of an individual, the tax will be imposed on the lesser of (1) the United States person’s “net investment income” for the relevant taxable year and (2) the excess of the United States person’s modified adjusted gross income for the taxable year over \$250,000 (in the case of a taxpayer filing a joint return or a surviving spouse), \$125,000 (in the case of a married taxpayer filing a separate return) or \$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (1) the entity’s “undistributed net investment income” for the taxable year and (2) the excess (if any) of the entity’s “adjusted gross income” over the dollar amount at which the highest tax bracket begins for such entity. A holder’s net investment income will include its gross dividend income and its net gains from the disposition of ADSs, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States person that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the ADSs.

Information with Respect to Foreign Financial Assets

Individuals who own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities, including ADSs issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. U.S. holders that are individuals are encouraged to consult their tax advisors regarding the application of this reporting requirement as it relates to their ownership of ADSs.

Backup Withholding Tax and Information Reporting Requirements

United States backup withholding tax and information reporting requirements apply to certain payments to certain non-corporate holders of stock. Information reporting will apply to payments of dividends on, and to proceeds from the sale or redemption of, the

ADSs made within the United States, or by a United States payor or United States middleman, to a holder of the ADSs, other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ADSs within the United States, or by a United States payor or United States middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the beneficial owner's United States federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

French Material Tax Consequences

The following is a description of the material French tax consequences of the acquisition, ownership and disposition of the ADSs by a U.S. Holder. This description is based on applicable tax laws, regulations and judicial decisions as of the date of this annual report, and, where applicable, the Convention between the United States of America and France for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, dated of August 31, 1994, as amended from time to time (the "U.S. Treaty").

This description is based in part upon the representation of the custodian and the assumption that each obligation in the Depository Agreement with the depository relating to your ADRs and any related agreement will be performed in accordance with their terms.

The following is a description of the principal tax effect on U.S. Holders for the purposes of French tax if, all of the following points apply:

- the U.S. Holder owns, directly, indirectly or constructively, less than 10% of the Company capital and dividend rights;
- the U.S. Holder is entitled to the benefits of the U.S. Treaty (including under the "limitations on benefits" article of the U.S. Treaty);
- the U.S. Holder does not hold the ADSs through a permanent or a fixed base in France;
- the U.S. Holder is not multi-resident;
- the U.S. Holder does not hold the ADSs through a non-U.S. based pass-through entity; and
- the U.S. Holder does not receive dividend, capital gains or other payments on the ADSs on an account located in a Non-cooperative State as defined in Article 238-0 A of the French General Tax Code and as mentioned in a list published by the French tax authorities as amended from time to time (on January 1st of each year).

A U.S. Holder to whom all the above requirements apply will be hereafter defined as a Qualifying U.S. Holder.

This description is relevant only to holders of ADSs who are Qualifying U.S. Holders.

For purposes of the U.S. Treaty Qualifying U.S. Holders of ADSs will be treated as the owners of Company's ordinary shares represented by such ADSs.

Special rules apply to U.S. expatriates, insurance companies, pass-through entities and investors in such entities, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax and securities broker-dealers, among others. Those special rules are not discussed in this annual report.

Holders of Company ADSs are encouraged to consult their own tax advisors as to the particular tax consequences to them of owning the ADS, including their eligibility for benefits under the U.S. Treaty, the application and effect of state, local, foreign and other tax laws and possible changes in tax laws or in their interpretation.

Taxation of Dividends

Dividends paid by a French company to non-French holders are generally subject to a 30% withholding tax (or 21% if the holder is an individual resident of the EU, Norway, Iceland or Liechtenstein). Such 30% withholding tax rate can be increased to 75% if the dividend is paid towards non-cooperative States or territories (as mentioned above) irrespective of the tax residence of the beneficiary of the dividends. Such withholding tax rates may, however, be reduced by application of a tax treaty with France.

Dividends paid to a Qualifying U.S. Holder by French companies are immediately subject to a reduced rate of 15%, provided that such Qualifying U.S. Holder establishes before the date of payment of the dividend that he or she is a U.S. resident under the U.S. Treaty by completing and delivering the depository with a simplified certificate (Form 5000) (the "Certificate") in accordance with French tax guidelines (BOI-INT-DG-20-20-20). Dividends paid to a Qualifying U.S. Holder that has not filed and delivered to the paying agent the Certificate before the dividend payment date, will be subject to French withholding tax at the rate of 30%. The tax withheld in excess of 15% can be refunded by the French tax authorities provided that such Qualifying U.S. Holder duly completes and provides the French tax authorities with the Certificate and Form 5001 (the "Forms") before December 31 of the second calendar year following the year during which the dividend is paid. U.S. pension funds and other tax exempt entities are subject to the same general filing requirement as the U.S. Holders, except that they may be required to supply additional documentation evidencing their entitlement to these benefits.

Taxation of Capital Gains

A Qualifying U.S. Holder will not be subject to any French income or withholding tax on any capital gain realized upon the sale or exchange of ADSs of the Company.

Estate and Gift Taxes

Under the Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts dated November 24, 1978 (as amended from time to time), if a U.S. Holder transfers his or her shares by gift or by reason of the U.S. Holder's death, that transfer will not be subject to French gift or inheritance tax unless the U.S. Holder is domiciled in France at the time of making the gift or at the time of his or her death or if the shares are held for use in the conduct of a business or profession through a permanent establishment or a fixed base in France.

Wealth Tax

Qualifying U.S. Holders will not be subject to French wealth tax.

F. *Dividends and Paying Agents*

Not applicable.

G. *Statement by Experts*

Not applicable.

H. *Documents on Display*

We are currently subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations of these requirements by filing reports with the Securities and Exchange Commission. As a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we intend to file with the Securities and Exchange Commission, within 120 days after the end of each subsequent fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm. We also intend to file with the Securities and Exchange Commission reports on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year, within 60 days after the end of each quarter.

You may read and copy any document we file with the Securities and Exchange Commission without charge at the Securities and Exchange Commission's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for

further information on the public reference room. The Securities and Exchange Commission also maintains an Internet site that contains reports and other information regarding issuers that file electronically with the Securities and Exchange Commission. Our filings with the Securities and Exchange Commission are also available to the public through this web site at <http://www.sec.gov>.

I. *Subsidiary Information*

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We had cash and cash equivalents totaling \$9.7 million, \$57.2 million and \$28.8 million, at December 31, 2010, 2011 and 2012 respectively. Our cash and cash equivalents consist of cash in commercial bank accounts and investments in money market funds. The primary objectives of our investment activities are to preserve principal, and provide liquidity without significantly increasing risk. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in money market funds. Due to the short-term and highly liquid nature of our portfolio, a movement in interest rates of 100 basis points during 2012 would not have a material effect on interest income.

Foreign Currency Risk

We use the U.S. dollar as the functional currency of Sequans Communications S.A. Substantially all of our sales are denominated in U.S. dollars. Therefore, we have very limited foreign currency risk associated with our revenue. The payment terms of our significant supply chain vendors are also denominated in U.S. dollars. We incur operating expenses and hold assets and liabilities denominated in currencies other than the U.S. dollar, principally the euro. In addition, we have limited exposure to the British pound sterling, the New Israeli shekel, the Taiwan dollar, the Chinese yuan and the Japanese yen. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. dollar to euro exchange rate. As we grow our operations, our exposure to foreign currency risk could become more significant. If there had been a 10% increase or decrease in the exchange rate of the U.S. dollar to the euro, we estimate the impact, in absolute terms, on operating expenses for 2012, would have been \$2.2 million.

Commencing in 2009 and ongoing through the date of this report, we have entered into foreign currency hedging contracts primarily to reduce the impact of variations in the U.S. dollar to euro exchange rate on our operating expenses denominated in euros. Currently, we do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

Item 12. Description of Securities Other than Equity Securities

A. *Debt Securities*

Not applicable.

B. *Warrants and Rights*

Not applicable.

C. *Other Securities*

Not applicable.

D. *American Depositary Shares*

The Bank of New York Mellon, as depositary, registers and delivers our ADSs. Each ADS represents one ordinary share (or a right to receive one ordinary share) deposited with the principal Paris office of Société Générale or any successor, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property which may be held by the depositary in respect of the depositary facility. A copy of our Deposit Agreement among us, the depositary, owners and holders of ADSs was filed with the SEC as an exhibit to our Form F-6 filed on March 22, 2011.

Fees and Expenses

Pursuant to the terms of the deposit agreement, we will be paying all fees and expenses relating to the ADSs on behalf of the holders. However, in the future that arrangement may be changed, at our option, such that the holders will be required to pay the following fees:

Persons depositing or withdrawing ordinary shares or ADS holders must pay: For:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issue of ADSs, including issues resulting from a distribution of ordinary shares or rights or other property• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.05 (or less) per ADS	<ul style="list-style-type: none">• Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the shares had been deposited for issue of ADSs	<ul style="list-style-type: none">• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
\$0.05 (or less) per ADSs per calendar year	<ul style="list-style-type: none">• Depositary services
Registration or transfer fees	<ul style="list-style-type: none">• Transfer and registration of ordinary shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	<ul style="list-style-type: none">• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)• converting foreign currency to U.S. dollars• As necessary
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none">• As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none">• As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide for-fee services until its fees for those services are paid.

Holders of ADS are responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Initial Public Offering

The effective date of the registration statement on Form F-1, File No. 333-173001, for our initial public offering of ADSs, each representing one ordinary share, nominal value €0.02, was April 14, 2011. UBS Limited and Jefferies & Company, Inc. acted as joint book-running managers of the offering and representatives of the underwriters. We sold 6,666,666 ADSs in our initial public offering for an aggregate offering price of the shares sold was \$66.7 million. The selling shareholders sold 1,033,334 ADSs at an aggregate offering price of \$10.3 million. The total expenses of the offering to us, including underwriting discounts and commissions, were approximately \$8.3 million. The net proceeds that we received from the offering were approximately \$58.4 million.

A portion of the net proceeds from our initial public offering was used for general corporate purposes. The balance is held in cash and cash equivalents and is intended to also be used for general corporate purposes.

None of the net proceeds of our initial public offering was paid directly or indirectly to any director, officer, general partner of ours or to their associates, persons owning ten percent or more of any class of our equity securities, or to any of our affiliates, other than as a result of sales of ordinary shares by selling shareholders in the offering.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2012, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment, management believes that as of December 31, 2012 our internal control over financial reporting is effective based on these criteria.

No Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding the Company's internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to an exemption for non-accelerated filers under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank provides an exemption from the independent auditor attestation requirement under Section 404(b) of the Sarbanes-Oxley Act for issuers that are neither large accelerated filers nor accelerated filers. The Company qualifies for this exemption.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our Board has determined that Mr. de Pesquidoux is an audit committee financial expert as defined by the Securities and Exchange Commission rules and has the requisite financial sophistication under the applicable rules and regulations of the New York Stock Exchange. Mr. de Pesquidoux is independent as such term is defined in Rule 10A-3(b)(1) under the Exchange Act and under the listing standards of the New York Stock Exchange.

Item 16B. Code of Ethics

We have adopted a Code of Ethics that applies to the Company's chief executive officer, chief financial officer and other senior financial officers, including the Company's principal accounting officer. We have posted this code on our corporate website at <http://www.sequans.com/investors/corporate-governance/>.

Item 16C. Principal Accountant Fees and Services

Ernst & Young Audit has served as our independent registered public accounting firm for 2011 and 2012. Our accountants billed the following fees to us for professional services in each of those fiscal years:

	2011	2012
	(euros in thousands)	
Audit Fees	€ 283	€ 303
Audit-Related Fees	142	—
Tax Fees	—	—
All Other Fees	—	—
Total	<u>€ 425</u>	<u>€ 303</u>

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC. “Audit-Related Fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time. There were no “Tax Fees” or “Other Fees” billed or paid during 2011 or 2012.

Our audit committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a foreign private issuer listed on the NYSE, we are subject to NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Currently, we rely on the NYSE Listed Company Manual with respect to our corporate governance to the extent possible under French law. The following are the significant ways in which our corporate governance practices differ from those required for U.S. companies listed on the NYSE.

- **Audit Committee**—Our audit committee is responsible for organizing for selecting our statutory auditors and making a recommendation to our board of directors regarding their chose and terms of compensation. As required by French law, the actual appointment of the statutory auditors is made by our shareholders at a general meeting of the shareholders. According to the Audit Committee Charter, our audit committee has the authority to engage advisors and determine appropriate funding for payment of compensation to an independent auditor or other advisors necessary or appropriate to aid the committee in carrying out its responsibilities.
- **Executive Sessions/Communications with Independent Directors**—French law does not require (and we do not currently provide) for our independent directors to meet regularly without management, nor does it require the independent directors to meet alone in executive session at least once a year. However, if our independent directors decide to do so, they may do so. In addition, French law does not require (and we do not currently provide) a method for interested parties to communication with our independent directors.
- **Equity Compensation Plans**—Under French law, we must obtain shareholder approval at a general meeting of the shareholders in order to adopt an equity compensation plan. Generally, the shareholders then delegate to our board of directors the authority to decide on the specific terms of the granting of equity compensation, within the limits of the shareholders’ authorization.
- **Corporate Governance Guidelines**—We have adopted a Board Internal Charter as required by French law that sets forth certain corporate governance practices of our board under French law. This Board Internal Charter does not cover all items required by the NYSE Listed Company Manual for U.S. companies listed on the NYSE.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III**Item 17. Financial Statements**

See pages F-1 through F-41 of this annual report.

Item 18. Financial Statements

Not applicable.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
1.1*	By-laws (<i>statuts</i>) of Sequans Communications S.A. (English translation)
2.1	Shareholders' Agreement, by and between Sequans Communications S.A. and certain shareholders signatory thereto, dated January 31, 2008 (incorporated by reference to Exhibit 4.1 to Sequans Communications S.A.'s Registration Statement on Form F-1, as amended (Registration No. 333-173001) ("Registration No. 333-173001"))
2.2	Form of Deposit Agreement among Sequans Communications S.A., The Bank of New York Mellon and owners and holders of American Depositary Shares (incorporated by reference to Exhibit 4.2 to Registration No. 333-173001)
2.3	Form of American Depositary Receipt (included in Exhibit 2.2)
4.1(a)	Stock Option Subscription Plans—2006-1, 2006-2, 2006-3, 2006-4, 2008-1, 2009-1, 2009-2, 2010-1, 2010-2, 2010-1-2, 2011-1, 2011-2 (incorporated by reference to Exhibit 10.1 to Registration No. 333-173001)
4.1(b)*	Stock Option Subscription Plan—2012-1
4.2(a)	BSA Subscription Plans—2006-1, 2006-2, 2006-3, 2007-1, 2007-2, 2008-1, 2008-2, 2009-1, 2009-2, 2010-1, 2010-2, 2010-1-2, 2010-2-2, 2011-1, 2011-2 (incorporated by reference to Exhibit 10.2 to Registration No. 333-173001)
4.2(b)*	BSA Subscription Plan—2012-2
4.3	BSA (Warrants) Issuance Agreement, dated January 11 th , 2011 (incorporated by reference to Exhibit 4.4 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)
4.4	BSA (Warrants) Issuance Agreement, dated January 11 th , 2011 (incorporated by reference to Exhibit 4.5 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)
4.5	BSA (Warrants) Issuance Agreement, dated March 8 th , 2011 (incorporated by reference to Exhibit 4.5 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)
4.6*	BSA (Warrants) Issuance Agreement, dated June 26, 2012 (6,000 BSA)
4.7*	BSA (Warrants) Issuance Agreement, dated June 26, 2012 (25,000 BSA)
4.8	Investment Agreement, by and between Sequans Communications S.A. and certain investors signatory thereto, dated July 1, 2010 (incorporated by reference to Exhibit 10.5 to Registration No. 333-173001)
4.9	Consultancy Services Agreement by and between Sequans Communications S.A. and Zvi Slonimsky, dated May 27, 2010 (incorporated by reference to Exhibit 10.6 to Registration No. 333-173001)
4.10	Form of Letter Agreement by and between Sequans Communications S.A. and Board Nominee (incorporated by reference to Exhibit 10.7 to Registration No. 333-173001)

- 4.11 Loan Agreement by and between Sequans Communications S.A. and Eddy Tang, dated August 23, 2010 (incorporated by reference to Exhibit 10.8 to Registration No. 333-173001)
- 4.12 Global Export Agreement by and between Sequans Communications S.A. and Natixis Factor, dated as of May 3, 2010 (English translation) (incorporated by reference to Exhibit 10.9 to Registration No. 333-173001)
- 4.13 Assembly & Testing Service Agreement by and between Sequans Communications S.A. and United Test and Assembly Center Ltd, dated as of November 8, 2010 (incorporated by reference to Exhibit 10.11 to Registration No. 333-173001)
- 4.14 Commercial Lease by and between Sequans Communications S.A. and Groupama Immobilier S.A., dated as of May 11, 2005, as amended through Amendment No. 7 to Commercial Lease, dated as of March 7, 2011 (English translation) (incorporated by reference to Exhibit 10.12 to Registration No. 333-173001)
- 4.15 Lease by and between Sequans Communications Limited and Sergo (Winnersh) Limited, dated as of October 14, 2010 (incorporated by reference to Exhibit 10.13 to Registration No. 333-173001)
- 4.16 Agreement by and between Sequans Communications S.A. and Oseo Innovation, dated as of January 6, 2010 (incorporated by reference to Exhibit 10.15 to Registration No. 333-173001)
- 4.17 Agreement regarding the convertible notes subscription facility by and between Sequans Communications S.A. and Natixis S.A., dated December 14, 2007, as amended on June 23, 2010 and February 11, 2011 (English translation) (incorporated by reference to Exhibit 10.16 to Registration No. 333-173001)
- 8.1* List of Subsidiaries
- 12.1* Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
- 12.2* Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
- 13.1* Certificate of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002
- 13.2* Certificate of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002
- 15.1* Consent of Ernst & Young Audit, independent registered public accounting firm

* Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Sequans Communications S.A.

By: /s/ Dr. Georges Karam
Name: Dr. Georges Karam
Title: Chief Executive Officer and Chairman

Date: March 29, 2013

Sequans Communications S.A.
Index to the Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sequans Communications S.A.:

We have audited the accompanying consolidated statements of financial position of Sequans Communications S.A. and subsidiaries (the "Company") as of December 31, 2010, 2011 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2010, 2011 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Ernst & Young Audit

/s/ Frédéric Martineau

Represented by Frédéric Martineau

Paris-La Défense, France
March 29, 2013

Sequans Communications S.A.
Consolidated Statements of Operations

	Note	Year ended December 31,		
		2010	2011	2012
(in thousands, except share and per share amounts)				
Revenue:				
Product revenue		\$ 64,933	\$ 91,742	\$ 19,600
Other revenue		3,611	1,972	2,654
Total revenue	3	<u>68,544</u>	<u>93,714</u>	<u>22,254</u>
Cost of revenue:				
Cost of product revenue		33,272	46,167	11,781
Cost of other revenue		340	247	176
Total cost of revenue	4.2	<u>33,612</u>	<u>46,414</u>	<u>11,957</u>
Gross profit		<u>34,932</u>	<u>47,300</u>	<u>10,297</u>
Operating expenses:				
Research and development	4.4	17,917	24,935	28,408
Sales and marketing		13,541	12,963	6,562
General and administrative		3,953	8,327	8,096
Total operating expenses	4.2	<u>35,411</u>	<u>46,225</u>	<u>43,066</u>
Operating income (loss)		<u>(479)</u>	<u>1,075</u>	<u>(32,769)</u>
Financial income (expense):				
Interest expense	4.1	(1,190)	(470)	(104)
Interest income	4.1	311	81	241
Foreign exchange gain (loss)	4.1	925	(744)	(158)
Change in the fair value of Category E convertible notes option component	4.1	(2,109)	—	—
Profit (Loss) before income taxes		<u>(2,542)</u>	<u>(58)</u>	<u>(32,790)</u>
Income tax expense (benefit)	5	150	371	234
Profit (Loss)		<u>\$ (2,692)</u>	<u>\$ (429)</u>	<u>\$ (33,024)</u>
Attributable to:				
Shareholders of the parent		(2,692)	(429)	(33,024)
Non-controlling interests		—	—	—
Basic earnings (loss) per share	6	\$ (0.11)	\$ (0.01)	\$ (0.95)
Diluted earnings (loss) per share	6	\$ (0.11)	\$ (0.01)	\$ (0.95)
Number of shares used for computing:				
Basic		<u>24,980,139</u>	<u>32,610,680</u>	<u>34,680,227</u>
Diluted		<u>24,980,139</u>	<u>32,610,680</u>	<u>34,680,227</u>

Sequans Communications S.A.
Consolidated Statements of Comprehensive Income (Loss)

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Profit (Loss) for the year	\$(2,692)	\$ (429)	\$(33,024)
Available for sale financial assets:			
Gains (Losses) arising during the year	1	—	—
Reclassification adjustments to profit (loss)	(16)	—	—
Foreign currency translation	31	(7)	52
Cash flow hedges:			
Gains (Losses) arising during the year	(33)	(355)	147
Reclassification adjustments to profit (loss)	(21)	(351)	838
Total other comprehensive income (loss)	(38)	(713)	1,037
Total comprehensive income (loss)	<u>\$(2,730)</u>	<u>\$(1,142)</u>	<u>\$(31,987)</u>
Attributable to:			
Shareholders of the parent	(2,730)	(1,142)	(31,987)
Non-controlling interests	—	—	—

Sequans Communications S.A.
Consolidated Statements of Financial Position

	Note	At December 31,		
		2010	2011	2012
(in thousands)				
ASSETS				
Non-current assets:				
Property, plant and equipment	7	\$ 5,291	\$ 9,334	\$ 9,187
Intangible assets	8	3,144	4,233	4,184
Loan and other receivables		1,485	531	458
Available for sale financial assets	18	432	677	931
Research tax credit receivable	4.4	—	—	4,103
Total non-current assets		<u>10,352</u>	<u>14,775</u>	<u>18,863</u>
Current assets:				
Inventories	9	8,768	11,660	7,443
Trade receivables	10	14,163	8,373	5,529
Prepaid expenses and other receivables		3,333	2,571	3,074
Recoverable value added tax		1,361	2,008	415
Research tax credit receivable	4.4	2,001	4,423	4,327
Cash and cash equivalents	11	9,739	57,220	28,751
Total current assets		<u>39,365</u>	<u>86,255</u>	<u>49,539</u>
Total assets		<u>\$ 49,717</u>	<u>\$101,030</u>	<u>\$ 68,402</u>
EQUITY AND LIABILITIES				
Equity:				
Issued capital euro 0.02 nominal value, 34,683,839 shares issued and outstanding at December 31, 2012 (34,667,339 and 27,720,013 at December 31, 2011 and 2010, respectively)	12	\$ 710	\$ 912	\$ 912
Share premium	12	68,972	129,283	129,309
Other capital reserves	13	5,194	9,368	12,556
Accumulated deficit		(54,262)	(54,691)	(87,715)
Other components of equity		85	(628)	409
Total equity		<u>20,699</u>	<u>84,244</u>	<u>55,471</u>
Non-current liabilities:				
Government grant advances and interest-free loans	15	1,278	385	287
Finance lease obligations	14	—	—	236
Provisions	16	184	259	369
Deferred tax liabilities		—	55	85
Total non-current liabilities		<u>1,462</u>	<u>699</u>	<u>977</u>
Current liabilities:				
Trade payables	17	15,508	8,580	6,038
Interest-bearing loans and borrowings	14	3,564	—	—
Government grant advances and interest-free loans	15	1,889	717	515
Finance lease obligations	14	—	—	129
Other current financial liabilities	18	5,270	5,846	4,133
Deferred revenue	18	893	869	609
Provisions	16	432	75	530
Total current liabilities		<u>27,556</u>	<u>16,087</u>	<u>11,954</u>
Total equity and liabilities		<u>\$ 49,717</u>	<u>\$101,030</u>	<u>\$ 68,402</u>

Sequans Communications S.A.
Consolidated Statements of Changes in Equity

	Attributable to the shareholders of the parent							Accumulated other comprehensive income (loss)	Total equity
	Ordinary shares		Share premium (Note 12)	Other capital reserves (Note 13)	Accumulated deficit	Cumulative translation adjustments			
	Shares (Note 12)	Amount (Note 12)							
At January 1, 2010	23,696,451	\$ 606	\$ 47,671	\$ 4,063	\$ (51,570)	\$ 58	\$ 65	\$ 893	
Loss for the year					(2,692)			(2,692)	
Foreign currency translation						31		31	
Income and expense directly recognized in equity							(69)	(69)	
Total comprehensive income (loss)					(2,692)	31	(69)	(2,730)	
Issue of share capital	1,729,249	44	8,983					9,027	
Issue of shares in connection with the exercise of options and warrants	231,813	6	284					290	
Conversion of Category E convertible notes	2,062,500	54	13,095					13,149	
Initial Public Offer costs			(754)					(754)	
Share-based payment				1,131				1,131	
Transaction costs			(307)					(307)	
At December 31, 2010	27,720,013	\$ 710	\$ 68,972	\$ 5,194	\$ (54,262)	\$ 89	\$ (4)	\$ 20,699	
Loss for the year					(429)			(429)	
Foreign currency translation						(7)		(7)	
Income and expense directly recognized in equity							(706)	(706)	
Total comprehensive income (loss)					(429)	(7)	(706)	(1,142)	
Issue of shares in connection with the exercise of options and warrants	280,660	8	571					579	
Issue of shares in initial public offering	6,666,666	194	66,473					66,667	
Transaction costs			(6,733)					(6,733)	
Share-based payment				4,174				4,174	
At December 31, 2011	34,667,339	\$ 912	\$129,283	\$ 9,368	\$ (54,691)	\$ 82	\$ (710)	\$ 84,244	
Loss for the year					(33,024)			(33,024)	
Foreign currency translation						52		52	
Income and expense directly recognized in equity							985	985	
Total comprehensive income (loss)					(33,024)	52	985	(31,987)	
Issue of shares in connection with the exercise of options and warrants	16,500		26					26	
Share-based payment				3,188				3,188	
At December 31, 2012	34,683,839	\$ 912	\$129,309	\$12,556	\$ (87,715)	\$ 134	\$ 275	\$ 55,471	

Sequans Communications S.A.
Consolidated Statements of Cash Flow

	Note	Year ended December 31,		
		2010	2011 (in thousands)	2012
Operating activities:				
Profit (Loss) before income taxes		\$ (2,542)	\$ (58)	\$(32,790)
Non-cash adjustment to reconcile income (loss) before tax to net cash from (used in) operating activities:				
Amortization and impairment of property, plant and equipment	7	2,600	4,066	4,442
Amortization and impairment of intangible assets	8	1,314	1,836	1,758
Share-based payment expense	4.3	1,131	4,174	3,189
Increase (decrease) in provisions		67	(31)	565
Change in fair value of Category E convertible notes option component	4.1	2,109	—	—
Financial expense		370	471	(137)
Foreign exchange loss (gain)		(1,363)	205	(37)
Loss (Gain) on disposal of property, plant and equipment	7, 8	(3)	—	—
Interest-free financing benefit		(216)	178	—
Working capital adjustments:				
Decrease (Increase) in trade receivables and other receivables		(9,256)	5,144	3,925
Decrease (Increase) in inventories		(7,212)	(2,870)	4,217
Decrease (Increase) in research tax credit receivable		983	(2,422)	(4,007)
Increase (Decrease) in trade payables and other liabilities		14,113	(6,987)	(3,317)
Decrease in deferred revenue		(758)	(24)	(260)
Increase (Decrease) in government grant advances		205	(521)	(292)
Income tax paid		(61)	(398)	(104)
Net cash flow from (used in) operating activities		\$ 1,481	\$ 2,763	\$(22,848)
Investing activities:				
Purchase of intangible assets and property, plant and equipment	7, 8	\$(6,371)	\$(11,042)	\$ (5,571)
Purchase of financial assets		(1,056)	—	(181)
Refund of factoring deposit and other		—	709	—
Proceeds from sale of intangible assets and property, plant and equipment		50	—	—
Net cash flow used in investments activities		\$(7,377)	\$(10,333)	\$(5,752)
Financing activities:				
Initial public offering proceeds, net of transaction costs paid		\$ (754)	\$ 59,934	\$ —
Proceeds from issue of shares and warrants, net of transaction costs		9,010	579	26
Proceeds from borrowings		36	—	—
Repayment of borrowings and finance lease liabilities		—	(3,479)	(40)
Interest received (paid)		(324)	(656)	136
Proceeds from interest-free loans		789	—	—
Repayment of interest-free loans		(913)	(1,321)	—
Net cash flows from financing activities		\$ 7,844	\$ 55,057	\$ 122
Net increase (decrease) in cash and cash equivalents		1,948	47,487	(28,478)
Net foreign exchange difference		(1)	(6)	9
Cash and cash equivalent at January 1		7,792	9,739	57,220
Cash and cash equivalents at period end	11	\$ 9,739	\$ 57,220	\$ 28,751

Sequans Communications S.A.
Notes to the Consolidated Financial Statements

1. Corporate information

Sequans Communications S.A. (“Sequans”) is organized as a limited liability company (“*société anonyme*”) incorporated and domiciled in the Republic of France, with its principal place of business at 19 Le Parvis, 92073 Paris-La Défense, France. Sequans, together with its subsidiaries (the “Company”), is a leading fabless designer, developer and supplier of 4G semiconductor solutions for wireless broadband applications. The Company’s semiconductor solutions incorporate baseband processor and radio frequency transceiver integrated circuits along with our proprietary signal processing techniques, algorithms and software stacks.

2. Summary of significant accounting and reporting policies

2.1. Basis of preparation

The Consolidated Financial Statements are prepared on a historical cost basis, except for fair value through profit and loss financial assets, derivative financial instruments and available for sale financial assets that are measured at fair value. The Consolidated Financial Statements are presented in U.S. dollars and all values are rounded to the nearest thousand (\$000) except where otherwise indicated.

Statement of compliance

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”) and whose application is mandatory for the year ending December 31, 2012. Comparative figures are presented for December 31, 2010 and 2011.

The accounting policies are consistent with those of the same period of the previous financial year, except for the changes disclosed in Note 2.2 to the Consolidated Financial Statements.

The Consolidated Financial Statements of the Company for the years ended December 31, 2010, 2011 and 2012 have been authorized for issue in accordance with a resolution of the board of directors on March 26, 2013.

Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of Sequans Communications S.A., which is the ultimate parent of the group, and its subsidiaries at December 31, 2012:

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>% equity interest</u>
Sequans Communications Ltd.	United Kingdom	2005	100
Sequans Communications Inc.	United States	2008	100
Sequans Communications Ltd. Pte.	Singapore	2008	100
Sequans Communications (Israel) Ltd.	Israel	2010	100

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The subsidiaries have been fully consolidated from their date of incorporation.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

2.2. Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted in 2012 are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2012:

- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The timing of the adoption of the above standards and interpretations is described below:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement.

The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis.

The amendment is effective for annual periods beginning on or after 1 January 2012 and there has been no effect on the Company's financial position, performance or its disclosures.

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issue of the Company's Consolidated Financial Statements are listed below. The Company intends to adopt these standards when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets).

The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

IAS19 - Employee benefits

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

The main effect of this amendment will be to record actuarial gains and/or losses fully in equity. The amendment becomes effective for annual periods beginning on or after 1 January 2013, which would have an effect on the Company accounts as actuarial gains and losses were accounted for in Consolidated Statements of Operations until December 31, 2012.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

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Notes to the Consolidated Financial Statements—(Continued)

The Company does not anticipate any impact of this new standard on its Consolidated Financial Statements as the Company currently has no such agreements. This new standard is effective for annual periods beginning on or after January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

These amendments are not expected to impact the Company’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

These amendments will not impact the Company’s financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the currently held investments of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 - Joint arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Company does not anticipate any impact of this new standard on its Consolidated Financial Statements as the Company has currently no joint arrangement. This new standard is effective for annual period beginning on or after January 2013.

IFRS 12 - Disclosures of Interests in other entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required, but has no impact on the Company’s financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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Notes to the Consolidated Financial Statements—(Continued)

IFRS 13 - Fair value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012

These improvements will not have any impact on the Company, but include:

- IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

These improvements are effective for annual periods beginning on or after 1 January 2013.

2.3. Summary of significant accounting policies

Functional currencies and translation of financial statements denominated in currencies other than the U.S. dollar

The Consolidated Financial Statements are presented in U.S. dollars, which is also the functional currency of Sequans Communications S.A. The Company uses the U.S. dollar as its functional currency due to the high percentage of revenues, cost of revenue, capital expenditures and operating costs, other than those related to headcount and overhead, which are denominated in U.S. dollars. Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

As at the reporting date, the assets and liabilities of each subsidiary are translated into the presentation currency of the Company (the U.S. dollar) at the rate of exchange in effect at the Statement of Financial Position date and their Statement of Operations are translated at the weighted average exchange rate for the reporting period. The exchange differences arising on the translation are taken directly to a separate component of equity (“Cumulative translation adjustments”).

Foreign currency transactions

Foreign currency transactions are initially recognized by Sequans Communications S.A. and each of its subsidiaries at their respective functional currency rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date. All differences are taken to the Consolidated Statement of Operations within financial income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions.

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The table below sets forth, for the periods and dates indicated, the average and closing exchange rate for the U.S. dollar (USD) to the euro (EUR), the U.K. pound sterling (GBP), the Singapore dollar (SGD) and the New Israeli shekel (NIS):

	<u>USD/EUR</u>	<u>USD/GBP</u>	<u>USD/SGD</u>	<u>USD/NIS</u>
December 31, 2010				
Average rate	1.3268	1.5454	0.7343	0.2754
Closing rate	<u>1.3362</u>	<u>1.5524</u>	<u>0.7798</u>	<u>0.2818</u>
December 31, 2011				
Average rate	1.3917	1.6035	0.7956	0.2797
Closing rate	<u>1.2939</u>	<u>1.5490</u>	<u>0.7693</u>	<u>0.2616</u>
December 31, 2012				
Average rate	1.2856	1.5850	0.8005	0.2595
Closing rate	<u>1.3194</u>	<u>1.6167</u>	<u>0.8189</u>	<u>0.2679</u>

Earnings (loss) per share

Basic earnings (loss) per share amounts are computed using the weighted average number of shares outstanding during each period.

Diluted earnings per share include the effects of dilutive options, warrants, and convertible notes as if they had been exercised.

Revenue recognition

The Company's total revenue consists of product revenue and other revenue.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured and when the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized.

Product revenue

Substantially all of the Company's product revenue is derived from the sale of semiconductor solutions for 4G wireless broadband applications. A small portion of the Company's product revenue is derived from sales of reference designs or electronic boards on which its customers develop and test their own designs.

Revenue from the sale of products is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and when no continuing managerial involvement to the degree usually associated with ownership nor effective control over the sale of products is retained, which usually occurs on shipment of the goods. Products are not sold with a right of return but are covered by warranty. Although the products sold have embedded software, the Company believes that software is incidental to the products it sells.

Other revenue

Other revenue consists of the sale of licenses to use the Company's technology solutions and fees for the associated annual software maintenance and support services, as well as the sale of technical support services.

Revenue from the sale of licenses is recognized when (i) there is a legally binding arrangement with the customer, (ii) the software has been delivered (assuming no other significant obligations exist), (iii) collection of the resulting receivable is probable and (iv) the amount of fees is fixed and determinable. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met. If the contract for a licensing agreement includes a clause allowing for free updates if and when available and if vendor specific objective evidence of fair value for this post-contract customer support cannot be determined at the time the contract is signed, the revenue is recognized over the life of the contract.

Revenue from the sale of software maintenance and support services is recognized over the period of the maintenance (generally one year). When the first year of maintenance is included in the software license price, an amount equal to one year of maintenance, which is between 20% and 50% of the license fee, is deducted from the value of the license and recognized as revenue over the period of maintenance as described above. The difference between license and maintenance services invoiced and the amount recognized in revenue is recorded as deferred revenue.

Revenue from technical support services is recognized over the period the services are rendered.

Cost of revenue

Cost of product revenue includes all direct and indirect costs incurred with the sale of products, including shipping and handling. Cost of other revenue includes all direct and indirect costs incurred with the sale.

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Notes to the Consolidated Financial Statements—(Continued)

Research and development costs

Research costs are expensed as incurred. Development costs are recognized as an intangible asset if the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of adequate resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure during development.

During the period of development, the asset is tested for impairment annually.

Government grants, interest-free loans and research tax credits

The Company operates in certain jurisdictions which offer government grants or other incentives based on the qualifying research expense incurred or to be incurred in that jurisdiction. These incentives are recognized as the qualify research expense is incurred if there is reasonable assurance that all related conditions will be complied with and the grant will be received. When the grant relates to an expense item, it is recognized as a reduction of the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Any cash received in advance of the expenses being incurred is recorded as a liability.

Where loans or similar assistance provided by governments or related institutions are interest-free, the benefit of the below-market rate of interest is recognized as a government grant (see Note 15 to the Consolidated Financial Statements).

The Company also benefits from research incentives in the form of tax credits which are detailed in Note 4.4 to the Consolidated Financial Statements.

Financial income and expense

Financial income and expense include:

- interest expense related to financial debt (financial debt consists of notes, the debt component of compound or hybrid instruments, other borrowings and finance-lease liabilities);
- other expenses paid to financial institutions for financing operations;
- foreign exchange gains and losses associated with operating and financing transactions; and
- changes in fair value connected with financial assets and liabilities at fair value through profit and loss.

In accordance with revised IAS 23 *Borrowing Costs*, the Company capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. To date, the Company has not incurred such costs.

The Company reflects the classification of foreign exchange gains and losses related to hedges of euro-based operating expenses in operating expenses.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

The Company operates in certain jurisdictions which offer tax incentives based on the qualifying research expense incurred in those jurisdictions. When the incentive is available only as a reduction of taxes owed, such incentive is accounted for as a reduction of tax expense; otherwise, it is accounted for as a government grant with the benefit recorded as a reduction of research and development expenses.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except with respect to taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Notes to the Consolidated Financial Statements—(Continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forwards of unused tax credits and unused tax losses can be utilized.

Deferred tax is computed based on the temporary difference that exists between tax and accounting basis for non monetary items.

The carrying amount of deferred income tax assets is reviewed at the reporting date and adjusted to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right of offset exists.

Value added tax

Revenue, expenses and assets are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

Value added tax recoverable consists of value added tax paid by the Company to vendors and suppliers located in the European Union and recoverable from the tax authorities. Value added tax recoverable is collected on a quarterly basis.

Inventories

Inventories consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging. Inventories are valued at the lower of cost (determined using the weighted average cost method) or net realizable value (estimated market value less estimated cost of completion and the estimated costs necessary to make the sale).

The Company writes down the carrying value of its inventories for estimated amounts related to the lower of cost or market value, obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

Financial assets

Receivables

Receivables are initially recognized at fair value, which in most cases approximates the nominal value as the Company does not grant payment terms beyond normal business conditions. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate) is recorded in operating income (loss). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed. In that case, the reversal of the impairment loss is reported in operating income (loss).

Deposits

Deposits are reported as non-current financial assets (loans and receivables) when their initial maturity is more than twelve months. Such deposits included that required by a factoring agreement previously in place with a French financial institution.

Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statements of Financial Position includes cash at banks and money market funds, which correspond to highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

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Notes to the Consolidated Financial Statements—(Continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

Machinery and equipment	3 to 5 years
Building and leasehold improvements	5 to 9 years
Computer equipment	3 years
Furniture and office equipment	3 to 5 years

Impairment tests are performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and the value in use. Where the carrying amount exceeds that recoverable amount, the asset is considered impaired and it is written down to its recoverable amount.

Depreciation expense is recorded in cost of revenue or operating expenses, based on the function of the underlying assets.

Intangible assets

Intangible assets, primarily purchased licenses for development or production technology and tools, are stated at cost less accumulated amortization and any accumulated impairment loss. Amortization is computed using the straight-line method over the estimated useful life of each component, which generally is the shorter of the life of the license or two years.

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The amortization expense is recorded in cost of revenue or operating expenses, based on the function of the underlying assets.

Impairment tests are performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and the value in use. Where the carrying amount exceeds that recoverable amount, the asset is considered impaired and it is written down to its recoverable amount.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the Statement of Operations on a straight line basis over the lease term.

Initial Public Offering (IPO) costs

Incremental IPO costs directly attributable to the equity transaction are recorded as a deduction from equity in accordance with paragraphs 35 and 37 of IAS 32 *Financial Instruments: Presentation*.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in operating income (loss) net of any reimbursement.

Provisions include the provision for pensions and post-employment benefits. Pension funds in favor of employees are maintained in France, the United Kingdom, Singapore, the United States and Israel, and they comply with the respective legislation in each country and are financially independent of the Company. The pension funds are generally financed by employer and employee contributions and are accounted for as defined contribution plans with the employer contributions recognized as expense as incurred. There are no actuarial liabilities in connection with these plans.

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French law also requires payment of a lump sum retirement indemnity to employees based on years of service and annual compensation at retirement. Benefits do not vest prior to retirement. This defined benefit plan is self-funded by the Company. It is calculated as the present value of estimated future benefits to be paid, applying the projected unit credit method whereby each period of service is seen as giving rise to an additional unit of benefit entitlement, each unit being measured separately to build up the final obligation. Actuarial gains and losses are recognized in the Consolidated Statements of Operations in the period in which they occur, as permitted by paragraph 93 of IAS 19 *Employee Benefits*.

Share-based payment transactions

Employees (including senior executives) and certain service providers of the Company receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. Prior to the Company’s initial public offering, the fair value was determined by management, which relied in part upon a report from an external valuator using the binomial pricing model, further details of which are given in Note 13 to the Consolidated Financial Statements. Following completion of the initial public offering of the Company’s shares, the exercise price is based closing market price on the date of grant.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the beneficiary become fully entitled to the award (the “vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The Statement of Operations charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Financial liabilities

Convertible notes and borrowings

Interest-bearing bank loans are initially recognized at fair value, plus any transaction costs directly attributable to the issue of the liability. These financial liabilities are subsequently measured at amortized cost, using the effective interest rate method. Certain financial instruments, such as notes including an option to convert into shares, include both a financial debt component and an option component.

For convertible notes whose option component is recorded as an equity component (mainly when this component permits or requires the exchange of a fixed number of equity instruments for a fixed amount in cash), a “split accounting” is performed in accordance with IAS 32 *Financial Instruments: Presentation* for compound instruments (paragraphs 28 to 32):

- On the date of issue, the debt component equals the present value of future contractual cash flows for a similar instrument with the same conditions (maturity, cash flows) excluding any option or any obligation for conversion or redemption in shares. Consequently, the value of the option conversion is the residual amount after deducting the debt component from the compound financial instrument nominal amount. In accordance with paragraph 31 of IAS 32 *Financial Instruments: Presentation*, the sum of the carrying amounts assigned to the liability and option components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole.
- Subsequently, the debt component is re-measured at amortized cost, using the effective interest rate calculated at the date of issue and the option component is accounted for as an equity instrument.

In other circumstances, the option component cannot be classified in equity and a derivative is recorded as a financial liability under IAS 39 *Financial Instruments: Recognition and Measurement*. This is specifically applicable to the convertible notes issued in a foreign currency which is different from the Company’s functional currency (as described in Notes 14.1 and 14.2 to the Consolidated Financial Statements). In such circumstances, a “split accounting” is performed in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* for “hybrid instruments” (paragraphs 10 to 13).

Short-term debt secured by accounts receivables

From May 2010 to July 2011, the Company entered into a factoring agreement with a French finance company whereby a line of credit was made available to the Company based on the face value of accounts receivable from qualifying customers which were transferred to the finance company for collection. In the event that the customer did not pay the invoice within 60 days of the due date, the receivable would be excluded from the line of credit and collection would become the responsibility of the Company. Consequently, the Company retained all receivables on its Consolidated Statements of Financial Position until they were paid and any amounts drawn on the line of credit were reflected in short-term debt.

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Notes to the Consolidated Financial Statements—(Continued)

Trade payables

Trade payables are initially recognized at fair value, which in most cases approximates the nominal value. They are subsequently re-measured at amortized cost.

Derivative financial instruments and hedge accounting

The Company uses financial instruments, including derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in euros. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is immediately accounted for in financial results in the Consolidated Statement of Operations. Amounts recognized as other comprehensive income are transferred to the Consolidated Statement of Operations when the hedged transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the Consolidated Statement of Operations.

All derivative financial instruments are recorded at fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative is designated as a hedge, its effectiveness as a hedge, and the type of hedge transaction. Any change in the fair value of the derivatives deemed ineffective as a hedge is immediately recognized in earnings.

Commitments

Commitments comprise primarily future operating lease payments and purchase commitments with its third-party manufacturers for future deliveries of equipment and components, which are described in Note 19 to the Consolidated Financial Statements.

2.4. Significant accounting judgments, estimates and assumptions

In the process of applying the Company's accounting policies, management must make judgments and estimates involving assumptions. These judgments and estimates can have a significant effect on the amounts recognized in the financial statements and the Company reviews them on an ongoing basis taking into consideration past experience and other relevant factors. The evolution of the judgments and assumptions underlying estimates could cause a material adjustment to the carrying amounts of assets and liabilities as recognized in the financial statements. The most significant management judgments and assumptions in the preparation of these financial statements are:

Revenue recognition

The Company's policy for revenue recognition, in instances where multiple deliverables are sold contemporaneously to the same counterparty, is in accordance with paragraph 13 of IAS 18 *Revenue*. When the Company enters into contracts for the sale of products, licenses and maintenance and support services, the Company evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting, each with its own separate earnings process, and its relative fair value. Such determination requires judgment and is based on an analysis of the facts and circumstances surrounding the transactions.

Inventories

As disclosed in Note 2.3 to the Consolidated Financial Statements, the Company writes down the carrying value of its inventory to the lower of cost or net realizable value which approximates estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. Actual demand may differ from the forecast established by the Company, which may materially impact recorded inventory values and cost of revenue.

Share-based compensation

As disclosed in Note 13 to the Consolidated Financial Statements, the Company has various share-based compensation plans for employees and non-employees that may be affected, as to the expense recorded in the Consolidated Statements of Operations, by changes in valuation assumptions. Fair value of stock options is estimated by using the binomial model on the date of grant based on certain assumptions, including, among others expected volatility, the expected option term and the expected dividend payout rate. As a private or newly-public company, the assumption as to volatility has been determined by reference to the historical volatility of similar entities (using a selection of publicly-traded semiconductor companies). Prior to the Company's initial public offering, the fair value of the Company's shares underlying the stock option grants was determined by the Company's Board of Directors with input from

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management at each grant date upon review of a variety of factors, including the valuation used in the latest financing rounds. Since the initial public offering, fair value of the Company's shares underlying stock option grants equals to the closing price on the New York Stock Exchange on the date of grant.

Provision

As disclosed in Note 16 to the Consolidated Financial Statements, the Company is subject to a tax audit that could result in tax assessments and potential penalties, particularly with respect to claimed research tax credits due to the judgment involved in determining which projects meet the tax code's criteria for innovation and fundamental research. Based on the Company's assessment of the potential exposure in this dispute, the Company has recorded a provision for potential tax adjustments or penalties while the Company contests the proposed tax adjustments.

Fair value of financial instruments

Fair value corresponds to the quoted price for listed financial assets and liabilities. Where no active market exists, the Company establishes fair value by using a valuation technique determined to be the most appropriate in the circumstances, for example:

- available-for-sale assets: comparable transactions, multiples for comparable transactions, discounted present value of future cash flows;
- loans and receivables, financial assets at fair value through profit and loss: net book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- trade payables: book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- convertible notes: some of the Company's convertible notes had optional redemption periods/dates occurring before their contractual maturity, as described in Notes 12 and 14 to the Company's Consolidated Financial Statements. Holders of our Category E convertible notes had the right to request conversion at any time from their issue. As from the expiration of an 18 month period from issue of the Category E convertible notes, the Company had the right to request the conversion of all the convertible notes then held; and
- derivatives: either option pricing models or discounted present value of future cash flows. Specifically and as described in Note 14.1 to the Consolidated Financial Statements, the option component of the Category E convertible notes was recorded as a derivative at fair value in accordance with the provisions of AG 28 of IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of the Company at different dates and market yields applicable to the Company's straight debt (without the conversion option). The assumptions used in calculating the value of the conversion represent the Company's best estimates based on management's judgment and subjective future expectations.

3. Segment information

The Company has one operating segment, which is the design and marketing of semiconductor components for 4G broadband wireless systems. All information required to be disclosed under IFRS 8 *Operating Segments* is shown in the Consolidated Financial Statements and these associated Notes.

Sales to external customers disclosed below are based on the geographical location of the customers, regardless of the legal entity originating the sale. The following table sets forth the Company's total revenue by region for the periods indicated. The Company categorizes its total revenue geographically based on the location to which it invoices.

	<u>Europe, Middle East, Africa</u>	<u>Americas</u>	<u>Asia</u>	<u>Total</u>
	(in thousands)			
Year ended December 31, 2010				
Total revenue				
Sales to external customers	\$ 4,914	\$ 2,448	\$61,182	<u>\$68,544</u>
Year ended December 31, 2011				
Total revenue				
Sales to external customers	6,823	989	85,902	<u>\$93,714</u>
Year ended December 31, 2012				
Total revenue				
Sales to external customers	\$ 3,479	\$ 934	\$17,841	<u>\$22,254</u>

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

The substantial majority of the Company's non-current assets are held by the parent company, Sequans Communications S.A. See Note 18.3 to these Consolidated Financial Statements for information about major customers.

4. Other revenues and expenses

4.1. Financial income and expenses

Financial income:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Income from short-term investments and term deposits and other finance revenue	\$ 311	\$ 81	\$ 241
Foreign exchange gain	3,607	1,092	1,904
Total financial income	<u>\$3,918</u>	<u>\$1,173</u>	<u>\$2,145</u>

Financial expenses:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Interests on loans and finance leases	\$ 637	\$ 134	\$ 5
Other bank fees and financial charges	553	336	99
Change in fair value of Category E Convertible notes option component	2,109	—	—
Foreign exchange loss	2,682	1,836	2,062
Total financial expenses	<u>\$5,981</u>	<u>\$2,306</u>	<u>\$2,166</u>

The net foreign exchange loss of \$158,000 for the year ended December 31, 2012 (2011: net foreign exchange loss \$744,000; 2010: net foreign exchange gain \$925,000) arises primarily from euro-based monetary assets. This includes a gain of \$158,000 corresponding to the ineffectiveness of foreign exchange hedge (losses of \$125,000 in 2011 and \$7,000 in 2010).

For the year ended December 31, 2010, the loss of \$2,109,000 was related to the change in fair value of the option of the component of the Category E convertible notes, calculated prior to their conversion. (See Note 14.1 to the Consolidated Financial Statements).

4.2. Depreciation, amortization, and share-based payment expense included in the Consolidated Statement of Operations

	Note	Year ended December 31,		
		2010	2011	2012
		(in thousands)		
Included in cost of revenue:				
Cost of inventories		\$26,250	\$41,654	\$ 8,501
Depreciation and impairment	7	1,347	1,410	1,447
Amortization of intangible assets	8	—	—	37
Wages and benefits		1,008	791	677
Share-based payment expense	13	23	209	156
Assembly services, royalties and other		4,984	2,350	1,139
		<u>\$33,612</u>	<u>\$46,414</u>	<u>\$11,957</u>

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

	Note	Year ended December 31,		
		2010	2011	2012
(in thousands)				
Included in operating expenses (between gross profit and operating result):				
Depreciation	7	\$ 1,253	\$ 2,656	\$ 2,995
Amortization of intangible assets	8	1,314	1,836	1,721
Wages and benefits		20,249	26,431	22,866
Share-based payment expense	13	1,108	3,965	3,033
Foreign exchange gains and losses related to hedges of euro		(213)	(351)	838
Other		11,700	11,688	11,613
		<u>\$35,411</u>	<u>\$46,225</u>	<u>\$43,066</u>

4.3. Employee benefits expense

	Note	Year ended December 31,		
		2010	2011	2012
(in thousands)				
Wages and salaries		\$17,244	\$20,332	\$17,578
Social security costs and other payroll taxes		3,727	6,666	5,702
Other benefits		221	149	29
Pension costs		65	75	234
Share-based payment expenses	13	1,131	4,174	3,189
Total employee benefits expense		<u>\$22,388</u>	<u>\$31,396</u>	<u>\$26,732</u>

Through the end of 2010, the Company was designated as a “*Jeune Entreprise Innovante*” (JEI) in France, which allows the Company to pay reduced payroll taxes on the salaries of engineers based in France for the first eight fiscal years of a company’s existence, as long as certain criteria are not exceeded in terms of revenues, assets, headcount and shareholder structure. Beginning in 2011, the Company was no longer eligible for this benefit and consequently social security costs and other payroll taxes increased.

The amount recognized as an expense for defined contributions plans amounts to \$1,110,000 for the year ended December 31, 2012 (\$1,006,000 and \$1,298,000 for the years ended December 31, 2010 and 2011, respectively).

4.4. Research and development expense

All research and development expense was charged directly to expense in the Statement of Operations.

The amount of research tax credit is deducted from research and development costs. In the year ended December 31, 2011, the French tax authorities confirmed that the Company could include certain subsidiary research expenses in the research tax credit calculation. The research tax credit in France is deducted from corporate income taxes due; if taxes due are not sufficient to cover the full amount of the credit, the balance is received in cash three years later (one year later if the Company is below certain size criteria). Total research tax credit receivable as of December 31, 2012 is \$8,430,000, of which \$4,327,000 is expected to be recovered in 2013 and \$4,103,000 is expected to be recovered at the latest in 2015.

In December 2012, the Company was notified of proposed tax adjustments, penalties and interest which relates almost entirely to the research tax credits claimed for 2008 and 2009. (See Note 16 to the Consolidated Financial Statements).

Government grants have been received in support of certain research programs. Where there are unfulfilled conditions or contingencies relating to the grants, the corresponding amount has been deferred on the Statement of Financial Position until all conditions are fulfilled and contingencies settled at which time amounts earned are recorded as an offset to the corresponding expenses.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

The reduction of research and development expense from government grants and research tax credit was as follows:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Research and development costs	\$21,394	\$30,855	\$33,361
Research tax credit	(1,984)	(4,562)	(4,226)
Government grants	(1,493)	(1,358)	(727)
Total research and development expense	<u>\$17,917</u>	<u>\$24,935</u>	<u>\$28,408</u>

As of December 31, 2010, 2011 and 2012, no development costs were capitalized.

The Company operates in a highly innovative, dynamic and competitive sector. Therefore, the costs incurred from the point when the criteria for capitalization are met to the point when the product is made generally available on the market are not material.

5. Income tax

The major components of income tax expense are:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Consolidated Statement of Operations			
Current income tax:			
Current income tax charge	\$ 150	\$ 314	\$ 207
Deferred income tax:	—	57	27
Income tax expense reported in the Consolidated Statement of Operations	<u>\$ 150</u>	<u>\$ 371</u>	<u>\$ 234</u>

A reconciliation of income taxes computed at the French statutory rate (34.43% from the year ended December 31, 2010, 2011 and 2012) to the income tax expense (benefit) is as follows:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Accounting profit (loss) before income tax	\$(2,542)	\$ (58)	\$(32,790)
At France's statutory income tax rate of 34.43%	(875)	(20)	(11,290)
Non-deductible share-based payment expense	389	1,437	1,098
Tax credits	(683)	(1,571)	(1,455)
Unrecognized benefit of tax loss carryforwards and permanent differences	1,319	525	11,881
Income tax expense (benefit) reported in the Consolidated Statement of Operations	<u>\$ 150</u>	<u>\$ 371</u>	<u>\$ 234</u>

As of December 31, 2012, the Company had accumulated tax losses which arose in France of \$99,911,000 that are available for offset against future taxable profits of Sequans Communications S.A within a limit of one million euro per year, plus 50% of the profit exceeding this limit. Remaining unapplied losses would continue to be carried forward indefinitely. As of December 31, 2012, the Company also had accumulated tax losses which arose in its U.K. subsidiary of \$251,000 that are available for offset against future taxable profits of its U.K. subsidiary for an unlimited period.

Deferred tax assets were not recognized in the year ended December 31, 2010 with respect to these losses as the Company has not generated taxable profits since its inception in 2003. Deferred tax assets were recognized in 2011 and 2012 only to the extent that deferred tax liabilities existed in the same jurisdiction.

As non monetary assets and liabilities are measured in their functional currency and the Company taxable profit is determined in another currency, deferred tax has to be computed based on the temporary difference that exists between tax and accounting basis. Company's analysis led to a deferred tax asset of \$147,000 which has not been recognized due to the Company's above described tax situation.

6. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to all shareholders of the Company by the weighted average number of all shares outstanding during the year. Since prior to April 12, 2011 there were no

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

ordinary shares outstanding and all categories of preference shares had the same voting and dividend rights, were convertible to ordinary shares at any time, and were the most subordinate class of equity instruments outstanding, all preference shares were treated as ordinary shares in the calculation in all years presented.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the exercise of all the dilutive stock options and warrants and the conversion of all convertible notes. Dilution is defined as a reduction of earnings per share or an increase of loss per share. As the exercise of all outstanding stock options and warrants and conversion of convertible notes would decrease loss per share, they are considered to be anti-dilutive and excluded from the calculation of loss per share.

The following reflects the income and share data used in the basic and diluted earnings (loss) per share computations:

	Year ended December 31,		
	2010	2011	2012
	(in thousands, except share and per share data)		
Profit (Loss)	\$ (2,692)	\$ (429)	\$ (33,024)
Weighted average number of shares outstanding for basic EPS	24,980,139	32,610,380	34,680,227
Net effect of dilutive stock options	—	—	—
Net effect of dilutive warrants	—	—	—
Net effect of dilutive convertible notes	—	—	—
Weighted average number of shares outstanding for diluted EPS	24,980,139	32,610,380	34,680,227
Basic earnings (loss) per share	\$ (0.11)	\$ (0.01)	\$ (0.95)
Diluted earnings (loss) per share	\$ (0.11)	\$ (0.01)	\$ (0.95)

7. Property, plant and equipment

Property, plant and equipment include:

	Leasehold improvements	Plant and equipment (in thousands)	IT and office equipment	Total
Cost:				
At January 1, 2010	\$ 699	\$ 5,340	\$ 2,671	\$ 8,710
Additions	535	2,532	384	3,451
Disposals	—	—	—	—
Exchange difference	1	(10)	(1)	(10)
At December 31, 2010	1,235	7,862	3,054	12,151
Additions	127	6,956	1,036	8,119
Disposals	—	(755)	(6)	(761)
Exchange difference	2	(27)	1	(24)
At December 31, 2011	1,364	14,036	4,085	19,485
Additions	—	4,036	196	4,232
Disposals	—	(484)	—	(484)
Exchange difference	12	64	16	92
At December 31, 2012	\$ 1,376	\$ 17,652	\$ 4,297	\$ 23,325
Depreciation and impairment:				
At January 1, 2010	\$ 206	\$ 2,653	\$ 1,403	\$ 4,262
Depreciation charge for the year	115	1,501	697	2,313
Impairment	—	289	—	289
Disposals	—	—	—	—
Exchange difference	1	(3)	(2)	(4)
At December 31, 2010	322	4,440	2,098	6,860

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

	<u>Leasehold improvements</u>	<u>Plant and equipment</u>	<u>IT and office equipment</u>	<u>Total</u>
	(in thousands)			
Depreciation charge for the year	221	3,166	658	4,045
Impairment	—	21	—	21
Disposals	—	(755)	(6)	(761)
Exchange difference	23	(12)	(25)	(14)
At December 31, 2011	566	6,860	2,725	10,151
Depreciation charge for the year	209	3,538	695	4,442
Disposals	—	(484)	—	(484)
Exchange difference	4	29	(3)	30
At December 31, 2012	<u>\$ 779</u>	<u>\$ 9,943</u>	<u>\$ 3,417</u>	<u>\$14,139</u>
Net book value:				
At January 1, 2010	\$ 493	\$ 2,687	\$ 1,268	\$ 4,448
At December 31, 2010	913	3,422	956	5,291
At December 31, 2011	798	7,176	1,360	9,334
At December 31, 2012	\$ 597	\$ 7,639	\$ 950	\$ 9,186

The cost of equipment purchased under capital leases included in tangible assets at December 31, 2012 totaled \$384,000. Accumulated amortization of this equipment totaled \$36,000 at December 31, 2012.

Impairment of property, plant and equipment

In January 2012, the Company decided to scrap the SQN2130 production mask set as the product had been replaced by the SQN2131 and no further production of the SQN2130 was deemed necessary. The net book value of this asset as at December 31, 2011 of \$21,000 consequently was determined to be completely impaired, its value reduced to zero, and the related expense recorded as cost of product revenue in the Consolidated Statements of Operations for the year ended December 31, 2011. During the year ended December 31, 2010, the Company decided to enter the end-of-life process for its SQN 1140 and SQN1145. The Company estimated that the recoverable amount of the equipment dedicated to the production of these products had been reduced to zero and recorded an impairment loss for \$289,000, recognized in the Consolidated Statements of Operations in “Cost of product revenue.” There has been no other equipment impairment losses in the year ended December 31, 2012.

8. Intangible assets

Intangible assets include:

	<u>Licenses</u> (in thousands)
Cost:	
At January 1, 2010	\$ 2,888
Additions	2,920
Disposals	(50)
Exchange difference	—
At December 31, 2010	5,758
Additions	2,925
Disposals	—
Exchange difference	—
At December 31, 2011	8,683
Additions	1,722
Disposals	—
Exchange difference	2
At December 31, 2012	<u>\$ 10,407</u>

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

	<u>Licenses</u> (in thousands)
Depreciation and impairment:	
At January 1, 2010	\$ 1,303
Amortization	1,314
Disposals	(3)
Exchange difference	—
At December 31, 2010	2,614
Amortization	1,836
Disposals	—
Exchange difference	—
At December 31, 2011	4,450
Amortization	1,758
Disposals	—
Exchange difference	15
At December 31, 2012	<u>\$ 6,223</u>
Net book value:	
At January 1, 2010	\$ 1,585
At December 31, 2010	3,144
At December 31, 2011	4,233
At December 31, 2012	<u>\$ 4,184</u>

As no development costs have been capitalized during the three years ended December 31, 2012, the only intangible assets on the Consolidated Statements of Financial Position are acquired licenses for technology used primarily in the product development process.

9. Inventories

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(in thousands)		
Components (at cost)	\$1,818	\$ 5,850	\$5,313
Finished goods (at lower of cost or net realizable value)	<u>6,950</u>	<u>5,810</u>	<u>2,130</u>
Total inventories	<u>\$8,768</u>	<u>\$11,660</u>	<u>\$7,443</u>

In the year ended December 31, 2010, the Company decided to bring SQN1140 and SQN1145 to end-of-life. The amount of the write-down of the related inventories amounted to \$381,000 and was recognized in the Consolidated Statements of Operations in “Cost of product revenue.”

In the year ended December 31, 2011, the Company reversed \$22,000 related to products sold during the year. There was no write-down of any inventories in the year ended December 31, 2011.

In the year ended December 31, 2012, the Company decided to enter the end-of-life process for SQN2130, a WiMAX base station product, and for SQN3010, its first TDD-only LTE product. Provisions were recorded to reduce the value of the inventory related to these two products to zero. The Company also reviewed the value of inventory of finished goods and components related to products which have not been declared end-of-life. Taking into consideration the latest estimations of expected demand, particularly for the WiMAX products, the Company determined that it was not probable that all of the stock of memory components on hand would be used to produce finished goods and a provision was recorded for the portion of inventory considered to be in excess of future needs. In total, the inventory provision recorded in the year ended December 31, 2012 was \$854,000. The related expense was recognized in the Consolidated Statements of Operations in “Cost of product revenue.”

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Notes to the Consolidated Financial Statements—(Continued)

10. Trade receivables

Trade receivables are non-interest bearing and are generally on 30-90 day payment terms.

	At December 31,		
	2010	2011	2012
	(in thousands)		
Trade receivables	\$15,112	\$ 9,595	\$ 7,199
Provisions on trade receivables	(949)	(1,222)	(1,670)
Net trade receivables	<u>\$14,163</u>	<u>\$ 8,373</u>	<u>\$ 5,529</u>

The movements in the provision for impairment of receivables were as follows:

	December 31,		
	2010	2011	2012
	(in thousands)		
At January 1,	\$834	\$ 949	\$1,222
Charge for the year	115	273	448
Utilized amounts	—	—	—
At year end	<u>\$949</u>	<u>\$1,222</u>	<u>\$1,670</u>

As at year end, the aging analysis of trade receivables that were not impaired is as follows:

	Total	Neither past due nor Impaired	Past due but not impaired			
			<30 days	30-60 days	60-120 days	>120 days
			(in thousands)			
At December 31, 2010	\$14,163	\$ 10,763	\$1,572	\$ 80	\$ 897	\$ 851
At December 31, 2011	8,373	7,248	690	105	330	—
At December 31, 2012	\$ 5,529	\$ 2,652	\$ 503	\$ 625	\$ 744	\$ 1,005

11. Cash and cash equivalents

	At December 31,		
	2010	2011	2012
	(in thousands)		
Cash at banks	\$9,731	\$ 3,737	\$ 7,284
Cash equivalents	8	53,483	21,467
Cash and cash equivalents	<u>\$9,739</u>	<u>\$57,220</u>	<u>\$28,751</u>

Cash at banks earns no interest. Cash equivalents in money market funds are invested for short-term periods depending on the immediate cash requirements of the Company, and earn interest at market rates for short-term investments. The fair value of cash and cash equivalents is equal to book value. Most of the cash and cash equivalents is held in U.S. dollar and euros as follows:

	At December 31,		
	2010	2011	2012
	(in thousands)		
U.S. dollar denominated accounts	\$8,148	\$54,995	\$27,794
Euro denominated accounts	1,460	1,912	843
GBP denominated accounts	117	244	30
SGP denominated accounts	14	41	32
NIS denominated accounts	—	—	35
RMB denominated accounts	—	28	5
Other currencies denominated accounts	—	—	12
Cash and cash equivalents	<u>\$9,739</u>	<u>\$57,220</u>	<u>\$28,751</u>

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

12. Issued capital and reserves

The share capital of Sequans Communications S.A. is denominated in euros, as required by law in France. Any distributions to shareholders are denominated in euros. Amounts of capital and reserves presented in the Consolidated Statements of Financial Position in U.S. dollars have been translated using historical exchange rates.

Authorized capital, in number of shares

Authorized capital includes all shares issued as well as all potential shares which may be issued upon exercise of stock options, founders warrants, other warrants and convertible notes.

	At December 31,		
	2010	2011	2012
Ordinary shares, nominal value €0.02 each	500,000,000	38,777,437	39,393,037
Preference shares			
Category A preference shares, nominal value €0.02 each	8,643,787	—	—
Category B preference shares, nominal value €0.02 each	1,875,000	—	—
Category C preference shares, nominal value €0.02 each	5,915,833	—	—
Category D preference shares, nominal value €0.02 each	1,075,000,228	—	—
Category E preference shares, nominal value €0.02 each	1,130,000,111	—	—
At period end	<u>2,721,434,959</u>	<u>38,777,437</u>	<u>39,393,037</u>

All categories of shares have equal voting rights of one vote per share. All categories of shares have equal dividend rights.

Ordinary shares

No ordinary shares were outstanding in 2010. On April 12, 2011, the Board of Directors voted the conversion of all categories of preference shares into ordinary shares on a one-to-one basis.

Preference shares, categories A, B, C, D and E

All categories of preference shares had the right to convert to ordinary shares at any time and were converted on a one-to-one basis to ordinary shares, with anti-dilution warrants terminated, on April 12, 2011. All preference share categories were cancelled.

A new category of preference share was created and issued with each financing round. The primary preference element for these categories related to their liquidation preference in the event of the sale or liquidation of the company.

Category A preference shareholders had the right to name one of the five members of the Board of Directors. The Company had share-based incentive plans under which options and warrants to subscribe for the Company's Category A preference shares had been granted to executives and employees (see Note 13 to the Consolidated Financial Statements). Increases in the number of authorized Category A preference shares reflect new option and warrant plans approved annually by shareholders, offset by options and warrants cancelled or expired in the period.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

Category B preference shares had no specific rights other than their liquidation preference.

Categories C, D and E preference shares each had one anti-dilution warrant attached which was triggered if a new capital increase was subscribed at a price lower than €1.20 per share for Category C, lower than €2.43 per share for Category D and lower than €4.048 per share for Category E. The maximum impact of the exercise of all such warrants, assuming a new capital increase subscribed at €0.02, was included in the amounts of authorized capital. The anti-dilution warrants attached to Category C preference shares expired in February 2010. All remaining anti-dilution warrants would have expired in July 2011, but were terminated by vote of the board in April 2011.

Shares issued and fully paid

	At December 31,					
	2010		2011		2012	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in thousands, except for share data)					
Ordinary shares	—	€ —	34,667,339	€ 693	34,683,839	€ 694
Preference shares						
Category A preference shares	5,580,937	112	—	—	—	—
Category B preference shares	1,875,000	37	—	—	—	—
Category C preference shares	5,833,333	117	—	—	—	—
Category D preference shares	8,847,739	177	—	—	—	—
Category E preference shares	5,583,004	112	—	—	—	—
	27,720,013	€ 555	34,667,339	€ 693	34,683,839	€ 694
Converted to U.S. dollars at historical exchange rates		\$ 710		\$ 912		\$ 912

After effect of conversion of all categories of preference shares to ordinary shares with prior years restated as if the conversion has taken place on January 1, 2010:

	At December 31,					
	2010		2011		2012	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in thousands, except for share data)					
All ordinary shares	27,720,013	\$ 710	34,667,339	\$ 912	34,683,839	\$ 912

Other capital reserves

Other capital reserves include the cumulated share-based payment expense as of period end, the counterpart of which is in retained earnings as the expense is reflected in profit and loss.

Dividend rights

Dividends may be distributed from the statutory retained earnings and additional paid-in capital, subject to the requirements of French law and the by-laws of Sequans Communications S.A. There were no distributable retained earnings at December 31, 2010, 2011 or 2012. Dividend distributions by the Company, if any, will be made in euros.

Capital transactions

On July 16, 2010, the Company's shareholders approved a capital increase of €34,585 through the issue of 1,729,249 Category E preference shares, each with one anti-dilution warrant attached, at an issue price of €4.048 per share for a total subscription amount of €7,000,000.

On September 15, 2010, the Category E convertible notes convertible into 1,069,664 Category E preference shares with attached anti-dilution warrant which had been issued in 2008 were converted at the request of the Company (see Note 14.1 to the Consolidated Financial Statements). This resulted in an increase in capital of €21,393.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

On December 30, 2010, the Company converted Category E convertible notes issued in 2009 into 992,836 Category E preference shares with attached anti-dilution warrant (see Note 14.1 to the Consolidated Financial Statements), resulting in an increase in capital of €19,857.

In preparation for the initial public offering, on April 12, 2011 all preference shares were converted into ordinary shares, with all preference share categories being cancelled, and a 1-for-2 reverse split of the Company's share capital was made effective.

On April 20, 2011, the Company increased its capital in connection with the initial public offering by issuing 6,666,666 ordinary shares at \$10 per share for a total offering amount of \$66,666,660. \$193,533 was recorded in share capital in the Consolidated Statement of Financial Position and \$66,473,127 in share premium. IPO costs directly attributable to the equity transaction amounting to approximately \$7.5 million were deducted from the share premium.

In the years ended December 31, 2010, 2011 and 2012, Category A preference shares and ordinary shares were issued upon exercise of options and warrants as described in Note 13 to the Consolidated Financial Statements.

13. Share-based payment plans

The expense recognized for employee and other services received during the year ended December 31, 2012 and arising from equity-settled share-based payment transactions was \$3,189,000 (2010: \$1,131,000; 2011: \$4,174,000). Of this total, \$22,000 in 2012 (2010: \$48,000; 2011: \$86,000), related to warrants plans for consultants considered equivalent to employees.

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during the years ended December 31, 2010, 2011 or 2012.

General employee stock option, founders warrant plans and restricted shares awards

All employees of the French parent company and its subsidiaries are entitled to a grant of founders warrants (residents of France, prior to the Company's IPO), stock options or restricted shares awards. Founders warrants are a specific type of option available to qualifying young companies in France and have more favorable tax treatment for both the employee and the employer compared to stock options. Otherwise, founders warrants function in the same manner as stock options.

In general, vesting of the founders warrants and stock options occurs over four years, with 25% vesting after the first anniversary of grant and the remaining 75% vesting monthly over the remaining 36 months. From time to time, vesting may be linked to employee performance. Restricted shares awards vest two years after the grant date and may be sold only after an additional two years.

All expenses related to these plans have been recorded in the Consolidated Statement of Operations in the same line items as the related employees' cash-based compensation.

Warrant plans for certain consultants considered equivalent to employees

The Company awards warrants to a limited number of consultants who have long-term relationships with the Company and who are considered equivalent to employees. Vesting may be either on a monthly basis over a two-year, three-year or four-year period, or may be immediate, depending on the nature of the service contract. All expenses related to these plans have been recorded in the Consolidated Statements of Operations in the same line items as the related service provider's cash-based compensation.

Founders warrants, stock options, warrants and restricted share awards give the right to acquire ordinary shares. Through April 2011 when the Company became publicly traded on the New York Stock Exchange, the exercise price of the founders warrants, stock options and warrants was denominated in euros and was equal to the estimated fair value of the shares on the date of grant, which was based on the valuation of the Company as negotiated with new investors at the last round of financing prior to the grant or, in January through March 2011, based on independent valuation analyses. Following completion of the initial public offering of the Company's shares, the exercise price is based closing market price on the date of grant. There is no exercise price for restricted share awards; the beneficiary receives title to the underlying ordinary shares with no cash payment at the end of the vesting period. In general, the contractual life of the founders warrants, stock options and warrants is ten years. There are no cash settlement alternatives and the Company has not developed a practice of cash settlement.

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Notes to the Consolidated Financial Statements—(Continued)

Movements in the periods presented

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, founders warrants, stock options, warrants and restricted shares awards during the period:

	December 31,					
	2010		2011		2012	
	Number	WAEP	Number	WAEP	Number	WAEP
Outstanding at January 1,	2,423,600	\$3.42	2,329,850	\$3.84	4,110,098	\$5.79
Granted during the year	330,000	\$5.59	2,079,450	\$7.59	952,300	\$1.03
Forfeited during the year	(191,937)	\$4.74	(101,042)	\$5.47	(336,700)	\$2.72
Exercised during the year ⁽¹⁾	(231,813)	\$1.22	(198,160)	\$1.96	(16,500)	\$0.92
Expired during the year	—		—		—	
Outstanding at period end	2,329,850	\$3.84	4,110,098	\$5.79	4,709,198	\$5.07
<i>Of which, warrants for consultants equivalent to employees</i>	326,500	\$3.37	336,298	\$3.71	348,798	\$3.47
Exercisable at period end	1,755,952	\$3.36	1,847,690	\$3.86	2,602,291	\$5.09
<i>Of which, warrants for consultants equivalent to employees</i>	307,562	\$2.61	325,131	\$3.52	332,881	\$3.54

(1) The weighted average share estimated fair value at the dates of exercise of these options was \$2.60 in 2012 and \$9.37 in 2011

The above table does not include 82,500 warrants issued in 2006 in connection with a lease financing arrangement (executed in 2006 which concluded in 2009) at an exercise price of \$1.45 per share, which were exercised in 2011.

Prior to the initial public offering in April 2011, exercise prices were denominated in euros. Since the IPO, exercise prices are denominated in U.S. dollars. Euro-denominated exercise prices have been converted to U.S. dollars at the historical exchange rate for purposes of presentation in this table.

The weighted average remaining contractual life of founders warrants, stock options and warrants outstanding as at December 31, 2012 was 7.1 years (2011: 7.6 years; 2010: 6.9 years).

The range of exercise prices, with euro-denominated exercise prices converted to U.S. dollars at the year-end exchange rate, for founders warrants, stock options, warrants and restricted shares awards outstanding as at December 31, 2012 and December 31, 2011 was \$0—\$8.61 and at December 31, 2010 it was \$1.43—\$6.36.

The weighted average fair value of founders warrants, stock options, warrants and restricted shares awards granted during the year ended December 2012 was €0.81 (2011: €4.80; 2010: €3.26). The fair value is measured at the grant date. The following table lists the inputs to the models used for determining the value of the grants made for the years ended December 31, 2010, 2011 and 2012:

	December 31,		
	2010	2011	2012
Dividend yield (%)	—	—	—
Expected volatility (%)	58	58 - 61	54 - 60
Risk-free interest rate (%)	3.29	3.24 - 3.68	2.03 - 2.93
Assumed annual lapse rate of options (%)	2	5	10
Sell price multiple (applied to exercise price)	2	2	2
Weighted average share price (€)	4.04	5.79	1.62
Model used	Binomial	Binomial	Binomial

Since the Company has a short history of being publicly traded, and prior to April 2011 was privately held, it is not practicable to determine the volatility of the underlying shares based on the Company's own experience. Therefore, as allowed by Appendix B (paragraphs 26 to 29) of IFRS2 *Share-based Payment*, the historical volatility of similar entities (a selection of publicly-traded semiconductor companies) after a comparable period in such companies' lives was used.

Founders warrants, stock options, and warrants can be exercised during a period after the vesting date until the plan terminates. In the pricing model, the assumption was made that plan participants will exercise before the end of the exercise period if the share price reaches a certain multiple of the exercise price.

If a sell-price multiple of 3 instead of 2 had been used and if the weighted average share price used in the pricing model had been decreased by 10%, share-based payment total compensation for founders warrants, stock options, warrants and restricted shares awards granted through December 31, 2012 would have decreased by approximately -7.95% (2011: -1.70%; 2010: 0.26%).

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Notes to the Consolidated Financial Statements—(Continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

14. Interest-bearing loans and borrowings

	Note	At December 31,		
		2010	2011	2012
(in thousands)				
Current				
Bank convertible notes	14.2	\$ 3,340	\$ —	\$ —
Accrued interests	14.1, 14.2	188	—	—
Factoring	14.3	36	—	—
Finance lease obligation	14.4	—	—	129
Total current portion		<u>\$ 3,564</u>	<u>\$ —</u>	<u>\$ 129</u>
Non-current				
Category E convertible notes		\$ —	\$ —	\$ —
Bank convertible notes		—	—	—
Finance lease obligation	14.4	—	—	236
Total non-current portion		<u>\$ —</u>	<u>\$ —</u>	<u>\$ 236</u>

14.1. Interest-bearing debt—Category E convertible notes

On October 14, 2009, the shareholders approved the issue of notes convertible into 992,836 Category E preference share with an anti-dilution warrant attached, at a subscription price of €4.048 per Category E convertible note, for a total of €4,019,000 (\$6,037,000). The Category E convertible notes bore interest at 2.0% per year, paid annually on the anniversary of the subscription date, or, in the event of early settlement or conversion, on a pro rata basis on the settlement or conversion date. The conversion features are described in Note 12 to the Consolidated Financial Statements. If not converted, the Category E convertible notes were to be reimbursed on the 10th anniversary of the subscription date.

The fair value of the Category E convertible notes – debt component was initially determined by discounting the cash flows, including allocated financing transaction costs of \$132,000 for the 2009 issue, assuming a market rate of interest for a non-convertible debt with otherwise similar terms. The market rates used were 8.05%, resulting in a fair value of €2,302,992 (\$3,459,094) for the 2009 issue.

The option component was recorded as a derivative at fair value in accordance with the provisions of AG 28 of IAS 39 *Financial Instruments: Recognition and Measurement*. In each instance, the Company's issuances of convertible notes were made at fair value. Accordingly, at each issuance date, the fair value of the convertible note as a whole was equal to the sum of the fair value of the conversion option and the fair value of the host contract (without the conversion option).

The fair value of the Category E convertible notes – option component was recalculated at the end of each reporting period, resulting in a fair value of €3,225,751 (\$4,283,797) at December 30, 2010 (before conversion in capital). The change of this fair value was recorded in the Consolidated Statement of Operations.

Accrued interest related to the Category E convertible notes totaled \$132,000 at December 31, 2010.

On July 30, 2010, the Company converted the 884,387 and 185,277 Category E convertible notes issued respectively on January 31, 2008 and July 10, 2008 into 1,069,664 Category E preference shares with attached anti-dilution warrant. As of that conversion date, the aggregate carrying amounts of the debt and option components (respectively \$3,358,110 and \$2,305,026) were transferred to equity, without any impact on net income, in applying the provisions of IAS 32.AG.32. These amounts were recorded in share capital for \$27,871 and in share premium for \$5,635,265.

On December 30, 2010, the Company converted the 992,836 Category E convertible notes issued on October 14, 2009 into 992,836 Category E preference shares with attached anti-dilution warrant. As of that conversion date, the carrying amounts of the debt and option components (respectively \$3,241,391 and \$4,244,988) were transferred to equity without any impact on net income, in applying the provisions of AG 32 of IAS 32. These amounts were recorded in share capital for \$26,344 and in share premium for \$7,460,036.

As at December 31, 2010, the Company no longer had any Category E convertible notes.

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Notes to the Consolidated Financial Statements—(Continued)

14.2. Interest-bearing debt—bank convertible notes

In January 2008, the shareholders of the Company approved the issue of 100,000 notes to a French bank (“bank convertible notes”). The Company had the right but not the obligation to issue the bank convertible notes at a subscription price of €100 per note for a total amount of up to €10.0 million (\$14.7 million), with the requirement that the first tranche not be less than €2,500,000 (\$3,479,000) and that such first tranche be issued by December 31, 2008. In October 2008, the Company issued the first tranche of €2,500,000 (\$3,479,000) in bank convertible notes.

The bank convertible notes could be converted, at the election of the financial institution, into ordinary shares only in the event of an initial public offering of the Company’s shares, and at the IPO offering price. If there was no conversion, all outstanding bank convertible notes were (prior to amendment in 2010) to be repaid on June 30, 2010.

In June 2010, the Company and the bank agreed to amend the terms of the instrument whereby the repayment date, if the note was not converted, was extended to June 30, 2011, the interest rate was increased and the non-conversion penalty was modified. Such modification of the initial terms of the existing financial liability was not considered substantial under the provisions of AG 62 of IAS 39 and did not trigger the recognition of a new financial liability.

Following the Company’s initial public offering in April 2011, the notes became convertible at \$10.00 per ordinary share. The conversion option, according to the terms of the instrument, had a term of six months after the IPO date. In October 2011, the conversion option expired unexercised and the Company repaid the €2,500,000 balance due.

The bank convertible notes bore interest at Euribor 3-month rate plus 225 basis points through June 30, 2010. After amendment in 2010, the interest rate increased to Euribor 3-month rate plus 525 basis points. Interest on the outstanding bank convertible notes was payable on the last day of each calendar year quarter. In the event of non-conversion, the Company was to pay a non-conversion penalty at the time the principal was reimbursed up to a maximum of 6% of the amount of bank convertible notes issued. After amendment in 2010, the non-conversion penalty was modified to become an early repayment penalty (not payable at maturity date in the absence of a conversion) and reduced to 5%.

The outstanding amount of bank convertible notes would have become payable immediately in the event that financial covenants were not met:

- The Company was to maintain a net cash balance at the end of each quarter equal to at least 30% of any issued bank convertible notes and other financial debt. Net cash balance was defined as cash and cash equivalents less financial debt (excluding the bank and other convertible notes issued). This financial covenant was met at the end of each quarter during 2010 and at the end of the first three quarters of 2011.
- Operating result, excluding the impact of depreciation, amortization and LTE development costs, was required to be positive.

Until September 30, 2010, given that the conversion option was primarily under the control of the Company (as the option was exercisable only if the Company decided to launch an IPO), such option did not qualify as a financial liability under paragraph 25 of IAS 32. At December 31, 2010, the recognition of the option component was required under IFRS since the IPO process had been officially launched by the Company during the last quarter of 2010. Such component was treated as a derivative financial liability, which was measured at nil fair value at December 31, 2010, since the conversion option was deeply out-of-the money (the current value of the Company’s shares was much lower than the value of the debt component) and the time value of the option was considered to be close to nil (because of the short maturity and low volatility of the Company’s value).

The effective rate of interest applied in 2011 was 4.56% (2010: 4.49%). Accrued interest of \$52,000 was recorded in “Interest on convertible loan” as of December 31, 2010. No interest was accrued as of December 31, 2011 due to the repayment of the bank convertible notes in 2011.

As of December 31, 2012, the Company had no other drawn or undrawn committed borrowing or overdraft facilities in place, with the exception of the unused financing lease facility as described in Note 14.4.

14.3. Factoring agreement

In May 2010, the Company entered into a factoring agreement with a French finance company whereby a line of credit was made available equal to 90% of the face value of accounts receivable from qualifying customers. The Company transferred to the finance company all invoices issued to qualifying customers, and the customers were instructed to settle the invoices directly with the finance company. The Company paid a commission on the face value of the accounts receivable submitted and interest on any draw-down of the resulting line of credit. In the event that the customer did not pay the invoice within 60 days of the due date, the receivable was excluded from the line of credit, and recovery became the Company’s responsibility. At December 31, 2010, \$36,000 had been drawn on the line of credit and recorded as a current borrowing. In July 2011, the Company terminated the factoring agreement.

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Notes to the Consolidated Financial Statements—(Continued)

14.4. Finance lease obligation

Future minimum lease payments under capitalized lease obligations for the years ending December 31 were as follows:

2013	\$143
2014	143
2015	<u>103</u>
Total minimum lease payments	389
Less amount representing interest	<u>(24)</u>
Present value of net minimum lease payments	365
Less current portion	<u>129</u>
Long-term portion	<u>\$236</u>

This debt was secured by \$141,000 in pledged money market funds at December 31, 2012, which is included in available-for-sale financial assets.

15. Government grant advances and interest-free loans

	December 31,		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(in thousands)		
Current			
Government grant advances	\$1,355	\$717	\$287
Interest-free loans	<u>534</u>	<u>—</u>	<u>—</u>
Total current portion	<u>\$1,889</u>	<u>\$717</u>	<u>\$287</u>
Non-current			
Government grant advances	\$ 654	\$385	\$515
Interest-free loans	<u>624</u>	<u>—</u>	<u>—</u>
Total non-current portion	<u>\$1,278</u>	<u>\$385</u>	<u>\$515</u>

15.1. Government grant advances

In 2010, the Company was named as a participant in four collaborative projects funded by various entities in France and the European Union. The Company's portion of this funding totals €1,554,000 (\$2,077,000), which is expected to be released to the Consolidated Statement of Operations over the lives of the projects, generally expected to be between 18 months and three years.

In 2011, the Company was named as a participant in one collaborative project with funding of €355,000 (\$481,000), which is expected to be released to the Consolidated Statement of Operations over the life of the project, expected to be approximately three years.

In 2012, the Company was named as a participant in two collaborative projects with funding of €459,000 (\$583,000), which is expected to be released to the Consolidated Statement of Operations over the life of the project, expected to be between one and two years.

15.2. Interest-free loans

The Company has received interest-free loans from Oséo, the French Agency for Innovation. Oséo provides financial incentives to develop new technology in France. In 2006, an amount of €1,300,000 (\$1,809,000) was awarded to finance the development of products using WiMAX 802.16e. In January 2010, project financing was awarded for a total of €1,350,000 (\$1,973,000) for development of the LTE technology. The financing arrangements called for the loans to be repaid according to a set timeline, but the amount repaid could be reduced if revenue from the products developed did not reach certain minimum amounts.

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Notes to the Consolidated Financial Statements—(Continued)

The €1,300,000 financing for WiMAX 802.16e was received in 2006 and, as the criteria for commercial success of the products was met, repayment was scheduled in four installments in 2008 (€115,000), 2009 (€375,000), 2010 (€410,000) and 2011 (€400,000). The Company repaid €115,000 (\$160,000) in 2008 and €125,000 (\$178,000) in 2009. Because Oséo agreed to defer the remaining payment scheduled for 2009 until 2010, a total of €660,000 (\$913,000) was repaid during the year ended December 31, 2010. In March 2011, the Company repaid €400,000 (\$546,000).

Of the €1,350,000 financing for LTE, €540,000 (\$789,000) was received in January 2010; the remainder was expected to be received in 2011. In June 2011, the Company decided to repay first installment received (repayment initially scheduled from June 2012 to March 2016), and terminate the financing agreement.

At December 31, 2011 and 2012, the Company had no interest-free loans.

16. Provisions

	Post- employment benefits	Others	Total (in thousands)	Current	Non- current
At January 1, 2010	129	917	1,046	269	777
Arising (released) during the year	55	(485)	(430)	—	—
At December 31, 2010	184	432	616	432	184
Arising (released) during the year	75	(357)	(282)	—	—
At December 31, 2011	259	75	334	75	259
Arising (released) during the year	110	455	565	—	—
At December 31, 2012	<u>\$ 369</u>	<u>\$ 530</u>	<u>\$ 899</u>	<u>\$ 530</u>	<u>\$ 369</u>

The provision for post-employment benefits is for the lump sum retirement indemnity required to be paid to French employees. No employee has retired during the past three years.

The main assumptions used in the calculation are the following:

	2010	2011	2012
Discount rate	4.68%	4.60%	2.83%
Salary increase	between 2% and 4%	between 2% and 4%	between 2% and 3%
Retirement age	67 years	67 years	67 years
Turnover: depending on the seniority	between 3.5% and 14%, nil as from 50 year old	between 3.5% and 14%, nil as from 50 year old	10%, nil as from 50 year old

In December 2012, the Company was notified of proposed tax adjustments, penalties and interest related to the French tax audit totaling €884,000 (\$1,167,000), which relates almost entirely to the research tax credits claimed for 2008 and 2009. The Company disagrees with nearly all of the adjustments, which for the most part are differences of judgment, and intends to vigorously defend its position using all avenues available. Nevertheless, a provision for \$327,000 has been recorded in the year ended December 31, 2012 given the current trend of such disputes in France. This is the primary component of “other provisions” as of December 31, 2012.

Other provisions in prior years relates primarily to estimated payments to holders of patents which may be deemed as essential under the requirements of the WiMax standard as defined by the IEEE. The provision is based on management’s judgment, taking into consideration the various articles, reports, industry discussions on the subject which were available, and is recorded in the cost of product revenue. Over the years ended December 31, 2010 and 2011, the Company has released all the provision for estimated payments to patent-holders due to the low probability of payments.

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Notes to the Consolidated Financial Statements—(Continued)

17. Trade payables and other current liabilities

	At December 31,		
	2010	2011	2012
	(in thousands)		
Trade payables	\$15,508	\$8,580	\$6,038
Other current liabilities:			
Employees and social debts	3,849	4,095	3,475
Others	1,421	1,751	658
Total other current liabilities	\$ 5,270	\$5,846	\$4,133
Deferred revenue	<u>\$ 893</u>	<u>\$ 869</u>	<u>\$ 609</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Other payables, primarily accrued compensation and related social charges, are non-interest bearing.

Deferred revenue is related to maintenance revenue, recognized over the 12-month maintenance period.

18. Information about financial instruments

18.1. Financial assets and liabilities

	Carrying amount			Fair value		
	December 31,			December 31,		
	2010	2011	2012	2010	2011	2012
	(in thousands)					
Financial assets:						
Trade and other receivables						
Trade receivables	\$14,368	\$ 8,387	\$ 5,529	\$14,368	\$ 8,387	\$ 5,529
Cash flow hedges	—	—	142	—	—	142
Loans and other receivables						
Deposits	1,485	531	458	1,485	531	458
Available for sale instruments						
Long-term investments	432	677	931	432	677	931
Cash and cash equivalents	9,739	57,220	28,751	9,739	57,220	28,751
Total financial assets	\$26,024	\$66,815	\$35,811	\$26,024	\$66,815	\$35,811
Total current	\$24,107	\$65,607	\$34,422	\$24,107	\$65,607	\$34,422
Total non-current	\$ 1,917	\$ 1,208	\$ 1,389	\$ 1,917	\$ 1,208	\$ 1,389
Financial liabilities:						
Interest-bearing loans and borrowings:						
Finance lease liability	—	—	365	—	—	365
Bank convertible notes	3,392	—	—	3,392	—	—
Category E convertible notes—debt component	132	—	—	132	—	—
Factoring	36	—	—	36	—	—
Interest-free loans	1,158	—	—	1,149	—	—
Trade and other payables	15,508	8,580	6,038	15,508	8,580	6,038
Financial instruments at fair value through other comprehensive income:						
Cash flow hedges	129	1,007	—	129	1,007	—
Total financial liabilities	\$20,355	\$ 9,587	\$ 6,403	\$20,346	\$ 9,587	\$ 6,403
Total current	\$19,731	\$ 9,587	\$ 6,403	\$19,727	\$ 9,587	\$ 6,403
Total non-current	\$ 624	\$ —	\$ —	\$ 619	\$ —	\$ —

The carrying values of current financial instruments (cash and cash equivalents, trade receivables and trade and other payables, and factoring) approximate their fair values, due to their short-term nature.

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Notes to the Consolidated Financial Statements—(Continued)

Available for sale long-term investments are primarily related to:

- a bank guarantee secured by pledges of investments in money market funds issued in favor of the owners of leased office space to secure annual lease payments by the Company for its office space in Paris. This guarantee is expected to be renewed annually until the end of the lease in May 2014,
- bank credit lines used in connection with the purchase of hedging instruments and finance lease, also secured by pledged money market funds.

New interest-free loans received from Oséo in 2010 were recorded as financial instruments in compliance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The bank convertible notes bear interest at a variable rate which was reset each quarter; therefore their carrying value was considered to approximate fair value.

The Category E convertible notes were hybrid financial instruments. The fair value of the option component had been revalued at each reporting period.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at December 31, 2012, the Company held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	<u>At December 31,</u> <u>2012</u>	<u>Level 1</u> <u>(in thousands)</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale instruments:				
Long-term investments	\$ 931	—	\$ 931	—
Trade and other receivables:				
Cash flow hedges	142		142	

As at December 31, 2011, the Company held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	<u>At December 31,</u> <u>2011</u>	<u>Level 1</u> <u>(in thousands)</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale instruments:				
Long-term investments	\$ 677	—	\$ 677	—

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Notes to the Consolidated Financial Statements—(Continued)

Liabilities measured at fair value

	<u>At December 31,</u> <u>2011</u>	<u>Level 1</u> <u>(in thousands)</u>	<u>Level 2</u>	<u>Level 3</u>
Financial instruments at fair value through other comprehensive income:				
Cash flow hedges	\$ (1,007)	—	\$(1,007)	—

As at December 31, 2010, the Company held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	<u>At December 31,</u> <u>2010</u>	<u>Level 1</u> <u>(in thousands)</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale instruments:				
Long-term investments	\$ 432	—	\$ 432	—

Liabilities measured at fair value

	<u>At December 31,</u> <u>2010</u>	<u>Level 1</u> <u>(in thousands)</u>	<u>Level 2</u>	<u>Level 3</u>
Financial instruments at fair value through other comprehensive income:				
Cash flow hedges	\$ (129)	—	\$(129)	—

Reconciliation of fair value measurements of Level 3 financial instruments

A reconciliation of the beginning and closing balances disclosing movements separately is disclosed hereafter:

	<u>Category E option</u> <u>component</u> <u>(in thousands)</u>
January 1, 2010	\$ 4,925
Issuances of Convertible Notes	1,663
Total gains and losses recognized in profit and loss	(6,588)
December 31, 2010	—

18.2. Financial instruments at fair value

The Company uses financial instruments, including derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in euros.

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Notes to the Consolidated Financial Statements—(Continued)

The following tables present fair values of derivative financial instruments at December 31, 2012, 2011 and 2010.

	At December 31, 2012	
	Notional Amount (in thousands)	Fair value
Forward contracts (buy euros, sell U.S. dollars)	€ 7,000	\$ 231
Forward contracts (buy U.S. dollars, sell euros)	(6,000)	(141)
Options (buy euros, sell U.S. dollars)	3,000	8
Total	€ 4,000	\$ 98

	At December 31, 2011	
	Notional Amount (in thousands)	Fair value
Forward contracts (buy euros, sell U.S. dollars)	€ 7,500	\$ (379)
Options (buy euros, sell U.S. dollars)	6,500	(681)
Total	€ 14,000	\$ (1,060)

	At December 31, 2010	
	Notional Amount (in thousands)	Fair value
Forward contracts (buy euros, sell U.S. dollars)	€ 2,000	\$ (2)
Options (buy euros, sell U.S. dollars)	1,600	(141)
Total	€ 3,600	\$ (143)

The fair value of foreign currency related derivatives are included in the Consolidated Statement of Financial Position in “Other current financial liabilities” for the periods presented. The earnings impact of cash flow hedges relating to forecasted operating expense transactions is reported in operating expense. Realized and unrealized gains and losses on these instruments deemed effective for hedge accounting are deferred in accumulated other comprehensive income until the underlying transaction is recognized in earnings or the instruments are designated as hedges.

During the year ended December 31, 2012, the Company recorded a gain of \$147,000 (losses of \$355,000 for the year ended December 31, 2011 and \$33,000 for the year ended December 31, 2010) in other comprehensive income related to the effective portion of the change in fair value of its cash flow hedges. During the year ended December 31, 2012, the amount transferred from other comprehensive income to Consolidated Statement of Operations was a loss of \$838,000.

During the year ended December 31, 2012, the Company recognized a net gain of \$26,000 related to the ineffective portion of its hedging instrument and net losses of \$132,000 and \$54,000 for the years ended December 31, 2011 and 2010, respectively.

The derivatives have maturity dates of less than 12 months. Management believes counterparty risk on financial instruments is minimal since the Company deals with major banks and financial institutions.

The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts. The methodologies are as follows:

- Cash, cash equivalents, accounts receivable, accounts payable, other receivable and accrued liabilities: due to the short-term nature of these balances, carrying amounts approximate fair value.
- Long-term investments are composed of debt-based mutual funds with traded market prices. Their fair values amounted to \$432,000, \$677,000 and \$931,000 at December 31, 2010, 2011 and 2012, respectively.
- Foreign exchange forward and option contracts: the fair values of foreign exchange forward and option contracts were calculated using the market price that the Company would pay or receive to settle the related agreements, by reference to published exchange rates.
- Convertible notes: the fair value of the derivative instrument is estimated using the listed market value of comparable companies. See Note 14.2 to the Consolidated Financial Statements.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

18.3. Financial risk management objectives and policies

The Company's principal financial liabilities comprise trade payables. The Company has various financial assets such as trade receivables and cash and cash equivalents, which arise directly from its operations, as well as from capital increases.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk, interest rate risk and cash flow liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Foreign currency risk

The Company faces the following foreign currency exposures:

- Transaction risk arising from:
 - Operating activities, when revenues or expenses are denominated in different currencies from the functional currency of the entity carrying out these transactions.
 - Non derivative monetary financial instruments that are denominated and settled in a currency different from the functional currency of the entity which holds them.

Nearly 100% of total revenues and approximately 98% of total cost of sales are denominated in U.S. dollars. However, as a result of significant headcount and related costs from operations in France, which are denominated and settled in euros (the "structural costs"), the Company has transactional currency exposures which can be affected significantly by movements in the US dollar/euro exchange rates. Approximately 51% of operating expense is denominated in euros. The Company seeks to mitigate the effect of its structural currency exposure by raising capital in euros sufficient to cover euro-based operating expenses. The Company has not used the possibility offered by paragraph 72 of IAS 39 *Financial Instruments: Recognition and Measurement* to designate non-derivative financial assets (cash and cash equivalents plus trade accounts receivables less trade accounts payable, denominated in euro) as a hedging instrument for a hedge of a foreign currency risk (US dollar versus euro fluctuations) corresponding to structural cost related future cash outflows.

If there were a 10% increase or decrease in exchange rate of the U.S. dollar to the euro, the Company estimates the impact, in absolute terms, on operating expenses for the year ended December 31, 2012 would have been \$2.2 million.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company has subscribed to a credit insurance policy which provides assistance in determining credit limits and collection, in addition to some coverage of uncollectible amounts. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

For the year ended December 31, 2012, one Taiwan-based end customer represented 32% (78% in 2011 and 66% in 2010) of total revenues and one China-based end customer represented, indirectly through distributors, 16% (9% in 2011 and 8% in 2010) of total revenues. Accounts receivable from these two customers at December 31, 2012 were \$538,000 and \$787,000, respectively (\$5,227,000 and \$170,000 in 2011, respectively; \$ 8,892,000 and 1,463,000 in 2010, respectively).

With respect to credit risk arising from the other financial assets, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Nearly all cash and cash equivalents are held in France at two large, international banks.

Vendor concentration risk

Access to foundry capacity is critical to the Company's operations as a fabless semiconductor company. The Company depends on a sole independent foundry in Taiwan to manufacture its semiconductor wafers.

Liquidity risk

The Company monitors its risk of a shortage of funds using a cash flow planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Company has cash, short-term deposits, investments and financing facilities in amounts in excess of the its loans and financing obligations.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

On February 21, 2013, the Company completed a public offering of securities. See Note 21 to the Consolidated Financial Statements.

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
	(in thousands)						
At December 31, 2010							
Interest-bearing loans and borrowings	\$ 3,564	—	—	—	—	—	\$ 3,564
Interest-free loans	534	36	108	180	253	144	1,255
Trade payables	15,508	—	—	—	—	—	15,508
Other financial liabilities	5,270	—	—	—	—	—	5,270
	<u>\$24,876</u>	<u>36</u>	<u>108</u>	<u>180</u>	<u>253</u>	<u>144</u>	<u>\$25,598</u>
At December 31, 2011							
Interest-bearing loans and borrowings	\$ —	—	—	—	—	—	\$ —
Interest-free loans	—	—	—	—	—	—	—
Trade payables	8,580	—	—	—	—	—	8,580
Other financial liabilities	5,846	—	—	—	—	—	5,846
	<u>\$14,426</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$14,426</u>
At December 31, 2012							
Interest-bearing loans and borrowings	\$ —	—	—	—	—	—	\$ —
Interest-free loans	—	—	—	—	—	—	—
Finance lease	129	135	101	—	—	—	365
Trade payables	6,038	—	—	—	—	—	6,038
Other financial liabilities	4,133	—	—	—	—	—	4,133
	<u>\$10,300</u>	<u>135</u>	<u>101</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$10,536</u>

Capital management

The primary objective of the Company's capital management is to continue to execute according to its business plans and budgets in order to achieve profitability and positive cash flow, and to maximize shareholder value.

19. Commitments and contingencies

Contingencies

From time to time, the Company has been and may become involved in legal proceedings arising in the ordinary course of its business.

On December 14, 2012, the French tax authorities proposed revising research tax credits («Credit Impôt Recherche») granted to the Company for the years 2008 and 2009, for a total amount in tax adjustments, penalties and interest of €884,000 (\$1,167,000). The Company intends to vigorously contest this tax adjustment (see Note 16 to the Consolidated Financial Statements).

On September 9, 2011 a class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company, certain of its officers and directors, and UBS Limited and Jefferies & Company Inc, the lead underwriters in the Company's initial public offering. This action, Donald Dean Johnson v. Sequans Communications S.A., et al, alleges violations of the U.S. federal securities laws in connection with the Company's initial public offering. A substantially similar complaint was filed on October 25, 2011, also in the United States District Court for the Southern District of New York. On December 13, 2011 the Court consolidated the two actions, and appointed lead plaintiffs and co-lead plaintiffs' counsel. On January 31, 2012, lead plaintiffs filed a Consolidated Amended Complaint for Violations of Federal Securities Laws, which seeks unspecified damages. On May 14, 2012, the Company filed a Motion to Dismiss the consolidated complaint. Following oral argument, on January 17, 2013, the Court granted the Company's motion and gave lead plaintiffs 20 days leave to move to amend their complaint. On February 7, 2013, plaintiffs brought a motion for leave to file an amended complaint, and on March 15, 2013, the Company filed an opposition. The Court has not yet scheduled a hearing on plaintiffs' motion.

On October 13, 2010, Altair Semiconductor Ltd., or Altair, filed a claim against Sequans Communications S.A., Sequans Communications Israel (2009) Ltd., and two Company employees in the Tel Aviv-Jaffa Regional Labor Court. The claim asserts that the Company caused two former Altair employees named in the claim to breach their contracts with Altair by offering employment to such individuals for the purpose of obtaining trade secrets of Altair. In August 2012, the Company entered a settlement agreement with Altair whereby all claims were dropped by both parties with no financial repercussions to the Company.

Bank guarantee

A bank guarantee was issued in favor of the owners of leased office space in France, in order to secure six months of lease payments, for an amount of \$250,000 as of December 31, 2012. This guarantee was secured by the pledge of certificates of deposit and mutual funds for 100% of the amount of the guarantee. The total value of investments secured to cover this bank guarantee was \$288,000, \$281,000 and \$274,000 at December 31, 2010, 2011 and 2012, respectively.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

Operating leases

The Company has long-term operating leases for office rental. Future minimum undiscounted lease payments under operating leases are as follows:

	December 31,		
	2010	2011	2012
	(in thousands)		
Within one year	\$1,860	\$1,434	\$1,604
After one year but not more than five years	3,684	1,901	793
Total minimum lease payments	\$5,544	\$3,335	\$2,397

Total operating lease expense for the year ended December 31, 2012 was \$1,794,000 (2011: \$1,754,000; 2010: \$1,344,000).

Purchase commitments

At December 31, 2012, the Company had purchase commitments with its third-party manufacturer and suppliers for future deliveries of equipment and components, principally during the first half of 2013. These non-cancelable purchase commitments totaled \$3.1 million.

20. Related party disclosures

There is no single investor who has the ability to control the Board of Directors or the vote on shareholder resolutions. There is one investor who owns in excess of 10% of the share capital of the Company: ADD One LP.

On January 11, 2006, the Company and Zvi Slonimsky, one of the its Directors, entered into an agreement whereby Mr. Slonimsky provided to the Company consultancy services in the area of business strategy in the broadband wireless access industry. This agreement expired on January 11, 2010 and a new agreement with the same terms and with retroactive effect to January 2010 was executed in May 2010. In consideration for the consultancy services provided pursuant to this agreement, Mr. Slonimsky was entitled to a fixed monthly fee of \$3,000, which was increased to \$3,333 in the year ended December 31, 2010, plus reimbursement of direct costs incurred in connection with such consultancy services. For the year ended December 31, 2010, consultancy services and related expenses incurred by the Company amounted to \$41,000. The consulting contract was terminated on January 11, 2011.

In addition to the above, Mr. Slonimsky was granted by the Company, on January 11, 2006, 225,000 warrants, to be subscribed by Mr Slonimsky at the price of €0.02 per warrant. Each warrant gives the holder the right to purchase one ordinary share of the Company at the price of \$3.16 per share. Warrants may be exercised for a period of 10 years from the subscription date; all unexercised warrants become null and void at the end of the 10-year period. The right to exercise the subscribed warrants is earned at the rate of 1/48th per month for the period between the 1st and the 48th month following the date the services contract signed with the Company has entered in force. In the year ended December 31, 2011, Mr. Slonimsky exercised warrants to acquire 8,202 ordinary shares.

Effective June 1, 2012, the Company and Gilles Delfassy, prior to Mr. Delfassy joining the board of directors, entered into an agreement whereby Mr. Delfassy provided to the Company consultancy services in the area of business development and strategy in the broadband wireless access industry. This agreement expires on June 1, 2013. During the year ended December 31, 2012, Mr. Delfassy earned fees totaling \$79,000 under this contract.

On August 23, 2010, the Company entered into a loan agreement with Eddy Tang, vice president, manufacturing operations, for an amount of €43,000 (\$59,000), the purpose of which was to allow him to finance the exercise price stock options previously granted to Mr. Tang which were expiring in September 2010. The loan agreement provided for the repayment of the principal in 24 monthly payments, beginning on October 8, 2011, at an interest of 3.79% paid annually. Mr. Tang repaid the loan in full in March 2011.

No other transactions have been entered into with these or any other related parties in 2010, 2011 and 2012, other than normal compensation (including share based payment arrangements) for and reimbursement of expenses incurred in their roles as Directors or employees of the Company.

Sequans Communications S.A.
Notes to the Consolidated Financial Statements—(Continued)

Compensation of key management personnel

	Year ended December 31,		
	2010	2011 (in thousands)	2012
Fixed and variable wages, social charges and benefits expensed in the year	\$2,288	\$2,778	\$2,490
Share-based payment expense for the year	376	2,473	2,170
Total compensation expense for key management personnel	\$2,644	\$5,251	\$4,660

Key management personnel comprises the chief executive officer and all vice presidents reporting directly to him.

The employment agreement with the chief executive officer calls for the payment of a termination indemnity of an amount equal to one year of his gross annual base remuneration in the event of his dismissal by the Board of Directors of the Company.

In the year ended December 31, 2012, the Company expensed a total of \$162,000 board fees to non-executive members (2011: \$135,000). No board fees were paid in the year ended December 31, 2010.

One non-executive board member was paid fees under the consulting agreement described above in 2012 and another non-executive board member was paid consulting fees in 2010.

Directors' interests in an employee share incentive plan

In addition to the warrants granted to Mr. Slonimsky as described above, the Company granted warrants to certain members of the Board of Directors during the years ended December 31, 2012 and 2011:

- On January 11, 2011, the Company granted to Messrs. Patterson, Sharma and Slonimsky 25,000 warrants each with an exercise price of €6.28 (\$8.29) per ordinary share.
- On March 8, 2011, the Company granted to Messrs. de Pesquidoux and Pitteloud 25,000 warrants each, and to Dr. Georges Karam (CEO) 500,000 founders warrants with an exercise price of €6.26 (\$8.26) per ordinary share.
- On June 26, 2012, the shareholders authorized the Board of Directors to grant to Messrs. de Pesquidoux, Patterson, Pitteloud, Sharma and Slonimsky 6,000 warrants each and to Mr Delfassy 25,000 warrants. On June 26, 2012, the Board used this authorization to make such grants with an exercise price of \$2.19 per ordinary share.

The board members were required to subscribe to the warrants at a price of €0.01 per warrant, as required by French law. There is no subscription required for founders warrants.

Share-based payment expense incurred in connection with these transactions amounted to \$195,000 in the year ended December 31, 2012 (2011: \$308,000; 2010: \$15,000).

21. Events after the reporting date

In its meeting of February 5, 2013, the Board of Directors granted a total of 19,200 stock options at an exercise price of \$2.16.

On February 21, 2013, the Company completed a public offering of 10,000,000 shares in the form of American Depositary Shares (ADSs) at a price of \$1.50 per ADS. Net proceeds to the Company from the public offering were approximately \$13.5 million, after deducting the underwriting discount and estimated offering expenses payable by the Company.



Société Anonyme
with a share capital of € 893.676,78
Registered office : 19 Le Parvis de Paris La Défense – 92800 PUTEAUX
Trade Register N° : 450 249 677 Nanterre

B Y - L A W S

As amended on February 21, 2013

Article 1 – Legal Form

The company is a “société anonyme” (French corporation) governed by corporate law, subject to specific laws governing the company and to these by-laws.

Article 2 – Company name

The company’s name is:

« SEQUANS COMMUNICATIONS ».

Article 3 – Corporate purpose

The company’s corporate purpose, in France and abroad is:

- The study, development and marketing of all products and/or services relating to radio fixed and/or optical-type communication networks systems;
- Advising and training, by all means and technical media, relating to the aforementioned fields of operations;
- The participation, directly or indirectly, in all transaction that may be related to any of the purposes defined above, through the creation of new companies or legal entities, the contribution, subscription, or purchase of securities or corporate rights, acquisition of interests, mergers, partnerships, or any other methods;
- And, more generally, all industrial, commercial, and financial transactions, or transactions involving movable or fixed assets, that may be related directly or indirectly, in whole or in part, to any of the aforementioned corporate purposes, or to any similar or related purposes, or to any and all purposes that may enhance or develop the company’s business.

Article 4 – Registered office

The registered office is located at :

19 Le Parvis de Paris La Défense – 92800 PUTEAUX.

The board of directors is empowered to transfer the company’s registered office, within the applicable legal and regulatory provisions.

Article 5 –Term

The company was incorporated for a term of ninety-nine years starting the day of its registration with the trade and company register, except in the cases of extension or early dissolution.

Article 6 – Share capital

The share capital is set at the amount of eight hundred ninety three thousand six hundred seventy six Euros and seventy eight cents (EUR 893,676.78).

It is divided into forty four million six hundred eighty three thousand eight hundred and thirty nine (44,683,839) shares of a par value of two cents (EUR 0.02), fully paid up.

Article 7 – Changes to the capital

The share capital may be increased, decreased or amortized in accordance with applicable legal and regulatory provisions.

Article 8 – Subscription for shares

In the event of a share capital increase, shares subscribed for cash, when applied for, shall be paid up in the minimum proportion provided for by legal and regulatory provisions. Partly paid up shares shall be registered shares until fully paid up. Payment of the remainder shall be made in one or several installments pursuant to a decision by the board of directors, within a maximum time limit of five years as of the date of the final capital increase.

Subscribers will be informed of calls for funds by certified mail with acknowledgement of receipt within fifteen days at least before the date set for each payment. Payments shall be made either at the registered office, or at any other place designated for this purpose.

Should the shareholder fail to pay by the date set by the board of directors, any amounts due shall bear interest, *ipso jure*, at the legal rate of interest, as of the due date for payment, without prejudice to other statutory proceeding and penalties. In particular, the company may force the sale of the securities that have not been paid up.

Article 9 – Legal forms of the shares

Shares are in registered form and shall be registered in an individual share account as provided by legal and regulatory provisions.

Article 10 – Indivisibility of the shares

Shares shall be indivisible with respect to the company. Joint owners of indivisible shares shall be represented at shareholders' general meetings by one of them or by a joint agent of their choice. Failing their agreement on the choice of an agent, such an agent is appointed by the courts of justice ruling in interim proceedings at the request of the co-owner who is in the greatest hardship.

The voting rights attached to the share shall belong to the beneficial-owner at ordinary shareholders' meetings, and to the bare-owner at extraordinary shareholders' general meetings.

Article 11 – Transfer and passing of the shares

Shares are freely negotiable.

They shall be transferred by means of a transfer order from account to account in accordance with the legal and regulatory provisions.

The shares can be leased out or lent with respect to the applicable legal and regulatory provisions.

Article 12 – Rights and obligations of the shares

Each share shall entitle its holder to a portion of the corporate profits and assets pro rata with respect to the amount of capital it represents.

Furthermore, each share shall entitle its holder to vote and be represented in the shareholders' general meetings in accordance with legal rules and the provisions of these by-laws. Ownership of one share implies, *ipso jure*, adherence to the by-laws and the decisions of the shareholders' general meeting.

Shareholders shall be liable for losses within the limits of their contributions to the company's capital.

The heirs, creditors, legal beneficiaries and other representatives of a shareholder may not place liens on the property or securities of the company, nor request the division or the public sale, nor interfere in the administration of the company. For the proper exercise of their right, they shall refer to the corporate records and to the decisions of the shareholders' meetings.

At times when the ownership of several shares is necessary in order to exercise any right as in an exchange, grouping or allocation of shares, or as a consequence of a capital increase or decrease, merger or other corporate operation, the owner of isolated shares, or fewer shares than the required amount, may only exercise the particular right on condition that the shareholder personally takes the required steps to group or, if applicable, purchase or sell the number of requisite shares.

Article 13 – Organization and functioning of the board of directors

1 – Composition

The company is managed by a board of directors comprised of no more than 9 members, appointed by the shareholders' meeting and that may be individuals or legal entities.

Directors that are legal entities shall designate a permanent legal representative when nominated. This legal representative will be subject to the same conditions and obligations and will be subject to the same civil and criminal liability as if he were director under his own name, without prejudice of the liability *in solidum* of the legal entity he represents. His mandate as director is for the same term as the mandate given to the legal entity he represents and must be renewed at each renewal of the legal entity's mandate.

When the legal entity dismisses its representative, it must notify this dismissal to the company without delay, by certified mail and appoints, following the same procedure, a new permanent legal representative; the same rule applies in case of the death or resignation of the permanent legal representative.

2 – Term of office – renewal and rotation

The term of office for directors shall be three years, expiring at the end of the shareholders' general meeting approving the accounts of the last fiscal year and held in the year of expiration of the mandate.

Directors can always be re-elected.

3 – Vacancy – Cooptation

In the event of vacancy, as a result of death or by resignation, of one or more seats of directors, the board of directors may, between two general meetings, make appointments on a provisional basis.

However, if the number of directors in function is less than the minimum required by legal and regulatory provisions, a general meeting will be convened with respect to applicable legal and regulatory provisions in order to complete the number of directors.

The provisional elections made by the board of directors will be subject to ratification by the next general meeting. In case of failure of ratification, the resolutions adopted and the acts accomplished by the board of directors will remain valid.

The director appointed as a replacement of another remains in the office only for the remaining time of his predecessor's mandate.

4 – Remuneration

The shareholders' meeting shall set the directors' attendance fees. The board of directors, after express deliberation, shall be free to distribute this remuneration among the directors, subject to applicable legal and regulatory provisions.

Costs incurred by directors during their terms of office shall be reimbursed by the company against documentary evidence.

5 – Observers

The board of directors may appoint one or more observers chosen from among the shareholders, whether individuals or legal entities, or from outside their number.

Their terms of office shall be set by the board of directors, but shall not exceed two years and shall expire at the next general meeting approving the accounts of the last fiscal year and held on the year of expiration of the mandate. Observers can always be re-elected.

The board of directors may terminate their appointment at any time without cause nor indemnity.

In the event of an observer's death, dismissal or surrender of office for any other reason, the board of directors may appoint a replacement for the remainder of said observer's term office.

Observers are called to assist as observers at board of directors' meetings and may be consulted by it or its chairman. They may not vote on the board of directors' resolutions.

Article 14 – Chairman of the board of directors

The board of directors shall elect its chairman from among its members who are individuals. The chairman shall be elected for the entire duration of his office as director and may be re-elected.

The chairman of the board of directors is subject to the age limit set out by legal and regulatory provisions. If this limit is reached during office, the chairman of the board of directors shall be considered as having resigned from office at the end of the general meeting approving the accounts of the last fiscal year when the age limit was reached.

The board of directors determines the chairman's remuneration.

Article 15 – Board meetings

1 – The board of directors shall convene as often as the company's interest so require, pursuant to notice from the chairman.

The notice to convene must be given at least three days in advance by letter, telegram, telex or fax. It must contain the agenda. In the event of an emergency meeting, the notice may be given immediately and by any means, including orally.

The meeting shall take place at the company's registered office or at any other place indicated in the notice to convene.

2 – The board may not validly deliberate unless a quorum of at least half of its members are present, or, as the case may be, deemed to be present as provided for under the internal charter of the board of directors set in accordance with applicable legal and regulatory provisions.

Any director may give, by letter, telegram, telex or fax, a proxy to one of his colleague in order to represent him at a meeting of the board of directors, but each director may only represent one of his colleagues.

Decisions will be taken by a majority of members present, deemed to be present, or represented. In the event of a tie vote, the chairman of the meeting shall cast the deciding vote.

3 – An attendance sheet shall be kept which must be signed by the directors at the board meeting and record, as the case may be, the participation of directors by means of videoconferencing or telecommunications.

4 – Board decisions shall be recorded in minutes drawn up in compliance with applicable legal provisions and signed by the chairman of the meeting and one director or, if the chairman of the meeting is unable to attend, by two directors. Copies or extracts of the minutes may be certified by the chairman of the board of directors, the chief executive officer, the delegated managing director, the director temporarily delegated to the duties of chairman or the holder of a power of attorney duly authorized for this purpose.

Article 16 – Powers of the board of directors

The board of directors shall determine the strategy of the company's activities and shall ensure its implementation. Subject to the powers expressly granted to the shareholders' meetings, and within the scope of the company's corporate purpose, the board shall take up all questions related to the management of the company and shall settle all related business through its deliberations.

The company shall be bound also by actions of the board of directors which do not fall within the corporate purpose, unless it proves that the third party knew such action was outside the limits of this purpose, or that the third party could not fail to be aware of this in view of the circumstances.

The board of directors carries out the controls and verifications it considers appropriate. All directors must receive all the necessary information in order to accomplish their task and may review all documents they consider useful.

Article 17 – Powers of the chairman of the board of directors

The chairman of the board of directors shall organize and direct the board's work, which he shall report on to the general meeting. He shall ensure the proper functioning of the company's governing bodies and shall ensure, in particular, that the directors are able to carry out their duties.

In case of a temporary unavailability or death of the chairman, the board of directors may delegate the powers of the chairman to a director. In case of a temporary unavailability, this delegation is granted for a limited duration and is renewable. In case of death, it is granted until the appointment of the new chairman.

Article 18 – General management

1 – Choice between two methods of conducting General Management

General management of the company shall be assumed under the responsibility of either the chairman of the board of directors or by another person appointed by the board and with the title of chief executive officer. The board of directors shall decide between these two methods of conducting general management, and shall duly inform the shareholders and third parties according to the applicable regulatory conditions.

When the general management of the company is assumed by the chairman of the board of directors, the provisions set forth above relating to the chief executive officer shall apply to him.

2 – Chief executive officer

The chief executive officer shall be nominated amongst the directors or from outside their number. The board of directors shall set his term of office and his remuneration. The chief executive officer is subject to the age limit set out by the applicable legal and regulatory provisions. If the age limit is reached during office, the chief executive officer shall be considered as having resigned from office at the next general meeting approving the accounts of the last fiscal year and held the year the limit was reached.

The chief executive officer may be dismissed at any time by the board of directors. If the dismissal is decided without fair grounds, it may give rise to damages, except if the chief executive officer is the chairman of the board of directors.

The chief executive officer shall be granted the widest powers to act in any manner on behalf of the company in all circumstances. He shall exercise his powers within the limits of the corporate purpose subject to the powers expressly attributed by legal and regulatory provisions to shareholders' meetings and to the board of directors.

The chief executive officer shall represent the company in its relations with third parties. The company shall be bound also by actions of the chief executive officer which do not fall within the scope of the corporate purpose, unless it proves that the third party knew such action was outside of the limits of this purpose, or that the third party could not fail to be aware of this in view of the circumstances, it being specified that the mere publication of the by-laws does not constitute such proof.

The provisions of the by-laws or the resolutions of the board of directors limiting the powers of the chief executive officer are unenforceable against third parties.

3 – Deputy chief executive officer

Upon proposal of by the chief executive officer, the board of directors may appoint one or more individuals with the title of deputy chief executive officer and determine his remuneration in order to assist the chief executive officer.

The maximum number of deputy chief executives may not exceed five.

Deputy chief executives may be dismissed at any time by the board of directors upon proposal of the chief executive officer. If the dismissal is decided without fair grounds, it may give rise to damages.

If the chief executive officer ceases to exercise, or is prevented from carrying out his duties, the deputy chief executive officers shall, except when otherwise decided by the board of directors, remain in office and retain their duties until appointment of the new chief executive officer.

In agreement with the chief executive officer, the board of directors shall determine the scope and term of the powers granted to the deputy chief executive officers. With respect to third parties, the deputy chief executives shall have the same powers as the chief executive officer.

The age limit applicable to the chief executive officer also applies to the deputy chief executive officers.

Article 19 – Statutory auditors

The company's account shall be audited by one or several statutory auditors appointed in accordance with legal and regulatory provisions and carrying out their duties in accordance therewith.

One or several deputy statutory auditors shall be appointed to replace the official statutory auditors in the event that they are unable or refuse to carry out their mission, or should they resign or pass away.

Article 20 – Shareholders’ meetings

1 – Shareholders’ meetings are convened and deliberate in accordance with legal and regulatory provisions and carry out their duties in accordance therewith.

Meetings are held at the company’s registered offices or at any other location indicated in the notice to convene.

2 – Any shareholder has the right to attend general meetings and to participate to the resolutions personally or through a proxy, by simple justification of his identity and no matter how many shares he owns as soon as the shares are paid up in accordance with applicable legal and regulatory provisions and that the shareholder justifies his shares are registered within the company’s books at least three days before the meeting.

Shareholders may only be represented by their spouse or another shareholder and for this purpose, the proxy must prove his mandate.

Shareholders may participate in general meetings by means of videoconferences or telecommunications in accordance with legal and regulatory requirements. The means of telecommunications authorized will be mentioned in the notice to convene.

3 – Shareholders’ general meeting shall be chaired by the chairman of the board of directors or, in his absence, by a director appointed for this purpose by the board of directors, failing which the shareholders’ general meeting itself shall elect its chairman.

4 – The minutes shall be prepared, and copies or excerpts of the deliberations shall be issued and certified as required by legal and regulatory provisions.

Article 21 – Financial year

The financial year is twelve months, beginning January 1 ending December 31 of each year.

Article 22 – Annual accounts – Allocation of results

The board of directors shall keep proper accounts of corporate activities and draw up annual and consolidated accounts, in accordance with applicable legal and regulatory provisions, regulations and standards.

The income statement, which summarizes the income and expenses for the financial year, shows, after deduction of amortization and provisions, the profit or loss for the year.

5% is set aside from the earnings for the financial year minus previous losses, if any, to fund the legal reserve. This withdrawal ceases to be mandatory when the reserve reaches one-tenth of the share capital and resumes when, for any reason, the legal reserve falls below the one tenth figure.

Distributable profits consist of the profits for the year, less prior losses, plus the amounts to be placed in reserves as required by legal and regulatory provisions or by the by-laws, plus retained earnings. The shareholders’ meeting may withdraw from these earnings any sum it deems appropriate to allocate any optional reserves or to carry forward to the next financial year.

Moreover the shareholders’ general meeting may decide to distribute sums taken from reserves at its disposal, expressly indicating the reserve items from which such withdrawals are made. Dividends shall however first be taken from the distributable earnings for the year.

Except in the case of a capital decrease, no distribution may be made to shareholders when shareholders’ equity is or would, as a result of such distribution, be less than the amount of capital plus reserves which legal and regulatory provisions or the by-laws prohibit from being distributed. The re-evaluation variance may not be distributed and may be incorporated, in whole or in part, into the capital.

Article 23 – Payment of dividends

The terms and conditions for the payment of the dividends approved by the shareholders' general meeting are determined by the shareholders' meeting, or in lieu, by the board of directors. However, cash dividends must be paid within a maximum of nine months after the close of the financial year, unless extended by court order.

The ordinary shareholders' general meeting may grant each shareholder, for all or part of the dividends to be distributed, an option between payment of the dividends in cash or in shares, subject to legal requirements.

Interim dividends may be distributed before the approval of the financial statements for the year when the balance sheet established during or at the end of a financial year and certified by an auditor, shows that the company has made a profit since the close of the last financial year, after recognizing the necessary depreciation and provisions and after deducting prior losses, if any, and the sums to be allocated to reserves, as required by legal and regulatory provisions or the by-laws, and including any retaining earnings. The amount of such interim dividends may not exceed the amount of the profit so defined.

Dividends not claimed within five years after the payment date shall be deemed to expire.

Article 24 – Liquidation

Subject to the applicable legal provisions, the company shall be in liquidation from the time of its winding-up, however brought about. The general meeting of shareholders shall then decide on the method of liquidation and appoint the liquidators. The legal entity of the company shall continue for the purposes of liquidation, until its definitive closure.

Article 25 – Disputes

All disputes which may arise during the company's existence or its liquidation either between the shareholders and the company or among the shareholders themselves, concerning the business of the company or the interpretation or implementation of these by-laws will be submitted to the jurisdiction of the relevant courts located in the jurisdiction where the company's registered office is located.

SEQUANS COMMUNICATIONS
Société anonyme au capital de 693.346,78 euros
Siège social : 19, Le Parvis de La Défense – 92800 PUTEAUX
RCS Nanterre 450 249 677

Regulations

Stock Option Subscription Plan – 2012-1

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I—DEFINITION OF STOCK OPTION SUBSCRIPTION PLAN

In order to reward its employees and those of its subsidiaries, Sequans Communications wishes to set up a system enabling them to share in its growth.

A stock option subscription plan is a mechanism by which a company offer its employees and/or company officers, as well as the employees of its subsidiaries within the meaning of Article L.233-3 of the French Commercial code, the possibility of subscribing for new shares during a certain period, at a price set on the date the Options are issued, and that remains fixed during the entire period.

In this way, the beneficiaries participate in their company's performance through the changes in share value, even before they become shareholders by exercising the options to subscribe for shares (hereinafter "Options").

Furthermore, the financial benefit obtained by exercising the Options and by a subsequent sale of the shares is subject to a specific tax treatment.

II – LEGAL FRAMEWORK FOR THE PLAN

This mechanism is governed, in particular, by articles L.225-177 and following of the French Code de commerce.

In a decision taken on 26 June 2012, a combined general shareholders' meeting voted in favour of the principle of issuing Options likely to give rise to a maximum of 1,000,000 new ordinary shares with a unitary par value of EUR 0.02.

This combined general shareholders' meeting has defined the conditions of setting of the subscription price for the security likely to be issued upon exercise of each Option and decided that this price would be set by the Board of Directors of the Company, at the fair market value as applicable at the date of allocation of the Option, pursuant to objective methods applicable in the field of assessment of shares (including, as the case may be, the reference to the market price of Company listed shares), and if required, with the assistance of independent experts.

In addition, this decision granted the Board of Directors the power to issue these Options, on one or more occasions, including the authority to determine the beneficiaries and the number of Options to be issued, and the elimination of shareholders' pre-emptive subscription rights. Furthermore, the Board of Directors was granted the power to increase share capital by a maximum amount equal to the total number of Options issued, to record the successive increases in share capital as a result of the exercise of the Options, and to carry out all formalities required as a result thereof.

Therefore and pursuant to the aforesaid grant of authority, at a meeting held on 24 July 2012, the Board of Directors decided the procedures applicable to this stock and established the present SO 2012-1 Plan Option, in conformity with the principles set by the combined general shareholders' meeting and aforesaid statutory provisions.

III—DESCRIPTION OF THE PLAN

The list of the 2012-1 Plan's beneficiaries (hereinafter "Beneficiaries") shall be approved by the Company's Board of Directors.

III-1. Issuing the Options

The Options are issued free of charge to each Beneficiary.

No person holding more than 10% of Sequans Communications' share capital shall be issued any Options.

The number of Options issued to each Beneficiary, as well as the subscription price for the share to be issued pursuant to exercising an Option (as defined under section III-4 below) shall be indicated in the Individual Letter of Notification sent to him/her by the Chairman and which is deemed to be an exhibit of this Plan.

Exercising an Option entitles the Beneficiary to subscribe for one new ordinary share with a par value of EUR 0.02 (hereafter a "**New Share**").

This number of shares cannot be modified during the Options' period of validity, except in the event of an adjustment in the subscription price in accordance with the requirements provided by law (see section III-4. hereinafter).

Within a period of seven (7) days following the receipt of the Individual Letter of Notification informing him/her that Options have been issued to him/her, the Beneficiary undertakes to return to the Company:

- (i) a copy of this Plan,
- (ii) a copy of the Individual Letter of Notification

being specified that all such copies shall be duly executed by the Beneficiary who acknowledges that the Individual Letter of Notification is part of these Plan.

Failure to comply with this formality within the applicable period shall render the Options issued immediately and automatically void.

III-2. Features and period of validity of the Options

Options are irrevocably granted for a period of 10 years as from the time they are issued by the Board of Directors.

As a result of issuing the Options, the pre-emptive right of shareholders to subscribe for the new shares to be issued as said Options are exercised will be eliminated in favour of the Beneficiaries.

Rights obtained as the result of the Options cannot be transferred until the Options have been exercised.

Options must be exercised within the aforementioned **maximum period of 10 years**, any Option not exercised before the expiry of such period shall automatically become null and void.

Furthermore, the Beneficiary must comply with the following schedule:

(i) first issue

- The Beneficiary may exercise 25% of the Options issued to him/her after the expiry of a period of 12 months following the date he/she joins Sequans Communications or one of its subsidiaries;
- Thereafter, the Beneficiary may exercise the remainder of his/her Options at the rate of 1/36th per month for the period between the 13th and 48th month following the date he/she joins Sequans Communications or one of its subsidiaries.

(i) further issue(s)

- The Beneficiary may exercise 25% of the Options issued to him/her after the expiry of a period of 12 months following the date of such issue ;
- Thereafter, the Beneficiary may exercise the remainder of his/her Options at the rate of 1/36th per month for the period between the 13th and 48th month following the date of the aforesaid issue.

In the event that a third party acquires a 100% interest in Sequans Communications, and in no other case, a Beneficiary who is subsequently dismissed for genuine material cause shall have the right to exercise all of his/her Options within a period of 30 days following the date of said dismissal, notwithstanding the schedule set out above for exercising his/her Options.

In the event that a company ceases to be a subsidiary of Sequans Communications, all Options held by the employees of such subsidiary, and that have not been exercised before such time, shall automatically and immediately become null and void.

III-3. Cessation of the Beneficiary's duties with Sequans Communications or one of its subsidiaries

In the event that the Beneficiary's duties with Sequans Communications or one of its subsidiaries, whether as an employee or company officer, cease:

- Said Beneficiary shall lose all rights with regard to Options that are not yet exercisable on the date that his/her duties cease in accordance with the schedule for exercising the Options set out in Article III-2. hereinabove.

However, the Beneficiary retains the right to exercise Options that are exercisable and that have not yet been exercised, provided that the Beneficiary exercises his/her Options within a period of 30 days following the actual termination of his/her duties.

Notwithstanding the above provisions, should the loss of the status as an employee during the Vesting Period be due to one of the following reasons, the Options would be treated as follows:

- Retirement: A Beneficiary whose date of retirement is effective at least one year after the allotment of Options, shall enjoy an accelerated vesting under which all such Options will become immediately exercisable. Such Beneficiary shall have a period of ninety (90) days to exercise the Options, from the effective date of retirement. Such Options shall remain subject to the other conditions of this Plan.

- Death: the successors or beneficiaries of a Beneficiary shall have a period of six (6) months to exercise the Options, from the date of death of said Beneficiary; after the expiry of this period, the successors or beneficiaries shall definitely lose the right to exercise unexercised Options. In any case, no exercise shall take place after the expiration of Options.
- 2nd and 3rd category disability, within the meaning of article L.341-4 of the French Social Security Code—or an equivalent foreign social security regime—Beneficiaries may preserve their right to exercise their Options which are exercisable, but they will remain subject to the other conditions of this Plan.
- Termination for economic reasons (redundancy): the Beneficiary shall have a period of ninety (90) days to exercise the Options—which are exercisable—from the effective date of termination; they will be subject to the other conditions of this Plan.

III-4. Setting the subscription price for shares obtained by exercising the Options

The subscription price for New Shares to be issued pursuant to an exercise of the Options is set at the closing price of the Sequans Communications share (ADS) listed on the NYSE, on the effective date of allotment of Options.

This price is mentioned in the Individual Notification Letter, price which may not be changed during the Options' period of validity, except in the event of adjustments in accordance with statutory and regulatory requirements.

III-5. Maintaining the rights of Option holders during the exercise period

During the entire period of validity of the Options, the Company shall be entitled to proceed with a capital write-off or reduction, a change to the appropriation of profits, a free allotment of shares, a capitalization of reserves, profits or share premiums, a distribution of reserves or any issue of capital securities or securities giving entitlement to an allotment of capital securities conferring a subscription right reserved for shareholders, provided that the Company accordingly take the necessary measures in compliance with applicable legal and/or regulatory provisions.

IV—REQUIREMENTS AND PROCEDURES FOR EXERCISING OPTIONS

IV-1. Suspension of the rights to exercise the Options

If necessary, the Board of Directors may suspend the right to exercise the Options. In particular, a suspension may be ordered whenever a transaction concerning Sequans Communications' share capital requires knowing in advance the exact number of shares that make up share capital or in the event that one of the financial transactions requiring an adjustment is carried out.

In such case, Sequans Communications shall inform the Beneficiaries of the Options, indicating the date of the suspension and the date on which the right to exercise Options will be re-established. Such suspension may not exceed 3 months.

If the right to exercise an Option expires during a period in which rights are suspended, the period for exercising the Option shall be extended by 3 months.

All requests for exercising Options, documented by the signature of a subscription certificate specific to the SO 2012-1 Plan, shall be sent to Sequans Communications, and shall be accompanied by a cheque made out to the Company's order in an amount corresponding to the number of New Shares subscribed, considering that such shares must be fully paid up in cash at the time of subscription, except in case of settlement of the subscription price by way of a set-off with a debt. If the Beneficiary has been registered in the on-line equity management system established by the Company, exercise of Options shall take place in accordance with the process manual provided to the Beneficiary and/or available from the Company's human resources department.

Failure to fully pay the exercise price renders the subscription null and void.

V—FEATURES OF SHARES SUBSCRIBED

V-1. Delivery and form of shares

New Shares acquired by exercising Options are registered in the books of Sequans Communications as registered shares, which meets the statutory requirements for benefiting from the applicable favourable tax treatment.

V-2. Rights—Availability

New Shares (ordinary shares), shall be subject to all provisions of the memorandum and articles of association and shall enjoy all rights pertaining to shares of such class as from the date the increase in share capital is completed.

These New Shares shall be immediately transferable, subject to the following exception : Beneficiaries residing in France are not entitled to assign any New Share issued further to the exercise of an Option, before the end of a four (4) year-period from the issue of the given Option.

However, since these shares are listed for trading on the New York Stock Exchange and in order to avoid any insider trading risk, Beneficiaries shall comply with the Insider Trading Compliance Policy of the Company, available on the Company's intranet and website, and/or from the human resources department.

VI – TAX PROVISIONS

The presentation of tax treatment is provided for informational purposes only. It corresponds to the French legislation in effect as of the date this plan was approved by the Board of Directors.

The Beneficiary shall be responsible for learning about any amendments to the applicable tax treatment.

VI-1. The tax provisions currently applicable to Beneficiaries who are employees of Sequans Communications and who are domiciled in France are explained below.

1. A Beneficiary who has exercised Options and subscribed for shares of Sequans Communications receives a gain equal to the difference between the value of the shares on the date the Option is exercised and the subscription price for the shares.

This gain is subject to favourable tax treatment provided that the shares are issued as registered shares and that the sale of the shares obtained by exercising the Options occurs at least four (4) years after such Options are issued.

This gain, treated as a **capital gain realised at the time of purchase**, is subject to a 43.5% tax (*i.e.*, 30% tax, plus 13.5% for the CSG¹, CRDS² and social security contributions) on the amount up to EUR 152,500, and to a 54.5% tax (*i.e.*, 41% tax, plus 13.5% for social security contributions) on the amount above EUR 152,500.

These rates are reduced to 31.5% and 43.5% respectively if the Beneficiary holds these shares for an additional period of two (2) years.

Failure to comply with these periods will subject these capital gains to the tax treatment applicable to wages and salaries (Article 163 bis C of the French General Tax Code). As an exception to the foregoing, shares may be sold before the expiry of the four-year period in the event of:

- The dismissal of the Beneficiary,
- The Beneficiary's retirement,
- Invalidity deemed to fall within the second and third categories provided in Article L.341-4 of the French Social Security Code,
- The Beneficiary's death.

2. Capital gains realised at the time of sale (*i.e.*, the difference between the sale price of the share and the value of such share on the date the Option is exercised) are taxed from the first Euro in accordance with the tax treatment of capital gains realised on the sale of securities (Articles 92 B, 92 J, 160, 200 A2 of the French General Tax Code).

The rate applicable is 32.5% (*i.e.*, the proportional rate of 19%, plus 13.5% for the CSG, CRDS and social security contributions).

Note: In addition, in order to benefit from this specific tax treatment, the Beneficiary must attach to his/her income tax return for the year in which the Options are exercised a certificate that will be provided to him/her by the Company.

3. The tax information contained in this section VI-1 is likely to change in accordance with the applicable statutory and regulatory provisions. Sequans Communications and its subsidiaries shall have no obligation to provide advice and/or assistance in this regard.

VI-2. Tax provisions applicable to Beneficiaries domiciled abroad and/or employees of Sequans Communications subsidiaries located abroad.

Beneficiaries domiciled abroad and/or who are employees of a foreign subsidiary of Sequans Communications are solely responsible for:

- Determining the tax provisions applicable to gains resulting from (i) holding the Options, (ii) holding the shares issued as a result of exercising the Options, and (iii) the sale of such shares;
- Paying all taxes and contributions due as a result.

Sequans Communications and its subsidiaries shall have no obligation to provide advice and/or assistance in this regard.

¹ CSG = “*contribution sociale généralisée*”: a French social security tax.

² CRDS = “*contribution au remboursement de la dette sociale*”: another French social security tax.

- SEQUANS COMMUNICATIONS SA -
APPENDIX RELATING TO ISRAELI BENEFICIARIES

STOCK OPTIONS SUBSCRIPTION PLAN – 2012-1

1. GENERAL

- 1.1. This appendix (the "Appendix") shall apply only to beneficiaries (the "Beneficiaries") of the Plan (as such term is defined below) who are residents of the State of Israel or those who are deemed to be residents of the State of Israel for the purpose of payment of income tax under the Ordinance (as such term is defined in Clause 2.13 below) (the "Israeli Beneficiaries"). The provisions specified hereunder shall form an integral part of the Stock Options Subscription Plan – 2012-1 (the "Plan"), which applies to the grant of options ("Options") to purchase shares of Sequans Communications SA, a Societe Anonyme, incorporated under the laws of the Republic of France, having its statutory seat in Paris-La Défense, France (the "Company").
- 1.2. According to the Plan, options to purchase the Company's shares may be granted to employees, directors and/or other company officers as well as to employees of any the Company's Subsidiaries (as such term is defined in Clause 2.16 below).
- 1.3. The Appendix is to be read as an integral part of the Plan so that the Appendix and the Plan jointly will comply with the requirements of Israeli law in general, and in particular with the provisions of Section 102 of the Ordinance, as may be amended or replaced from time to time. For the avoidance of doubt, this Appendix does not apply to or modify the Plan with respect of any Beneficiaries except for the Israeli Beneficiaries.
- 1.4. The Plan and this Appendix are complimentary to each other and shall be deemed as one with respect to Israeli Beneficiaries. In any case of a contradiction (explicit or implicit) between the provisions of this Appendix and the Plan, the provisions of this Appendix shall prevail where tax law issues are concerned.
- 1.5. Any capitalized term not specifically defined in this Appendix shall be construed according to the meaning given to it in the Plan.

2. DEFINITIONS

- 2.1. "Approved 102 Option" means an Option granted to an Israeli Beneficiary pursuant to Section 102(b) of the Ordinance (as such term is defined in Clause 2.13 below) the registration thereof being maintained by the Escrow Agent (as such term is defined in Clause 2.17 below), which may be classified as either a "Capital Gains Option" or a "Ordinary Income Option" (as such terms are respectively defined in Clauses 2.2 and 2.9 below).
- 2.2. "Capital Gains Option" means an Approved 102 Option elected and designated by the Company to qualify under the capital gains tax treatment in accordance with the provisions of Section 102(b)(2) of the Ordinance.
- 2.3. "Controlling Shareholder" shall have the meaning ascribed to it in Section 32(9) of the Ordinance.
- 2.4. "Employee" means a person who is employed by the Company or any of its Subsidiaries, including an individual who is serving as a director or an officer, but excluding any Controlling Shareholder, all as determined in Section 102.
- 2.5. "Exercise Price" means the exercise price to be paid by the Israeli Beneficiary to the Company upon the exercise of an Option.

- 2.6. “Exercised Share(s)” means the Share(s) that were acquired and issued pursuant to the exercise of an Option.
- 2.7. “ITA” means the Israeli Tax Authorities.
- 2.8. “Non-Employee” means a Controlling Shareholder or any consultant, adviser, service provider or any other person who is engaged by or is related to the Company or any of its Subsidiaries, but is not an Employee.
- 2.9. “Option Agreement” means the share option agreement between the Company and an Israeli Beneficiary that sets out the terms and conditions of the Option granted to such Israeli Beneficiary.
- 2.10. “Ordinary Income Option” means an Approved 102 Option elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) of the Ordinance.
- 2.11. “102 Option” means any Approved 102 Option or Unapproved 102 Option granted to an Employee pursuant to Section 102.
- 2.12. “3(i) Option” means an Option granted pursuant to Section 3(i) of the Ordinance to a Non- Employee.
- 2.13. “Ordinance” means the Israeli Income Tax Ordinance (New Version), 5721 – 1961, as in effect from time to time.
- 2.14. “Share” means one ordinary share with a par value of EUR 0.02 subscribed upon exercise of one Option.
- 2.15. “Section 102” means Section 102 of the Ordinance and any regulations, rules, orders or procedures promulgated thereunder, as in effect from time to time.
- 2.16. “Subsidiary” means any “employing company” within the meaning of such term in Section 102(a) of the Ordinance.
- 2.17. “Escrow Agent” means an escrow agent appointed by the Company, and approved by the ITA, to serve as an escrow agent in connection with the grant of Approved 102 Options, all in accordance with the provisions of Section 102.
- 2.18. “Unapproved 102 Option” means an Option granted pursuant to Section 102(c) of the Ordinance.

3. GRANT OF OPTIONS

- 3.1. The persons eligible for participation in the Plan as Israeli Beneficiaries shall include Employees and Non-Employees of the Company or any of its Subsidiaries who are residents of the State of Israel or those who are deemed to be residents of the State of Israel for the purpose of payment of income tax under the Ordinance; *provided, however*, that: (i) Employees may only be granted 102 Options; and (ii) Non-Employees may only be granted 3(i) Options.

- 3.2. The Company may designate, at its sole discretion, Options granted to Employees pursuant to Section 102 as Unapproved 102 Options or as Approved 102 Options.
- 3.3. The grant of Approved 102 Options shall be made under this Appendix adopted by the Board of Directors, and shall be conditioned upon the approval of this Appendix by the ITA.
- 3.4. No Approved 102 Options shall be granted under this Appendix to any Employee unless and until the Company's election of the type of Approved 102 Options to be granted to Employees – Capital Gains Options or Ordinary Income Options – is appropriately filed with the ITA (the "Election"). Such Election shall become effective beginning on the first date of grant of an Approved 102 Option under this Appendix and shall remain in effect until the end of the year following the year during which the Company first granted Approved 102 Options (the "Term"). The Election shall obligate the Company to grant during the Term *only* the type of Approved 102 Option it has elected, and shall apply to all Israeli Beneficiaries who were granted Approved 102 Options during the Term, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Options simultaneously.
- 3.5. The Escrow Agent shall maintain a register of all Approved 102 Options, all in accordance with the terms and conditions set out in Clause 4 below.
- 3.6. For the avoidance of doubt, the grant of Unapproved 102 Options and Approved 102 Options shall be subject to the terms and conditions set forth in Section 102.

4. ESCROW AGENT

- 4.1. All Exercised Shares and, if applicable, other shares received subsequently following any exercise of rights in connection with the Approved 102 Options or Exercised Shares, including without limitation bonus Shares, shall all be granted, allocated and issued to the Escrow Agent on behalf of the Israeli Beneficiary and held for the benefit of the Israeli Beneficiaries for such period of time as required under Section 102 (the "Holding Period"). In the event the requirements for the Approved 102 Options are not met, then the Approved 102 Options may be regarded as Unapproved 102 Options, all in accordance with the provisions of Section 102.
- 4.2. Notwithstanding anything to the contrary, the Escrow Agent shall not release any Shares allocated or issued to it upon exercise of Approved 102 Options prior to the full payment of the Israeli Beneficiary's tax liabilities arising from the grant of the Approved 102 Options and/or the exercise of such Approved 102 Options and/or the sale of the Exercised Shares, if any.
- 4.3. Subject to the provisions of Section 102, an Israeli Beneficiary shall not sell or release from the Escrow Agent any Approved 102 Options, Exercised Shares and/or any Share received subsequently following any exercise of rights in connection with Approved 102 Options or the Exercised Shares, including without limitation, bonus Shares, until the lapse of the Holding Period required under Section 102. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 shall apply to, and shall be borne by, such Israeli Beneficiary.
- 4.4. By the execution of the agreement and upon receipt of Approved 102 Option, the Israeli Beneficiaries undertakes to release the Escrow Agent from any liability in respect of any action or decision duly taken and *bona fide* executed in relation to this Appendix, any Approved 102 Option or Exercised Share issued to such Israeli Beneficiary thereunder.

4.5. No Exercised Shares or any additional rights issued by the Company to the Escrow Agent for the benefit of an Israeli Beneficiary shall be held by the Escrow Agent for a period longer than ten (10) years after the end of the Term. The Company shall instruct the Escrow Agent as to the transfer of these Shares.

5. THE OPTIONS

The terms and conditions upon which the Options shall be granted and exercised shall be as specified in the Option Agreement to be executed pursuant to this Appendix. Each Option Agreement shall state, *inter alia*, the number of Shares to which the Option relates, the type of Option granted thereunder (whether Capital Gains Option, Ordinary Income Option, Unapproved 102 Option or 3(i) Option), the vesting provisions and the exercise price.

6. FAIR MARKET VALUE

If at the date of grant of Capital Gains Options the Company's shares are listed on any stock exchange (as such term is defined in the Ordinance) or if the Company's shares will be registered for trading within ninety (90) days following the date of such grant of Capital Gains Options, the fair market value of such grant's underlying Shares at the date of grant shall be determined in accordance with the provisions set in Section 102(b)(3) of the Ordinance.

7. EXERCISE OF OPTIONS

7.1. Options shall be exercised by the Israeli Beneficiary by: (i) giving a written notice to the Company and where applicable, to the Escrow Agent or to any other third party designated by the Company, in such form and method as may be determined from time to time by the Company, in accordance with the requirements of Section 102; and (ii) the payment to the Company, of the Exercise Price with respect to all the Options exercised, in such manner as shall be determined by the Company.

7.2. Upon the delivery of a duly signed Notice of Exercise and actual receipt of the full payment to the Company of the Exercise Price with respect to all the Options specified therein, the Company shall issue the Exercised Shares to the Escrow Agent (according to the applicable Holding Period) or to the Israeli Beneficiary, as the case may be.

8. ASSIGNABILITY AND SALE OF OPTIONS

8.1. No Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to it given to any third party whatsoever, and during the lifetime of the Israeli Beneficiary each and all of such Israeli Beneficiary's rights to purchase Shares hereunder shall be exercisable only by the Israeli Beneficiary. Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

8.2. As long as Exercised Shares are held by the Escrow Agent on behalf of an Israeli Beneficiary, all such Israeli Beneficiary's rights in the Exercised Shares are personal, can not be transferred, assigned, pledged or mortgaged, except for transfers by will or by the laws of descent and distribution, provided that the transferee thereof shall be subject to the provisions of Section 102 as would have been applicable to the deceased Israeli Beneficiary.

9. INTEGRATION OF SECTION 102 AND THE ITA

- 9.1. With regards to Approved 102 Options, the provisions of the Plan and/or the Appendix and/or the Option Agreement shall be subject to the provisions of Section 102 and the Israeli Tax Authority's approval, and the said provisions and permit shall be deemed an integral part of the Plan, the Appendix and the Option Agreement. For the removal of doubt, in case of any contradiction between any provision of the Plan, the Appendix or the Option Agreement, on the one side, and Section 102 and/or the Israeli Tax Authority's approval, on the other side, the latter shall prevail and shall be binding upon the Company and the Israeli Beneficiaries.
- 9.2. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the Plan, the Appendix or the Option Agreement, shall be binding upon the Company and the Israeli Beneficiaries.

10. DIVIDEND

Subject to the Company's incorporation documents and applicable laws, the Israeli Beneficiary shall be entitled to receive dividends with respect to all Exercised Shares held by the Israeli Beneficiary or by the Escrow Agent, as the case may be, and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102.

11. RIGHTS AS A SHAREHOLDER

Unless otherwise specified in the Plan, an Israeli Beneficiary shall not have any rights as a shareholder with respect to Shares issued under this Plan, until such time as the Shares shall be released from escrow. The Israeli Beneficiary shall have the right to vote the Exercised Shares at any and all shareholder meetings without restriction.

12. TAX CONSEQUENCES

- 12.1. Any tax consequences arising from the grant of any Option to an Israeli Beneficiary, the exercise of any Option by an Israeli Beneficiary, the payment of the Exercise Price, or any other event or act with respect thereof (of the Company and/or its Subsidiaries and/or the Escrow Agent and/or the Israeli Beneficiary), shall be borne solely by the applicable Israeli Beneficiary. The Company and/or its Subsidiaries and/or the Escrow Agent shall withhold all taxes according to the requirements under any applicable laws, rules, and regulations, including without limitation withholding taxes at source. Furthermore, the Israeli Beneficiary shall indemnify the Company and/or its Subsidiaries and/or the Escrow Agent, as applicable, and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Israeli Beneficiary.
- 12.2. The Company and/or, when applicable, the Escrow Agent shall not be required to release any share certificate to an Israeli Beneficiary until to the Company's and, when applicable, to the Escrow Agent's discretion, all required payments have been fully made.
- 12.3. With respect to Unapproved 102 Options, if the Israeli Beneficiary ceases to be employed by the Company or any of its Subsidiaries, the Israeli Beneficiary shall extend to the Company and/or the applicable Subsidiary a security or guarantee, to the full satisfaction of the Company, for the payment of taxes and the like due at the time of sale of Shares, all in accordance with the provisions of Section 102.

13. **GOVERNING LAW & JURISDICTION**

This Appendix shall be governed by and construed and enforced in accordance with the laws of the State of Israel, without giving effect to the principles of conflict of laws. The competent courts of Tel-Aviv, Israel shall have sole and exclusive jurisdiction in any matters pertaining to the Plan.

**STOCK OPTION AGREEMENT RELATING TO
ISRAELI BENEFICIARIES
UNDER THE
STOCK OPTIONS SUBSCRIPTION PLAN – 2012-1**

This Stock Option Agreement (this “Agreement”) is made between, Sequans Communications SA, a Societe Anonyme, incorporated under the laws of the Republic of France, having its statutory seat in Paris-La Défense, France (the “Company”) and [name of Israeli Beneficiary to be added] (the “Beneficiary”).

WHEREAS, the Company maintains the Stock Options Subscription Plan – 2012-1 (the “Plan”) for the benefit of employees and officers of the Company and its Subsidiaries; and

WHEREAS, the Plan permits the award of options each to acquire one series A preferred share of the Company (the “Share(s)”), subject to the terms of: (i) the Plan; (ii) the appendix relating to the Israeli Beneficiaries (the “Appendix”); (iii) the Contractual Undertaking to be entered into between the shareholders of the Company and the Beneficiary (the “Contractual Undertaking”); and (iv) the notice of grant dated [date to be added] (the “Notice of Grant”) (together, the “Options Documents”); and

WHEREAS, the Company wishes to grant the Beneficiary [number of options to be added] options each to acquire one ordinary share with a par value of EUR 0.02, subject to the restrictions and on the terms and conditions contained in the Options Documents and this Agreement; and

WHEREAS, the Beneficiary is deemed an Israeli Beneficiary (as such term is defined in the Appendix).

NOW, THEREFORE, in consideration of these premises and the agreements set forth herein and intending to be legally bound hereby, the parties agree as follows:

1. DEFINITIONS

Except as otherwise specified herein or unless the context herein requires otherwise, the terms defined in the Plan and the Appendix will have the same meanings herein.

2. AWARD OF OPTION

The Options are granted in accordance with the terms and conditions set out in the Option Documents and subject to the terms and conditions set out in Section 102 of the Israeli Income Tax Ordinance (New Version), 5721 – 1961 (the “Tax Ordinance”) and the regulations promulgated there under (“Section 102”) and in accordance with capital gains tax treatment set out in Section 102(b)(2) of the Ordinance (the “Options”).

3. DATE OF GRANT; TERM OF OPTION

The Option was granted on [date to be added] (the “Effective Date”) and may be exercised not later than the 10th anniversary of the Effective date, unless terminated earlier in accordance with the terms and condition of the Plan.

4. OPTION EXERCISE PRICE

This exercise price (the "Exercise Price") of one Option is mentioned in the Notice of Grant (also referred to as the "Individual Letter of Notification").

5. VESTING

The Option shall become vested and exercisable accordance with the vesting schedule set out below.

- 5.1. 25% of the Options shall be vested and exercisable after the lapse of a 12-month period commencing on the date on which the Beneficiary's employment with the Company or any of its Subsidiaries commenced;
- 5.2. 1/36th of the remaining Options shall be vested and ready to be exercised at the end of each of month during the period between the 13th month and the 48th month of the Beneficiary's employment with the Company.

6. EXERCISE OF OPTION

Options shall be exercised by the Beneficiary by: (i) giving a written notice to the Company and, where applicable, to the Escrow Agent or to any other third party designated by the Company, in such form and method as may be determined from time to time by the Company, in accordance with the requirements of Section 102; and (ii) the payment to the Company, of the Exercise Price with respect to all the Options exercised, in such manner as shall be determined by the Company.

7. ESCROW AGENT

The Beneficiary acknowledges, agrees and undertakes that:

- 7.1. All Exercised Shares and (as such terms are defined in the Appendix), if applicable, other shares received subsequently following any exercise of rights in connection with the Approved 102 Options or Exercised Shares, including without limitation bonus Shares, shall all be granted, allocated and issued to the Escrow Agent on behalf of the Beneficiary and shall be held by the Escrow Agent for the benefit of the Beneficiary for such period of time as required under Section 102 (the "Holding Period"). In the event the requirements for the Approved 102 Options are not met, then the Approved 102 Options may be regarded as Unapproved 102 Options, all in accordance with the provisions of Section 102.
- 7.2. Notwithstanding anything to the contrary, the Escrow Agent shall not release any Shares allocated or issued to it upon exercise of Approved 102 Options prior to the full payment of the Beneficiary's tax liabilities arising from the grant of the Approved 102 Options and/or the exercise of such Approved 102 Options and/or the sale of the Exercised Shares, if any.
- 7.3. Subject to the provisions of Section 102, the Beneficiary shall not sell or release from the Escrow Agent any Approved 102 Options, Exercised Shares and/or any Share received

subsequently following any exercise of rights in connection with Approved 102 Options or the Exercised Shares, including without limitation, bonus Shares, until the lapse of the Holding Period required under Section 102. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 shall apply to, and shall be borne in their entirety by, such Beneficiary.

- 7.4. By the execution of the agreement and upon receipt of Approved 102 Options, the Beneficiary undertakes to release the Escrow Agent from any liability in respect of any action or decision duly taken and *bona fide* executed in relation to this Appendix, any Approved 102 Option or Exercised Share issued to the Beneficiary.
- 7.5. No Exercised Shares or any additional rights issued by the Company to the Escrow Agent for the benefit of the Beneficiary shall be held by the Escrow Agent for a period longer than ten (10) years after the end of the Term (as such term is defined in the Appendix).

8. NON-TRANSFERABILITY OF OPTION

- 8.1. No Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to it given to any third party whatsoever, and during the lifetime of the Beneficiary each and all of such Beneficiary's rights to purchase Shares hereunder shall be exercisable only by the Beneficiary. Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.
- 8.2. As long as Exercised Shares are held by the Escrow Agent on behalf of an Beneficiary, all such Beneficiary's rights in the Exercised Shares are personal, cannot be transferred, assigned, pledged or mortgaged, except for transfers by will or by the laws of descent and distribution, provided that the transferee thereof shall be subject to the provisions of Section 102 as would have been applicable to the deceased Beneficiary.

9. DIVIDEND

Subject to the Company's incorporation documents and applicable laws, the Beneficiary shall be entitled to receive dividends with respect to all Exercised Shares held by the Beneficiary or by the Escrow Agent, as the case may be, and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102.

10. RIGHTS AS A SHAREHOLDER

Unless otherwise specified in the Plan, the Beneficiary shall not have any rights as a shareholder with respect to Shares issued under this Plan, until such time as the Shares shall be released from escrow. The Israeli Beneficiary shall have the right to vote the Exercised Shares at any and all shareholder meetings without restriction.

The Beneficiary's rights as a shareholder in the Company shall be subject to provisions set out in the Contractual Undertaking.

11. TAX CONSEQUENCES

- 11.1. Any tax consequences arising from the grant of any Option to an Beneficiary, the exercise of any Option by the Beneficiary, the payment of the Exercise Price, or any other event or act with respect thereof (of the Company and/or its Subsidiaries and/or the Escrow Agent and/or the Beneficiary), shall be borne solely by the Beneficiary. The Company and/or its Subsidiaries and/or the Escrow Agent shall withhold all taxes according to the requirements under any applicable laws, rules, and regulations, including without limitation withholding taxes at source. Furthermore, the Beneficiary shall indemnify the Company and/or its Subsidiaries and/or the Escrow Agent, as applicable, and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Beneficiary.
- 11.2. The Company and/or, when applicable, the Escrow Agent shall not be required to release any share certificate to the Beneficiary until to the Company's and, when applicable, to the Escrow Agent's discretion, all required payments have been fully made.
- 11.3. With respect to Unapproved 102 Options, if the Beneficiary ceases to be employed by the Company or any of its Subsidiaries, the Beneficiary shall extend to the Company and/or the applicable Subsidiary a security or guarantee, to the full satisfaction of the Company, for the payment of taxes and the like due at the time of sale of Shares, all in accordance with the provisions of Section 102.

12. THE PLAN

BY executing this Agreement the Beneficiary acknowledges that the Beneficiary has received a copy of the Options Documents, has read the Options Documents and is familiar with their terms, and hereby accepts the Options subject to the terms and provisions of the Plan, the Appendix and the Contractual Undertaking, as amended from time to time.

13. ENTIRE AGREEMENT

This Agreement, the Plan, the Appendix, the Contractual Undertaking and the Notice of Grant represent the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior agreement, written or otherwise, relating to the subject matter hereof.

14. SUPERIORITY

Any interpretation of this Agreement shall be made in accordance with the Plan and the Appendix, but in the event there is any contradiction between the provisions of this Agreement and the provisions of the Plan and/or the Appendix, the provisions of this Agreement will prevail.

15. GOVERNING LAW AND JURISDICTION

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Israel, without giving effect to the principles of conflict of laws. The competent courts of Tel-Aviv, Israel shall have sole and exclusive jurisdiction in any matters pertaining to this Agreement.

16. EXECUTION

This Agreement may be executed, including execution by facsimile signature, in one or more counterparts, each of which will be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed by the each party on the date indicated below, respectively.

Sequans Communications SA

By: _____
Title: _____
Date: _____

I the undersigned hereby acknowledge receipt of a copy of the Plan and the Appendix and accept the Options granted herein subject to all of the terms and provisions of the Option Documents. I have reviewed the Option Documents in their entirety, have had an opportunity to obtain the advice of legal and/or any other relevant counsel prior to executing this Agreement, and fully understand all provisions of this Agreement. I undertake to notify the Company upon any change in the residence address indicated above.

[Name of Beneficiary to be added]

Address: _____
Date: _____

SEQUANS COMMUNICATIONS
Société anonyme au capital de 693.346,78 Euros
Siège social : 19, Le Parvis de La Défense – 92800 PUTEAUX
RCS Nanterre 450 249 677

BSA 2012-2 (Warrants) Issuance Agreement

Dated _____

- (1) **SEQUANS COMMUNICATIONS**
- (2) **THE HOLDERS OF BSA CO-2012**

Summary

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WHEREAS

In order to reward its business partners (consultants, advisers....) which have not the quality of shareholder of the company, Sequans Communications wishes to set up a system enabling them to share in its growth.

This BSA CO-2012 subscription plan is a mechanism by which Sequans Communications offers its business partners the possibility of subscribing for warrants (hereafter referred to as “**BSA CO-2012**”) at a set price; the exercise of each BSA CO-2012 allows the subscription for a new ordinary share during a certain period, at a price set on the date the BSA CO-2012 are issued, and that remains fixed during the entire period. In this way, the beneficiaries participate in their company’s performance through the changes in share value, even before they become shareholders by exercising the BSA CO-2012 to subscribe for shares. This mechanism is governed, in particular, by the provisions set forth under article L.228-91 of the French Commercial Code.

In a decision taken on 26 June 2012, a combined general shareholders’ meeting voted in favour of the principle of issuing BSA CO-2012, with a unitary price of 0.02 Euro, likely to give rise to a maximum of 1,000,000 new ordinary shares with a unitary par value of EUR 0.02,.

This combined general shareholders’ meeting has defined the conditions of setting of the subscription price for the security likely to be issued upon exercise of each BSA CO-2012 and decided that this price would be equal to the closing price of the Sequans Communications share (ADS) listed on the New York Stock Exchange (NYSE), on the date of the granting of said BSA CO-2012.

In addition, this decision granted the Board of Directors the power to issue such BSA CO-2012, on one or more occasions, including the authority to determine the holders and the number of BSA CO-2012 to be issued and the exercise conditions. Furthermore, the Board of Directors was granted the power to increase share capital by a maximum amount equal to the total number of BSA CO-2012 issued, to record the successive increases in share capital as a result of the exercise of the BSA CO-2012, and to carry out all formalities required as a result thereof.

Pursuant to the aforesaid delegation of power, the Board of Directors has defined, at a meeting held on 24 July 2012, the terms and conditions of an issuance agreement (hereafter the “**BSA 2012-2 Issuance Agreement**”) governing BSA CO-2012.

THE PARTIES AGREE AS FOLLOWS

Title 1. SUBSCRIPTION AND FEATURES OF BSA CO-2012

Article 1. Holders of BSA CO-2012

The Holder is a physical person having effective contractual relationship – on the basis of a services contract duly signed—with Sequans Communications at the date an offer of subscription of BSA CO-2012 is made pursuant to this BSA 2011-1 Issuance Agreement.

Holders are approved by the Company's Board of Directors.

Article 2. Allotment and subscription of BSA CO-2012.

The BSA CO-2012 proposed to the Holders shall be subscribed at the price of 0.02 Euro per BSA CO-2012, price which shall be paid on subscription, either by mean of a payment in cash or by way of a set-off with a debt.

The number of BSA CO-2012 proposed to each Holder shall be indicated in an Individual Notification Letter sent to him/her by the Chairman; the subscription of such BSA CO-2012 shall be done no later than 7 days from the receipt of the aforesaid letter, by returning to the Company

- (i) a copy of this Issuance Agreement,
- (ii) a copy of the Individual Letter of Notification, and
- (iii) the BSA subscription form duly signed

being specified that all such copies shall be duly executed by the Beneficiary who acknowledges that the Individual Letter of Notification is part of these Issuance Agreement.

FAILURE TO COMPLY WITH THIS MAJOR FORMALITY WITHIN THE APPLICABLE PERIOD – EXCEPT IN THE EVENT OF FORCE MAJEURE— SHALL RENDER THE BSA CO-2012 ISSUED IMMEDIATELY AND AUTOMATICALLY NULL AND VOID.

Article 3. Features and period of validity of BSA CO-2012 – Conditions of exercise

BSA CO-2012 are granted for a period of 10 years as from the time they are issued by the Board of Directors, and provided they are subscribed for by the Holder.

BSA CO-2012 must be exercised within the aforementioned **maximum period of 10 years**, any BSA CO-2012 not exercised before the expiry of such period shall automatically become null and void.

The Holder must comply with the following schedule:

- (i) first allotment
 - The Holder may exercise his/her BSA CO-2012 at the rate of 1/24th per month for the period between the 1st and 24th month following the date the services contract signed with Sequans Communications – or one of its subsidiaries—has entered in force.

(i) further allotment(s)

- The Beneficiary may exercise his/her BSA CO-2012 at the rate of 1/24th per month for the period between the 1st and 24th month following the date of the issue of such BSA CO-2012.

Exercising a BSA CO-2012 entitles the Holder to subscribe for one new ordinary share with a par value of EUR 0.02 (hereafter a “**New Share**”).

This number of shares cannot be modified during the BSA CO-2012’ period of validity, except in the event of an adjustment in the subscription price—as defined under article 5 below—in accordance with the requirements provided by law.

Article 4. Cessation of Holder’s contractual relationship with Sequans Communications or one of its subsidiaries—Exceptions

In the event of a termination, anticipated or not, of the Holder’s services contract with Sequans Communications or one of its subsidiaries, regardless of the reason, said Holder shall lose any and all rights with regard to BSA CO-2012 not yet exercisable on the date of the aforesaid termination, in accordance with the schedule for exercising the BSA CO-2012 set out in the Individual Notification Letter referred to under article 2 above.

However, the Holder retains the right to exercise BSA CO-2012 that are exercisable and that have not yet been exercised, provided that such Holder exercises his/her BSA CO-2012 within a period of thirty (30) days following the aforesaid termination.

After the expiry of such period, the Holder shall lose any and all rights with regard to unexercised BSA CO-2012 which shall be null and void.

Notwithstanding the above and in the event of

- death of the Holder, his heirs or beneficiaries shall have a period of 6 months to exercise the BSA CO-2012. After the expiry of this 6-month period hereinabove, said heirs or beneficiaries shall lose all rights with regard to unexercised BSA CO-2012,
- 2nd and 3rd category disability, within the meaning of article L.341-4 of the French Social Security Code—or an equivalent foreign social security regime—Holders may preserve their right to exercise their BSA CO-2012 which are exercisable, but they will remain subject to the other conditions of this Plan.

Article 5. Setting of the subscription price for shares covered by the BSA CO-2012

The subscription price for New Shares to be issued pursuant to an exercise of the BSA CO-2012 is set at the closing price of the Sequans Communications share (ADS) listed on the NYSE, on the effective date of allotment of such BSA CO-2012.

This price is mentioned in the Individual Notification Letter, price which may not be changed during the BSA CO-2012’ period of validity, except in the event of adjustments in accordance with statutory and regulatory requirements.

The subscription price is set in USD per share (ADS); the counter value in Euros shall be determined on the exercise date of the BSA. The par value of each share (ADS) is EUR 0.02.

Title 2. RIGHT OF EXERCISE – SUSPENSION – FORMALITIES – SHARES SUBSCRIBED
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Article 6. *Suspension of the rights to exercise BSA CO-2012*

If necessary, the Board of Directors may suspend the right to exercise the BSA CO-2012. In particular, a suspension may be ordered whenever a transaction concerning Sequans Communications' share capital requires knowing in advance the exact number of shares that make up share capital or in the event that one of the financial transactions requiring an adjustment is carried out.

In such case, Sequans Communications shall inform the Beneficiaries of the BSA CO-2012, indicating the date of the suspension and the date on which the right to exercise BSA CO-2012 will be re-established. Such suspension may not exceed 3 months.

If the right to exercise a BSA CO-2012 expires during a period in which rights are suspended, the period for exercising the BSA CO-2012 shall be extended by 3 months.

Article 7. *Conditions of exercise of BSA CO-2012*

All requests for exercising BSA CO-2012, documented by the signature of a subscription certificate specific to this BSA 2012-2 Issuance Agreement, shall be sent to Sequans Communications, and shall be accompanied by a cheque made out to the Company's order in an amount corresponding to the number of New Shares subscribed, considering that such shares must be fully paid up in cash at the time of subscription, except the case of settlement of the subscription price by way of a set-off with a debt.

If the Holder has been registered in the on-line equity management system established by the Company, exercise of BSA CO-2012 shall take place in accordance with the process manual provided to the Holder and/or available from the Company's human resources department.

Failure to fully pay the exercise price renders the subscription null and void.

Article 8. *Delivery and form of shares*

New Shares acquired by exercising BSA CO-2012 are registered in the books of Sequans Communications as registered shares.

Article 9. *Rights and availability of shares*

The New Shares shall be subject to all provisions of the by-laws and shall enjoy all rights pertaining to ordinary shares as from the date the increase in share capital is completed.

However, since these shares are listed for trading on the New York Stock Exchange and in order to avoid any insider trading risk, Holders shall comply with the Insider Trading Compliance Policy of the Company, available on the Company's intranet and website, and/or from the human resources department.

Title 3. REPRESENTATION OF HOLDERS – PROTECTION – AMENDMENT OF THE ISSUANCE AGREEMENT

Article 10. Representation of Holders of BSA

Pursuant to the provisions of Article L. 228-103 of the French Commercial Code, the Holders of BSA CO-2012 are grouped into a body with legal personality protecting their joint interests (the “*masse*”). General meetings of Holders may meet at the registered office or in any other location of the *department* of the registered office or of bordering *departments*.

The *masse* will appoint one or more representatives of the body, at the request of the Board of Directors. The representative(s) of the *masse* will be governed by applicable legal and regulatory provisions. The representative of the *masse* will receive no remuneration for his duties.

Article 11. Protection of Holders – Rights of the Company

- 11.1 Holders will enjoy the protection reserved by law and regulations for holders of securities giving access to the capital. The Company will provide the Holders, or their representative, with the information set out by the law and regulations.
- 11.2 During the entire period of validity of the BSA CO-2012, the Company will have the option of changing its form or object, without obtaining prior authorisation from the Holders of BSA CO-2012. In addition, the Company shall be entitled to change the rules for distributing profits, write down its capital, or create preferred shares entailing such modification or writing down, subject to the prior authorisation to be delivered pursuant the terms of Article L. 228-103 of the French Commercial code and provided that the Company accordingly complies with applicable legal and/or regulatory provisions.
- 11.3 Subject to the powers expressly reserved by law for the general meeting of shareholders and, as the case may be, for the general meeting and for the representative of the body of Holders, the Board of directors will be empowered to take any measure relating to the protection and adjustment of the rights of Holders as provided for by the law and regulations, in particular by Article L. 228-99 of the French Commercial Code.
- 11.4 The Issuance Agreement and the conditions for the subscription or allotment of equity securities determined at the time of the issuance may only be amended by the extraordinary general meeting of shareholders of the Company, with the authorisation of the Holders obtained under the conditions provided for by law, in particular by Article L. 228-103 of the French Commercial Code.

Article 12. Binding effect – Amendment of the issuance agreement – Term – Jurisdiction

- 12.1 The Holders are automatically subject to this Issuance Agreement, through this subscription or acquisition of BSA CO-2012.
- 12.2 This Issuance Agreement becomes effective on the date of effective subscription of the BSA CO-2012 and ends on the first of the following dates: (a) the expiry date of the BSA CO-2012, (b) the date on which all the BSA CO-2012 have been exercised or waived. In addition, it will cease to be binding on each BSA CO-2012 Holder on the date on which such holder ceases to hold any BSA CO-2012.
- 12.3 This Issuance Agreement is subject to French law. Any dispute relating to this Issuance Agreement or relating to the application of the terms and conditions of the BSA CO-2012 will be referred to the relevant court of the district of the *Cour d'appel* of the registered office of the Company.

Executed in two (2) copies

SEQUANS COMMUNICATIONS _____

M. _____

(the “**Holder**”)

(The Holder shall initialize each page, sign the last page and write down: “read and approved”)

SEQUANS COMMUNICATIONS
Société anonyme au capital de 693.346,78 Euros
Siège social : 19, Le Parvis de La Défense – 92800 PUTEAUX
RCS Nanterre B 450 249 677

BSA (Warrants) Issuance Agreement

Dated June 26th, 2012

- (1) **SEQUANS COMMUNICATIONS**
- (2) **THE HOLDER OF BSA**

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Article 10. Representation of Holders

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Article 12. Binding effect – Amendment of the issuance agreement – Term – Jurisdiction

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WHEREAS

In a decision taken on June 26th, 2012, a combined general shareholders' meeting (the "CGM") voted in favour of the issuance a total number of **6,000 BSA**, at the price of 0.02 Euro per BSA.

Each BSA gives the Holder the right to subscribe for one ordinary share at the market value approved by the most recent Board of Directors prior to the actual issue of said BSA. This decision entails the suppression of the shareholders' pre-emptive subscription rights with respect to the ordinary shares likely to be issued.

Furthermore, the Board of Directors was granted the power to increase share capital by a maximum nominal amount of Euro 120, to record the successive increases in share capital as a result of the exercise of the BSA, and to carry out all formalities required as a result thereof.

The CGM, having eliminated the preferred subscription right of shareholders to the BSA, fully reserved subscription of these BSA for the subscribers designated by the CGM.

The purpose of this BSA issuance agreement (the "Issuance Agreement") is to define the terms and conditions governing these 6,000 BSA issued with a vesting period.

THE PARTIES AGREE AS FOLLOWS

Title 1. SUBSCRIPTION AND FEATURES OF BSA
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Article 1. *Holder of BSA*

The Holder is a physical person being an independent member of the Company's Board of Directors, designated by the CGM.

The number of BSA allocated to the Holder is 6.000.

Article 2. *Allotment and subscription of BSA.*

The BSA proposed to the Holders shall be subscribed at the price of 0.02 Euro per BSA, price which shall be paid on subscription, either by mean of a payment in cash or by way of a set-off with a debt.

The number of BSA proposed to Holder shall be indicated in an Individual Notification Letter sent to him/her by the Chairman; the subscription of such shall be done no later than 10 days from the receipt of the aforesaid letter, by returning to the Company

- the BSA subscription form duly signed,
- as well as a copy of this Issuance Agreement attached to said letter, after the Holder has duly executed said copies.

FAILURE TO COMPLY WITH THIS MAJOR FORMALITY WITHIN THE APPLICABLE PERIOD – EXCEPT IN THE EVENT OF FORCE MAJEURE— SHALL RENDER THE BSA ISSUED IMMEDIATELY AND AUTOMATICALLY VOID.

Article 3. *Features and period of validity of BSA – Conditions of exercise*

Provided they are subscribed for by the Holder, BSA are granted for a period of 10 years as from June 26th, 2012, date of their issuance by the CGM and subscription by the Holder.

BSA must be exercised within the aforementioned **maximum period of 10 years**; furthermore, the vesting schedule is at the rate of 1/3rd per year. For the sake of clarity, it is specified that, the Holder shall be entitled to exercise up to 1/3rd of his BSA on the first, up to 2/3rd on the second and without restriction on the third anniversary of the date defined by the CGM and reminded in the Individual Notification Letter.

Exercising a BSA entitles the Holder to subscribe for one ordinary share of Sequans Communications' share capital at the price of USD [*closing price of Sequans Communications ADS on NYSE on 26 June 2012*]; the counter value in Euro shall be determined on the exercise date of the BSA.

This number of shares cannot be modified during the BSA' period of validity, except in the event of an adjustment in the subscription price and any other adjustments in accordance with statutory and regulatory requirements.

Any BSA that is not exercised before the expiry of the aforementioned 10-year period shall be null and void.

Article 4. Termination of the mandate of independent Board member of Sequans Communications

In the event of a termination, anticipated or not, of the Holder's mandate as independent Board member of Sequans Communications, regardless of the reason, said Holder shall lose any and all rights with regard to BSA not yet exercisable on the date of the aforesaid termination (hereafter the "**Termination Date**"), in accordance with the schedule for exercising the BSA set under article 2 above.

However, the Holder retains the right to exercise BSA that are exercisable and that have not yet been exercised, provided that Holder exercises them within a period of thirty (30) days following the Termination Date.

After the expiry of such period, the Holder shall lose any and all rights with regard to unexercised BSA which shall be null and void.

Notwithstanding the above and in the event of death of the Holder, his heirs or beneficiaries shall have a period of 6 months to exercise the BSA. After the expiry of this 6-month period hereinabove, said heirs or beneficiaries shall lose all rights with regard to unexercised BSA.

However and should Sequans Communications be subject to an acquisition by a third company, all BSA subscribed by the Holder and not yet exercisable would nevertheless become exercisable from the effective date of such change of control, notwithstanding the schedule set out under article 3 above, allowing said Holder to exercise any and all remaining BSA, provided that such exercise occurs within a period of 30 days following the aforesaid acquisition.

Article 5. Setting of the subscription price for shares covered by the BSA

The CGM decided that the subscription price for shares to be issued pursuant to an exercise of the BSA shall be equal to the closing price of Sequans Communications share on NYSE as determined on June 26, 2012.

This subscription price – with respect to this BSA Issuance Agreement—is set in the amount of USD [●] per share (ADS) ; the counter value in Euros shall be determined on the exercise date of the BSA. The par value of each share (ADS) is EUR 0,02.

This price may not be changed during the BSA' period of validity, except in the event of adjustments in accordance with statutory and regulatory requirements.

Title 2. RIGHT OF EXERCISE – SUSPENSION – FORMALITIES – SHARES SUBSCRIBED
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Article 6. *Suspension of the rights to exercise BSA*

If necessary, the Board of Directors may suspend the right to exercise the BSA. In particular, a suspension may be ordered whenever a transaction concerning Sequans Communications' share capital requires knowing in advance the exact number of shares that make up share capital or in the event that one of the financial transactions requiring an adjustment is carried out.

In such case, Sequans Communications shall inform the Holders of the BSA, indicating the date of the suspension and the date on which the right to exercise BSA will be re-established. Such suspension may not exceed 3 months.

If the right to exercise a BSA expires during a period in which rights are suspended, the period for exercising the BSA shall be extended by 3 months.

Article 7. *Conditions of exercise of BSA*

All requests for exercising BSA, documented by the signature of the corresponding subscription certificate, shall be sent to Sequans Communications, and must be accompanied by a cheque or a money transfer made out to the Company's order in an amount corresponding to the number of shares subscribed.

Shares subscribed must be, at the time of subscription, either fully paid up in cash or by way of a set-off with a debt.

Failure to do so renders the subscription of shares null and void.

Article 8. *Delivery and form of shares*

Shares acquired by exercising BSA are registered in the books of Sequans Communications as registered shares.

Article 9. *Rights and availability of shares*

The ordinary shares shall be subject to all provisions of the by-laws and shall enjoy all rights pertaining to shares of such class as from the date the increase in share capital is completed.

These shares shall be immediately transferable.

Title 3. REPRESENTATION OF HOLDERS – PROTECTION – AMENDMENT OF THE ISSUANCE AGREEMENT

Article 10. Representation of Holders of BSA

Pursuant to the provisions of Article L. 228-103 of the French Commercial Code, the Holders of BSA are grouped into a body with legal personality protecting their joint interests (the “*masse*”). General meetings of Holders meet at the registered office or in any other location of the *department* of the registered office or of bordering *departments*.

The *masse* will appoint one or more representatives of the body, at the request of the Board of Directors. The representative(s) of the *masse* will be governed by applicable legal and regulatory provisions. The representative of the *masse* will receive no remuneration for his duties.

Article 11. Protection of Holders – Rights of the Company

- 11.1 Holders will enjoy the protection reserved by law and regulations for holders of securities giving access to the capital. The Company will provide the Holders, or their representative, with the information set out by the law and regulations.
- 11.2 During the entire period of validity of the BSA, the Company will have the option of changing its form or object, without obtaining prior authorisation from the Holders of BSA. In addition, the Company shall be entitled to change the rules for distributing profits, write down its capital, or create preferred shares entailing such modification or writing down, subject to the prior authorisation to be delivered pursuant the terms of Article L. 228-103 of the French Commercial code and provided that the Company accordingly take the measures necessary to maintain the rights of the Holders, in compliance with applicable legal and/or regulatory provisions.
- 11.3 Subject to the powers expressly reserved by law for the general meeting of shareholders and, as the case may be, for the general meeting and for the representative of the body of Holders, the Board of directors will be empowered to take any measure relating to the protection and adjustment of the rights of Holders as provided for by the law and regulations, in particular by Article L. 228-99 of the French Commercial Code.
- 11.4 The Issuance Agreement and the conditions for the subscription or allotment of equity securities determined at the time of the issuance may only be amended by the extraordinary general meeting of shareholders of the Company, with the authorisation of the Holders obtained under the conditions provided for by law, in particular by Article L. 228-103 of the French Commercial Code.

Article 12. Binding effect – Amendment of the issuance agreement – Term – Jurisdiction

- 12.1 The Holders are automatically subject to this Issuance Agreement, through this subscription or acquisition of BSA.
- 12.2 This Issuance Agreement becomes effective on the date of effective subscription of the BSA and ends on the first of the following dates: (a) the expiry date of the BSA, (b) the date on which all the BSA have been exercised or waived. In addition, it will cease to be binding on each BSA Holder on the date on which such holder ceases to hold any BSA.

12.3 This Issuance Agreement is subject to French law. Any dispute relating to this Issuance Agreement or relating to the application of the terms and conditions of the BSA will be referred to the relevant court of the district of the *Cour d'appel* of the registered office of the Company.

Executed in two (2) copies

SEQUANS COMMUNICATIONS _____

M. _____

(the "**Holder**")

(The Holder shall initialize each page, sign the last page and write down: "read and approved")

SEQUANS COMMUNICATIONS
Société anonyme au capital de 693.346,78 Euros
Siège social : 19, Le Parvis de La Défense – 92800 PUTEAUX
RCS Nanterre B 450 249 677

BSA (Warrants) Issuance Agreement

Dated June 26th, 2012

(1) **SEQUANS COMMUNICATIONS**

(2) **THE HOLDER OF BSA**

Summary

PREAMBLE : PRESENTATION OF THE ISSUANCE AGREEMENT

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WHEREAS

In a decision taken on June 26th, 2012, a combined general shareholders' meeting (the "CGM") voted in favour of the issuance a total number of **25,000 BSA**, at the price of 0.01 Euro per BSA.

Each BSA gives the Holder the right to subscribe for one ordinary share at the market value approved by the most recent Board of Directors prior to the actual issue of said BSA. This decision entails the suppression of the shareholders' pre-emptive subscription rights with respect to the ordinary shares likely to be issued.

Furthermore, the Board of Directors was granted the power to increase share capital by a maximum nominal amount of Euro 500, to record the successive increases in share capital as a result of the exercise of the BSA, and to carry out all formalities required as a result thereof.

The CGM, having eliminated the preferred subscription right of shareholders to the BSA, fully reserved subscription of these BSA for the subscribers designated by the CGM.

The purpose of this BSA issuance agreement (the "Issuance Agreement") is to define the terms and conditions governing these 25,000 BSA issued with a vesting period.

THE PARTIES AGREE AS FOLLOWS

Title 1. SUBSCRIPTION AND FEATURES OF BSA
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Article 1. *Holder of BSA*

The Holder is a physical person being an independent member of the Company's Board of Directors, designated by the CGM.

The number of BSA allocated to the Holder is 25.000.

Article 2. *Allotment and subscription of BSA.*

The BSA proposed to the Holders shall be subscribed at the price of 0.01 Euro per BSA, price which shall be paid on subscription, either by mean of a payment in cash or by way of a set-off with a debt.

The number of BSA proposed to Holder shall be indicated in an Individual Notification Letter sent to him/her by the Chairman; the subscription of such shall be done no later than 10 days from the receipt of the aforesaid letter, by returning to the Company

- the BSA subscription form duly signed,
- as well as a copy of this Issuance Agreement attached to said letter, after the Holder has duly executed said copies.

FAILURE TO COMPLY WITH THIS MAJOR FORMALITY WITHIN THE APPLICABLE PERIOD – EXCEPT IN THE EVENT OF FORCE MAJEURE— SHALL RENDER THE BSA ISSUED IMMEDIATELY AND AUTOMATICALLY VOID.

Article 3. *Features and period of validity of BSA – Conditions of exercise*

Provided they are subscribed for by the Holder, BSA are granted for a period of 10 years as from June 26th, 2012, date of their issuance by the CGM and subscription by the Holder.

BSA must be exercised within the aforementioned **maximum period of 10 years**; furthermore, the vesting schedule is at the rate of 1/3rd per year. For the sake of clarity, it is specified that, the Holder shall be entitled to exercise up to 1/3rd of his BSA on the first, up to 2/3rd on the second and without restriction on the third anniversary of the date defined by the CGM and reminded in the Individual Notification Letter.

Exercising a BSA entitles the Holder to subscribe for one ordinary share of Sequans Communications' share capital at the price of USD [*closing price of Sequans Communications ADS on NYSE on 26 June 2012*]; the counter value in Euro shall be determined on the exercise date of the BSA.

This number of shares cannot be modified during the BSA' period of validity, except in the event of an adjustment in the subscription price and any other adjustments in accordance with statutory and regulatory requirements.

Any BSA that is not exercised before the expiry of the aforementioned 10-year period shall be null and void.

Article 4. *Termination of the mandate of independent Board member of Sequans Communications*

In the event of a termination, anticipated or not, of the Holder's mandate as independent Board member of Sequans Communications, regardless of the reason, said Holder shall lose any and all rights with regard to BSA not yet exercisable on the date of the aforesaid termination (hereafter the "**Termination Date**"), in accordance with the schedule for exercising the BSA set under article 2 above.

However, the Holder retains the right to exercise BSA that are exercisable and that have not yet been exercised, provided that Holder exercises them within a period of thirty (30) days following the Termination Date.

After the expiry of such period, the Holder shall lose any and all rights with regard to unexercised BSA which shall be null and void.

Notwithstanding the above and in the event of death of the Holder, his heirs or beneficiaries shall have a period of 6 months to exercise the BSA. After the expiry of this 6-month period hereinabove, said heirs or beneficiaries shall lose all rights with regard to unexercised BSA.

However and should Sequans Communications be subject to an acquisition by a third company, all BSA subscribed by the Holder and not yet exercisable would nevertheless become exercisable from the effective date of such change of control, notwithstanding the schedule set out under article 3 above, allowing said Holder to exercise any and all remaining BSA, provided that such exercise occurs within a period of 30 days following the aforesaid acquisition.

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The CGM decided that the subscription price for shares to be issued pursuant to an exercise of the BSA shall be equal to the closing price of Sequans Communications share on NYSE as determined on June 26, 2012.

This subscription price – with respect to this BSA Issuance Agreement—is set in the amount of USD [●] per share (ADS) ; the counter value in Euros shall be determined on the exercise date of the BSA. The par value of each share (ADS) is EUR 0,02.

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Title 2. RIGHT OF EXERCISE – SUSPENSION – FORMALITIES – SHARES SUBSCRIBED
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Failure to do so renders the subscription of shares null and void.

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Pursuant to the provisions of Article L. 228-103 of the French Commercial Code, the Holders of BSA are grouped into a body with legal personality protecting their joint interests (the “*masse*”). General meetings of Holders meet at the registered office or in any other location of the *department* of the registered office or of bordering *departments*.

The *masse* will appoint one or more representatives of the body, at the request of the Board of Directors. The representative(s) of the *masse* will be governed by applicable legal and regulatory provisions. The representative of the *masse* will receive no remuneration for his duties.

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- 11.3 Subject to the powers expressly reserved by law for the general meeting of shareholders and, as the case may be, for the general meeting and for the representative of the body of Holders, the Board of directors will be empowered to take any measure relating to the protection and adjustment of the rights of Holders as provided for by the law and regulations, in particular by Article L. 228-99 of the French Commercial Code.
- 11.4 The Issuance Agreement and the conditions for the subscription or allotment of equity securities determined at the time of the issuance may only be amended by the extraordinary general meeting of shareholders of the Company, with the authorisation of the Holders obtained under the conditions provided for by law, in particular by Article L. 228-103 of the French Commercial Code.

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12.3 This Issuance Agreement is subject to French law. Any dispute relating to this Issuance Agreement or relating to the application of the terms and conditions of the BSA will be referred to the relevant court of the district of the *Cour d'appel* of the registered office of the Company.

Executed in two (2) copies

SEQUANS COMMUNICATIONS _____

M. _____

(the "**Holder**")

(The Holder shall initialize each page, sign the last page and write down: "read and approved")

LIST OF SUBSIDIARIES

Name of Subsidiary	Jurisdiction
Sequans Communications Ltd.	United Kingdom
Sequans Communications Inc.	California (United States)
Sequans Communications Ltd. Pte.	Singapore
Sequans Communications (Israel) Ltd.	Israel

**Certification by the Chief Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dr. Georges Karam, certify that:

1. I have reviewed this Annual Report on Form 20-F of Sequans Communications S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2013

/s/ Dr. Georges Karam

Name: Dr. Georges Karam

Title: Chief Executive Officer

**Certification by the Chief Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Deborah Choate, certify that:

1. I have reviewed this Annual Report on Form 20-F of Sequans Communications S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2013

/s/ Deborah Choate

Name: Deborah Choate

Title: Chief Financial Officer

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

In connection with the Annual Report of Sequans Communications S.A. (the "Company") on Form 20-F for the fiscal year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Georges Karam, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 29, 2013

By: /s/ Dr. Georges Karam

Name: Dr. Georges Karam

Title: Chief Executive Officer

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

In connection with the Annual Report of Sequans Communications S.A. (the "Company") on Form 20-F for the fiscal year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deborah Choate, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 29, 2013

By: /s/ Deborah Choate

Name: Deborah Choate

Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-177919) pertaining to the Stock Option Subscription Plans, BSA Subscription Plans and BCE Subscription Plans of Sequans Communications S.A.,
- (2) Registration Statement (Form S-8 No. 333-180487) pertaining to the BSA (Warrants) Issuance Agreements dated January 11, 2011 and March 8, 2011 of Sequans Communications S.A., and
- (3) Registration Statement (Form F-3 No. 333-182854) of Sequans Communications S.A.;

of our report dated March 29, 2013, with respect to the consolidated financial statements of Sequans Communications S.A. included in the Annual Report (Form 20-F) for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

Ernst & Young Audit

/s/ Frédéric Martineau

Represented by Frédéric Martineau

Paris – La Défense, France
March 29, 2013